中国通信服务
CHINA COMSERVICE

ANNUAL REPORT 2018

China Communications Services Corporation Limited

Stock code: 552

NEW ERA

OF DIGITALIZATION

A HUNDRED BILLION

ENTERPRISE

Innovative **TRANSFORMATION** to achieve a **HUNDRED-BILLION** scale

Cultivating **smart** products

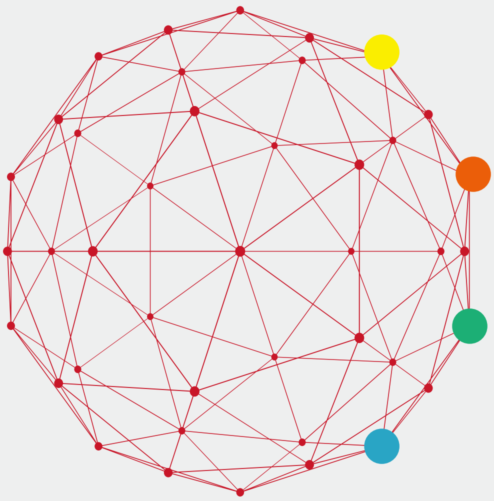
Building **world-class** networks

COVER STORY

In the design, the future is portrayed by irregular polygons, illustrating a theme that capitalizing on its high-end services and products, the vibrant Group is moving into a new era of digitalization step by step! The design of the dividers of this annual report carries forward the concept of the cover, bringing out elements such as diversified customers for new opportunities; multi-profession integration to enrich smart product offerings; comprehensive upgrade of synergistic effect; building ecosystems together in open cooperation, all of which enable the Group to move towards a new stage of enterprise development from the hundred-billion scale in the new era of digitalization.

Growing into an enterprise of **a hundred-billion** scale

Seizing opportunities in the new era of **digitalization**



Diversified customers for new opportunities

Multi-profession integration,
to enrich smart product offerings

Comprehensive upgrade of
synergistic effect

Building ecosystems together
in open cooperation

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

CONTENTS

2006

AUGUST

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

DECEMBER

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

2007

AUGUST

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

2008

APRIL

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

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

MAY

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

2009

MARCH

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

MAY

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

NOVEMBER

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

2010

APRIL

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

2011

MARCH

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

JUNE

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

2012

FEBRUARY

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

JUNE

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

2013

NOVEMBER

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

DECEMBER

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

2014

JULY

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

2015

JANUARY

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

APRIL

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

JULY

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

DECEMBER

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

2016

JANUARY

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

MAY

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

JULY

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

SEPTEMBER

The Company comprehensively adjusted the operational and management system for its overseas business, refined the organizational structure of China Communications Services International Limited.

DECEMBER

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

2017

MAY

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

NOVEMBER TO DECEMBER

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

2018

MARCH

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

MAY

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

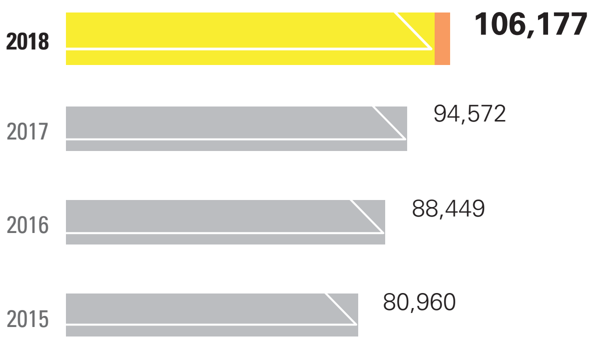
AUGUST

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

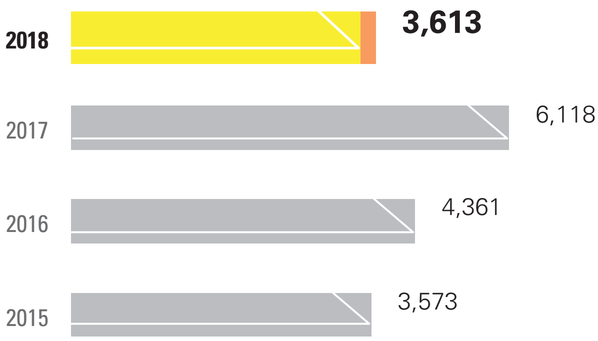
FINANCIAL HIGHLIGHTS

	2018	2017	Change
Revenues (RMB million)	**106,177**	94,572	12.3%
Profit attributable to equity shareholders of the Company (RMB million)	**2,901**	2,714	6.9%
Free cash flow[1] (RMB million)	**3,613**	6,118	–40.9%
Basic earnings per share (RMB)	**0.419**	0.392	6.9%
Total dividend per share (RMB)	**0.1508**	0.1411	6.9%
of which: Final dividend per share (RMB)	**0.1257**	0.1176	–
Special dividend per share (RMB)	**0.0251**	0.0235	–

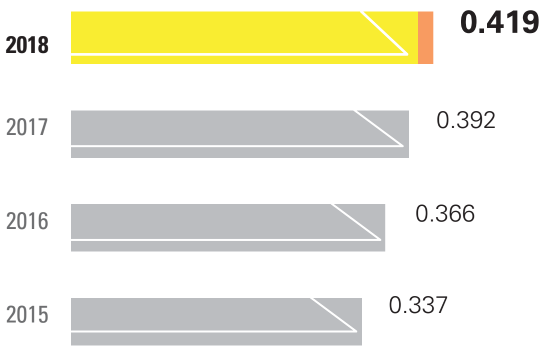
REVENUES
(RMB million)



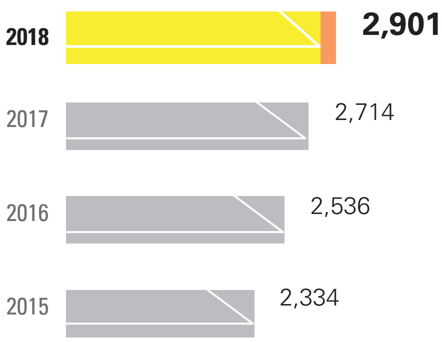
FREE CASH FLOW
(RMB million)



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

On 8 December 2006, the H shares issued by the Company were successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited. As at 31 December 2018, the total issued share capital of the Company was 6,926,018,400, of which 2,391,420,240 were H shares.

Over the ten years since its listing, the Company has received many awards in the capital market. In 2018, the Group won various awards, including: In the voting for "The Asset Corporate Awards 2018" held by *The Asset*, an authoritative financial magazine, the Group was awarded the "Platinum Award – Excellence in Environmental, Social and Corporate Governance" for 3 consecutive years and "Best Investor Relations Team Award" for the first time. In the 2018 "14th Corporate Governance Asia Recognition Awards" held by *Corporate Governance Asia*, an authoritative journal on corporate governance in Asia, the Group was again granted the award of the "The Best of Asia – Icon on Corporate Governance" and "Asian Corporate Director". In the "8th Asian Excellence Recognition Awards 2018" organized by *Corporate Governance Asia*, the President and Chief Financial Officer of the Company won "Best CEO" and "Best CFO" respectively while the Company was also awarded "Best Investor Relations". In the "Asia's Best Managed Companies Poll 2018" organized by *FinanceAsia*, an authoritative financial magazine in Asia, the Company was voted and ranked as one of the companies in the top 10 list in various award categories under China, the rankings included the 6th in "Best Managed Company", the 4th in "Most Committed to Corporate Governance", as well as the 5th in both the "Best at Investor Relations" and "Best at Corporate Social Responsibility". Moreover, in the 2018 "Golden Hong Kong Equities Awards", the Group was awarded the "Golden Hong Kong Equities Grand Award" and the "Best Value TMT Company". In 2018, the Group ranked 81st in the "2018 FORTUNE China 500" published by *FORTUNE China*.

The Company's industry influence remarkably improved in recent years. The Company ranked 6th in "China's Top 100 Software Enterprises 2018" organized by the Ministry of Industry and Information Technology of the PRC and coordinated by China Information Technology Industry Federation. And the Company was also awarded top ten "Leading Enterprises" in the "Voting for the Leading Enterprises of Information Technology Industry in 2019" by China Information Technology Industry Federation.

HONORARY CHAIRMAN
Mr. Wang Xiaochu

BOARD OF DIRECTORS
Executive directors
Mr. Zhang Zhiyong (Chairman)
Mr. Si Furong
Ms. Zhang Xu

Non-executive directors
Mr. Li Zhengmao
Mr. Shao Guanglu

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

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

Remuneration Committee
Mr. Wu Taishi
(Committee Chairman)
Mr. Siu Wai Keung, Francis
Mr. Lv Tingjie

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

Non-Competition Undertaking Review Committee
Mr. Lv Tingjie
(Committee Chairman)
Mr. Siu Wai Keung, Francis
Mr. Liu Linfei

Right of First Refusal and Priority Right Committee
Mr. Liu Linfei
(Committee Chairman)
Mr. Siu Wai Keung, Francis
Mr. Wu Taishi

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

LEGAL NAME (IN CHINESE)
中國通信服務股份有限公司

LEGAL NAME (IN ENGLISH)
China Communications Services Corporation Limited

LEGAL REPRESENTATIVE
Mr. Si Furong

COMPANY SECRETARY
Mr. Chung Wai Cheung, Terence

INTERNATIONAL AUDITORS
Deloitte Touche Tohmatsu

LEGAL ADVISORS
Freshfields Bruckhaus Deringer
King & Wood Mallesons

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Beijing, PRC 100010

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Wanchai
Hong Kong

LISTING PLACE
The Stock Exchange of Hong Kong Limited

STOCK CODE
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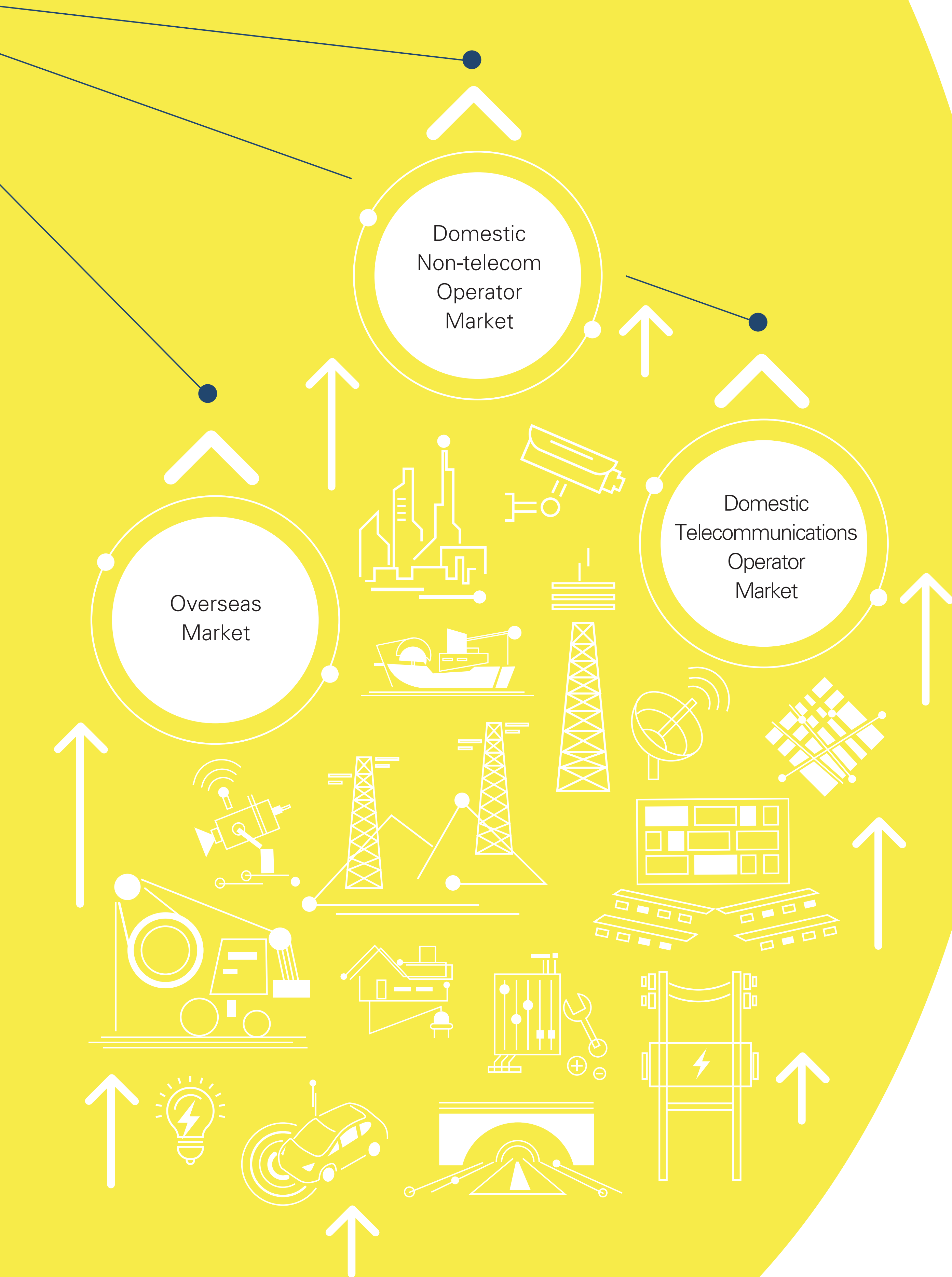
www.chinaccs.com.hk

DIVERSIFIED customer portfolio to benefit from various **MARKET OPPORTUNITIES**

KEEP ABREAST WITH THE **NEW TREND** OF DIGITALIZATION AND INFORMATIZATION

CAPTURE **NEW OPPORTUNITIES** ARISING FROM DIGITAL ECONOMY, SMART SOCIETY AND 5G, IoT

ACCELERATE THE DEVELOPMENT ALONG THE MAIN TRACKS


Domestic
Non-telecom
Operator
Market
Domestic
Telecommunications
Operator
Market
Overseas
Market

In 2018, the Group adhered to the overall roadmap of "value-driven, seeking steady yet progressive growth and high-quality development", focused on the digitalization and intelligentization demand of the society and the industries, and accelerated transformation towards the direction of digital services. The Group deepened the internal and external collaboration and improved its business ecosystem. As a result, the Group continued to expand market and optimize customer and business structures, as well as achieving initial effects on innovation and transformation, consistently delivering promising operating performance and remarkably elevating enterprise value.

Zhang Zhiyong
Chairman

Dear Shareholders,

Facing a complicated and volatile economic environment and ever-changing industrial trends in 2018, the Group adhered to the overall roadmap of "value-driven, seeking steady yet progressive growth and high-quality development" and adapted to the informatization development trend of "Cyberpower", "Digital China" and "Smart Society". Through deepening reform and innovation, strengthening technology-driven development, the Group started the voyage along the main development tracks and strove to forge the new brand of "Smart Comservice", so as to accelerate the Company's transformation towards the direction of digital services. During the year, with its growth drivers continuing to grow stronger, the Group continued to deliver promising operating performance and achieved a double-digit growth in total revenues, with which we leaped from a ten-billion enterprise to a hundred-billion enterprise. Profit of the Company maintained a steady growth with free cash flow[1] remaining healthy, customer and business structures continuously optimized and the enterprise value remarkably elevated.

OPERATING PERFORMANCE

In 2018, the Group deepened the internal and external collaboration, improved its business ecosystem, and continued to transform growth drivers for its markets and businesses. During the year, driven by the domestic non-telecom operator market and the OPEX[2] business of the domestic telecommunications operators, the Group successfully overcame the adverse impacts such as the reduced investment in network construction, intensified market competition and declining value of the domestic telecommunications sector, with the overall operating performance remaining stable. The Group's total revenues amounted to RMB106,177 million, representing a year-on-year increase of 12.3%, and profit attributable to the equity shareholders of the Company amounted to RMB2,901 million, representing a year-on-year increase of 6.9%. Free cash flow remained healthy at RMB3,613 million, which basically matched with the profit level. The favourable operating results and free cash flow level have laid a solid foundation for the Group's high-quality development.

DIVIDEND

The Board has proposed to distribute a final dividend of RMB0.1257 per share for the financial year ended 31 December 2018, representing a dividend payout ratio of 30%. Moreover, in view of the Group's outstanding operating results and free cash flow level for the year, the Board has proposed to distribute a special dividend of RMB0.0251 per share for 2018. Taking into consideration of the above factors, the Company's total dividend for 2018 is RMB0.1508 per share, representing a total dividend payout ratio of 36%.

1 Free cash flow = Profit for the year + Depreciation and amortisation – Changes in working capital – Capital expenditure
2 OPEX refers to the operating expenditure of domestic telecommunications operators.

MARKET EXPANSION

In 2018, the Group pinpointed the main development tracks for the domestic non-telecom operator market, the domestic telecommunications operator market and the overseas market, with its market expansion continuing to make progress and its customer structure constantly optimized with satisfactory results. Among that, the domestic non-telecom operator market was an important driving force for the growth of the Group, and its revenue continued to remain a rapid double-digit growth. The domestic telecommunications operator market remained stable and its revenue achieved a high single-digit growth. The overseas market stabilized and recovered with breakthroughs achieved in large-scale projects, and its revenue achieved a double-digit growth. With its in-depth penetration in the domestic non-telecom operator market and effective extension to the overseas market, the Group's customer structure is further diversified.

In 2018, by focusing on the digitalization and intelligentization demand of the society and the industries, the Group continuously satisfied the needs of its customers such as government and enterprises through leveraging on its edges in informatization sector, and the number of partners in domestic non-telecom operator market steadily increased with the business scope continuing to expand. During the year, the revenue from such market increased by 25.0% year-on-year, representing a much higher growth rate as compared with the same period of last year[3]. The revenue from such market accounted for 31.4% of the total revenues, representing an increase of 3.2 percentage points compared with the same period of last year. The revenue from the Core Businesses[4] in such market increased by 33.9% as compared with the corresponding period of last year, accounting for 89.1% of the revenues from this market. Meanwhile, the Group increased its investment in research and development, released and kept optimizing the Smart Society Product Portfolio, and strove to build a "Smart Service Industrial Ecosystem Alliance", as a result of which the brand image of "Smart Comservice" and industrial influence have been effectively improved, with our image as an industry expert gradually taking shape. In 2018, the value of the new contracts from domestic non-telecom operator market secured by the Group exceeded RMB40 billion, maintaining a good development momentum.

In 2018, the Group successfully overcame the impact of the decline in the CAPEX[5] of the domestic telecommunications operators on its development, and the development of such market remained stable. During the year, the revenue from such market increased by 7.1% year-on-year, accounting for 65.7% of the total revenues, slightly decreased as compared with the same period of last year. The Group actively adapted to the ecosystem of the domestic telecommunications operators, and kept abreast of the development trend of 5G and Internet of Things ("IoT") to support the transformation and upgrade of the domestic telecommunications operators. While ensuring the stability of the CAPEX business from the domestic telecommunications operators, the Group vigorously developed the OPEX business, which became an important driver for the stable growth of the domestic telecommunications operator market. At the same time, the Group fully leveraged the differentiated advantages of its integrated services and smart applications, strengthened the cooperation in the emerging areas such as Smart Family, Cloud Computing and Big Data to promote the rapid growth of relevant businesses.

In 2018, the Group's revenue from the overseas market stabilized and recovered, representing a year-on-year increase of 11.2%, accounting for 2.9% of the total revenues. The Group actively explored the transformation and upgrade of its overseas businesses while strengthening the coordination of the domestic and overseas market, as well as establishing a foundation for overseas products, so as to promote the external expansion of its mature domestic products and businesses. In the meantime, we strengthened the development of customers from overseas governments and enterprises, optimized the overseas customer structure continuously, and focused on expansion of large-scale overseas projects, with key projects such as Digital Mali, ITC National Broadband Network Project in Saudi Arabia, and Nepal 4G Project continuing to be successfully launched, which supported the overseas market to make a breakthrough.

[3] In 2017, the Group's revenue from the domestic non-telecom operator market reported a year-on-year growth rate of 12.4%.

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

[5] CAPEX refers to the capital expenditure of domestic telecommunications operators.

BUSINESS DEVELOPMENT

In 2018, while actively exploring and building a business ecosystem that is able to satisfy the market needs, the Group leveraged on its planning and consultation together with its smart products, and effectively enhanced the capabilities for integrated service and managing sizable turnkey projects, with business structure being continuously optimized. The Group persisted in strengthening its telecommunications infrastructure ("TIS") services and enhancing its overall delivery capabilities. Through establishing industry standards and giving full play to the leading role of its consultation and planning services, the Group transferred its competitive industrial capacity to the domestic non-telecom operator market while fully exploiting the potential of the domestic telecommunications operator market, resulting in the stable revenue growth with a year-on-year growth of 13.6%. The Group vigorously expanded its business process outsourcing ("BPO") services, and strove to improve customer loyalty and develop sustainable and recurrent businesses such as network maintenance, supply chain and general facilities management through synergistic operation, unified platforms, network-wide collaboration and standard exports, while extending to high-end value and other businesses of the customers. Revenue from the Core BPO services[6] increased by 17.1% year-on-year. The Group accelerated the cultivation of smart products and their iterative upgrades and promoted the launching of smart applications by leveraging the complementary advantages of the applications, content and other ("ACO") services with services such as the TIS services, and promoted the overall business development of the Company through internal collaboration and external ecological cooperation. The revenue from the ACO services achieved a rapid year-on-year growth of 21.4%, accounting for 12.9% of the total revenues, with the proportion continuously increased for three consecutive years.

The Group continued to control its products distribution business of low gross profit. Revenue from such business decreased by 29.8% year-on-year, accounting for 4.6% of the total revenues. During the year, the Group's revenue from Core Businesses accounted for 95.4% of its total revenues, representing a year-on-year increase of 2.7 percentage points. The enhancement of capabilities for integrated service and managing sizable turnkey projects, and the continuous optimization of the Group's business structure have laid a solid foundation for the Group's continuously deepening transformation, further penetration into the needs of industries and integration with the informatization of the society.

INNOVATION AND TRANSFORMATION

In 2018, the Group continued to deepen its reform and innovation and promoted its system and mechanism optimization. We enhanced the construction of "One CCS" while giving full play to the synergy and economics of scale within the whole Group. We expedited the development of our strengths, promoted cross-province and cross-profession internal collaboration, built up integrated service capabilities and optimized resource allocation, so as to achieve the matching of our businesses and capabilities with the market demand and enhance our competitiveness. We constantly strengthened our ecological cooperation, and our list of partners continued to grow, including the Chinese Academy of Sciences and numerous innovative technology enterprises. We have effectively expanded our business scope to cover provincial, municipal and county governments, and our businesses covered various fields such as transportation, water conservancy and government services. We persisted in the way of product-oriented services and platform-oriented products, resulting in continuous improvement in the foundation platforms such as CCSYUN (our cloud service), Open IoT Platform and the Big Smart City IT Structure, with new products such as Smart Justice and Smart Procuratorial Services kept emerging. We promoted the integration of financial solutions with industrial development, and made use of Comservice Capital Holding Company Limited, a subsidiary of the Group, as the carrier to support the new business deployment and development model for the Company. Meanwhile, in August 2018, 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, and is making steady progress in the formulation of relevant proposals and working on the related tasks.

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

CORPORATE GOVERNANCE

The Group has maintained its corporate governance at a high level, ensuring regulated operation, effective management, complete and transparent information disclosure of the Company so as to maximize the interests of its shareholders, which has been widely recognized by the capital market.

In the voting for "The Asset Corporate Awards 2018" held by *The Asset*, an authoritative financial magazine, the Company was awarded the highest honour, i.e. the "Platinum Award – Excellence in Environmental, Social and Corporate Governance" for three consecutive years, and won the "Best Investor Relations Team Award" for the first time. In 2018 "14th Corporate Governance Asia Recognition Awards" held by *Corporate Governance Asia*, an authoritative journal on corporate governance in Asia, the Company was again granted the "The Best of Asia – Icon on Corporate Governance" and "Asian Corporate Director".

The Group ranked 81st in the "2018 FORTUNE China 500" published by *FORTUNE China*. The Group ranked 6th in "China's Top 100 Software Enterprises 2018". In the voting for the Leading Enterprises for Information Technology Industry in 2019, the Company was awarded the title of "Leading Enterprises". In the 2018 "Golden Hong Kong Equities Awards", the Company was awarded the "Golden Hong Kong Equities Grand Award" and the "Best Value TMT Company".

SOCIAL RESPONSIBILITIES

The Group has always emphasized on the fulfilment of its social responsibilities and made due contributions in poverty alleviation, natural disaster relief and communication support. In 2018, the Group carried out its poverty alleviation missions in regions such as Xinjiang, Sichuan and Tibet in respect of employment, training, industry and public welfare, which has improved the conditions of communication, employment and living of the local people, and received wide recognition. In 2018, the Group dispatched more than 10,000 person-times and 6,000 vehicle-times to repair the communications network damaged by Typhoon Ewiniar, Mangkhut and Maria as well as the heavy rainstorms, ensuring that the network communication in the disaster-stricken areas were restored in the first instance. We repaired more than 10,000 communication failures throughout the year and actively participated in post-disaster epidemic prevention and disinfection and environmental cleaning. The Group undertook the communications network construction and maintenance projects for "Boao Forum for Asia Annual Conference 2018", "Shanghai Cooperation Organization Qingdao Summit", the "Fifth World Internet Conference (Wuzhen Summit)", "China International Import Expo" and the "Hong Kong-Zhuhai-Macao Bridge", during which the Group successfully completed all its tasks and received wide recognition from the government authorities and customers, thus building up an excellent brand image in the industry.

FUTURE OUTLOOK

In 2018, the Group adhered to the overall roadmap of "value-driven, seeking steady yet progressive growth and high-quality development" while clearly pinpointed the main development tracks and actively transformed growth momentum. The Group's innovation and transformation efforts has shown initial effects and the Group successfully leaped from a ten-billion enterprise to a hundred-billion enterprise, and now heads into a new stage of high-quality development. Although the Group is now facing a complex and volatile domestic and global environment with new challenges, our transformation and development is now at the precious moment that is full of strategic opportunities. From the macro perspective, China's economy has shifted from high-speed growth to high-quality development, with supply-side structural reform further advanced, and expansion and upgrade of industry structure and consumption accelerated. From the perspective of the industry, the new generation of information technology has been deeply integrated with traditional industries and social governance, and Digital Economy has become the core engine of economic development, creating huge market for the development of government services, electricity, transportation, etc. From the perspective of industrial value, 5G and the IoT will change the business model and operation model of the industry, while smart applications and foundation platforms will become high-value hotspots and business-end market will become the key area for competition with the industrial boundaries broken up, thus bringing us new business opportunities.

In 2019, we will adhere to our overall roadmap, draw a new development blueprint based on our main development tracks, and accelerate the deployment of our ecological platforms. In the domestic non-telecom operator market, we will seize the rare window of opportunity arising from the development of "Digital China" and "New Smart City", focus on the key industries, integrate internal and external resources while accelerating market penetration. We will continue to invest on research and development and optimize our integrated solutions for smart products and industries, thus realizing a rapid deployment of ecological platforms for markets and industries. In the domestic telecommunications operator market, we will keep abreast of the 5G development, transformation and upgrade of domestic telecommunications operators, fully exploit the traditional CAPEX and OPEX businesses, expand to emerging businesses such as smart applications and smart services, and explore new cooperation mechanisms at the ecological level to promote sustainable business growth. In the overseas market, we will seize the opportunities arising from the "Belt and Road" Initiative, strengthen collaboration between the domestic and overseas markets and cooperation with external partners, focus on the demand for overseas network infrastructure construction and digital service, with a view to accelerating project expansion. Meanwhile, we will take full advantage of the opportunities arising from the State-owned Enterprise Reform, actively push ahead the "Double-hundred Action" to promote transformation and development and further improve our corporate governance. We will promote efficient allocation of resources, bolster the propelling force of high-technology and high-intelligence innovation, enhance the cultivation of our talent teams, and build an open and synergistic organization to promote the Company's high-quality development. We will enhance the Company's vitality, capabilities and energy, with a view to creating greater value for our shareholders and customers.

Finally, on behalf of the Board, I would like to express my sincere gratitude to the shareholders, customers, and all sectors of society for their long-term care and support as well as our hard-working employees. On behalf of the Board, I would also like to express my sincere gratitude to Ms. Hou Rui, who resigned as an Executive Director, and Mr. Zhao Chunjun, who resigned as an Independent Non-executive Director, for their outstanding contribution to the development of the Group during their tenure and express my sincere welcome to Ms. Zhang Xu for joining the Board.

Zhang Zhiyong
Chairman

Beijing, PRC
28 March 2019

In 2018, the Group persisted in the transformation of growth momentum, constantly solidifying its development quality; by focusing on the domestic non-telecom operator market and the OPEX business of the domestic telecommunications operators, the Group achieved favourable operating results. This laid a solid foundation for the Group's continuous structure optimization, capabilities enhancement, business scale expansion and the start of a new development journey from the hundred-billion scale.

Si Furong
President

Dear Shareholders,

I am very pleased to present the operating results of the Group in 2018.

FINANCIAL PERFORMANCE

In 2018, the Group adhered to the overall roadmap of "value-driven, seeking steady yet progressive growth and high-quality development" and persisted in the transformation of growth momentum. Driven by the domestic non-telecom operator market and the OPEX business of the domestic telecommunications operators, the Group successfully overcame the adverse effect of CAPEX decrease of domestic telecommunications operators and the declining industry value while constantly solidifying its development quality, thus achieving favourable operating results. During the year, the Group's total revenues amounted to RMB106,177 million, representing a year-on-year increase of 12.3%; in which revenue from the Core Businesses amounted to RMB101,294 million, representing a year-on-year increase of 15.6%, both of which have crossed the threshold of hundred-billion. The Group's gross profit amounted to RMB12,885 million, representing a year-on-year increase of 5.5%, and gross profit margin was 12.1%, representing a year-on-year decrease of 0.8 percentage point. The Group continued to control its selling, general and administrative expenses, which amounted to RMB10,611 million, with its proportion to the total revenues continued to decline to 10.0%. Profit attributable to equity shareholders of the Company amounted to RMB2,901 million, representing a year-on-year increase of 6.9%, with a net profit margin of 2.7%. Basic earnings per share amounted to RMB0.419. Free cash flow was RMB3,613 million, with the cash conversion ratio[7] remaining at a healthy and relatively high level.

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

BUSINESS DEVELOPMENT

In 2018, the Group sought further development for TIS services and raised it delivery quality, aiming to expand its market share and grow stronger consistently; we vigorously expanded Core BPO services and broadened its capabilities coverage, aiming to grow bigger continuously; we also enhanced the core capabilities of ACO services and focused on the cultivation of smart products, aiming to grow better by synergistic operation. The Group's three major business segments all achieved faster development as compared with the same period of last year, with their business structure being continuously optimized.

The Group's TIS services recorded a revenue of RMB57,359 million, representing a year-on-year increase of 13.6%, and accounting for 54.0% of the total revenues. We focused on the construction of supreme networks for domestic telecommunications operators such as wireless mobile network and fiber optic broadband network and kept abreast of the development of 5G and IoT, supporting the transformation and upgrade of the domestic telecommunications operators, thereby effectively reinforced the fundamentals of business from domestic telecommunications operators. Meanwhile, we accelerated the transfer of our production capacity to the domestic non-telecom operator market, taking full advantage of the opportunities arising from the construction of Digital Economy and Smart Society in China to stimulate a more rapid growth of such business. The TIS services revenue from the domestic non-telecom operator market witnessed a rapid year-on-year growth of 50.8%. In recent years, the revenue scale of domestic non-telecom operator market in the TIS business has continued to grow, which has effectively reduced the Group's reliance on the CAPEX business of domestic telecommunications operators.

Revenue from the BPO services amounted to RMB35,103 million, representing a year-on-year increase of 7.1%, and the growth rate of this segment increased noticeably compared with the same period of last year[8]. Revenue from BPO services accounted for 33.1% of the Group's total revenues. The Group adhered to the value-driven principle and proactively controlled its products distribution business, and as a result, revenue from products distribution business for the year reported a significant year-on-year decrease of 29.8%. Excluding this factor, revenue from its Core BPO services reported a rapid year-on-year increase of 17.1%. Among which, the Group vigorously developed the network maintenance business, which reported a year-on-year increase of 15.3%. The Group expedited the consolidation of supply chain business with its capabilities on network-wide operation effectively improved, resulting in a year-on-year growth of 20.5%. We also further promoted the synergistic operation of general facilities management by unifying the brands and standards, resulting in a growth of 15.9%. The Group persisted in making its Core BPO services as a sustainable and recurrent business, which met with a rapid year-on-year growth of its revenue and it has become one of the important drivers for the Group's development.

Revenue from the ACO services amounted to RMB13,715 million, representing a year-on-year increase of 21.4%, making it the fastest growing segment among the three major businesses, with its proportion to the Group's total revenues increased to 12.9%. We adapted to the trend of Digital Economy, seized the opportunities arising from the informatization and intelligentization of the society and industries, while vigorously promoting our smart-typed products, as a result of which our system integration, software development and system support businesses achieved a rapid year-on-year increase of 27.3% and 22.1% respectively, which both have maintained a rapid growth rate of more than 20% for two consecutive years. In addition, the propelling and complementary effect of our smart products to our other businesses such as TIS services have gradually emerged, which supported the Group to expand into the high-value fields and cultivation of its new branding on smart service. The Group ranked 6th in "China's Top 100 Software Enterprises 2018", demonstrating its further enhanced industry position.

CUSTOMER DEVELOPMENT

In 2018, the Group's revenue from its domestic non-telecom operator market achieved a continuous and rapid increase and recorded RMB33,317 million, representing a year-on-year increase of 25.0%, accounting for 31.4% of the total revenues. In particular, the revenue from the Core Businesses increased by 33.9% year-on-year, accounting for 89.1% of the revenue from that customer market, and representing a year-on-year increase of 5.9 percentage points, making it an important driver for the stable development of the Group. The Group further improved its marketing system and optimized resource allocation for the key industries such as the government, electricity and transportation. The Group strengthened capabilities accumulation in its promotion of synergistic research and development for smart-typed products, with the Smart Society Product Portfolio constantly enriched. Furthermore, we reinforced capabilities enabling through strengthening the role of our product center as the pillar support and promoting business expansion. Through capabilities expansion, we vigorously expanded cooperation scope and promoted cooperation and synergy. The Group has achieved positive results of its innovation and transformation and the number of projects with hundred-million scale kept emerging, such as the Intelligentization Project of Shenzhen World Exhibition & Convention Center, Suzhou Smart Industrial Park, and the Non-stop Electronic Toll Collection System of Hunan Highway and the Smart Park Project of Beijing International Horticultural Exhibition.

[8] In 2017, the Group's revenue from BPO services reported a year-on-year growth rate of 0.7%.

In 2018, for the domestic telecommunications operators market, we further penetrated into CAPEX business by continuously improving our delivery capabilities and quality. We also stepped up efforts to accelerate our expansion into OPEX business, including network maintenance, supply chain and general facilities management, which realized a wide coverage of our standards and capabilities. We strengthened the cooperation with the domestic telecommunications operators in the smart field, taking full advantage of new opportunities arising from their transformation and upgrade, which contributed to the development of businesses such as our software development business. Our market share for this market increased effectively during the year, with a revenue of RMB69,705 million, representing a year-on-year increase of 7.1%, and accounting for 65.7% of the total revenues. Among that, the revenue from the TIS services of China Telecom decreased by 11.9% as compared with the corresponding period of last year, while the revenue from its Core BPO services increased rapidly by 18.4%, and such growth mitigated the impact brought by the reduction of CAPEX of China Telecom, thus making the revenue from China Telecom remained largely stable and amounted to RMB41,279 million, representing a slight year-on-year decrease of 0.7%, and the revenue from China Telecom accounted for 38.9% of the total revenues. Driven by the rapid business growth from the CAPEX business of China Mobile and the OPEX business of China Tower, revenue from the domestic telecommunications operators other than China Telecom grew rapidly by 20.9% year-on-year, accounting for 26.8% of the total revenues, representing a year-on-year increase of 1.9 percentage points.

In 2018, the Group further optimized the operation, management and resource allocation model of its overseas business and enhanced the unified management of its overseas market. We leveraged on the opportunities arising from the promotion of China's "Belt and Road" Initiative and combined the experience in developing the domestic non-telecom operator market to strengthen its cooperation with domestic telecommunications operators and "Go Abroad" Chinese enterprises in building the overseas ecosystems and expanding sectors including the government, electricity and education. Through synergistic marketing, synergistic financing, and synergistic technical support, the Group actively promoted the expansion of large-scale projects and achieved favourable results. In 2018, the Group's overseas market stabilized and recovered, reporting a revenue of RMB3,155 million, representing a year-on-year increase of 11.2%, accounting for 2.9% of the total revenues.

ENHANCEMENT IN OUR CAPABILITIES

In 2018, the Group further facilitated its innovation and transformation and optimized the construction of its business ecosystems, with its capabilities continuously improved. By the use of its innovative fund, the Group increased its investment in research and development while continuing on the progression on product-oriented services and platform-oriented products, with the blueprint of smart products continuously enlarged. Fundamental platforms and capabilities such as CCSYUN (our cloud service), Open IoT Platform and the Big Smart City IT Structure gradually came into shape, and new smart products such as Smart Justice, Smart Procuratorial Services, and Smart Government Services continued to emerge. Meanwhile, the Group vigorously forged its new smart image by releasing the Smart Society Product Portfolio, participating in national exhibitions such as the Big Data Expo, Smart China Expo and China (Nanjing) Soft Expo, and establishing the "Smart Service Industrial Ecosystem Alliance" with scientific research institutions, innovative technology enterprises and industrial partners to jointly explore the new market of Digital Economy, thus expanding its influence in the industries continuously.

The Group continued to promote the synergistic business operation for its supply chain and general facilities management businesses, and build capabilities among its network through the construction of a unified IT platform and the establishment of unified standards, which have met with preliminary results. Meanwhile, we accelerated the operation of our subsidiary Comservice Capital Holding Company Limited towards the public and designed products that incorporate with integration of financial solutions with the industrial development based on the core businesses of the Group and our main development tracks, providing customized support for the business expansion of the Group and on upstream and downstream enterprises.

To cater for the service demand of the domestic non-telecom operator market and overseas market for integrated capabilities, the Group accelerated cross-profession collaboration. While leveraging on our edges of "Consultant + Staff" business model and leading by our consultation and planning businesses, the Group brings up our full businesses together with smart products embedded and provides integrated solutions to the customers. The Group took advantage of its scale and synergy, strengthened cross-province and cross-profession collaboration, and matched its service capabilities with the market demand to satisfy the end-to-end requirements of its customers by building cross-region, cross-industry and cross-customer new capabilities.

The Group continuously strengthened its talent team and built its expert system and Comservice Craftsmanship system. Through enhancing the incentive mechanism, especially the incentives for large-scale projects, the Group further promoted its subsidiaries at all levels to establish market-oriented employment and compensation mechanisms. The Group has been taking good care of its employees, providing them with career development platforms to stimulate their vitality and enhance their competitiveness and innovative capabilities, which drive the Group's sustainable development with strong dynamics.

PROSPECTS

In 2019, the Group will continue to uphold its overall roadmap of "value-driven, seeking steady yet progressive growth and high-quality development" while persisting in structure optimization, capabilities enhancement, and business scale expansion. We would also broaden our cooperation, accelerate the construction of ecological platforms, with the aim of creating greater value for our shareholders and customers.

Facing the window of opportunities arising from the replacement of old growth drivers with new ones for China's economy, industrial upgrade and the trend of informatization and digitalization development, the Group will further use its concerted efforts to bolster its "Branding and Deployment" and promote high-quality development of domestic non-telecom operator market. The Group will continue to improve its capabilities on fundamental platforms such as Big Data, Cloud Computing and IoT, further intensify synergistic operation and increase investment on research and development, enrich the Smart Society Product Portfolio, thus manifesting the new branding of Smart Comservice. The Group will continue to build up our strengths, give full play to its advantages in informatization infrastructure services, exploit room for external cooperation, accelerate the construction of our ecological platforms, and strengthen our core competitiveness of integrated services. Meanwhile, the Group will strengthen capabilities accumulation and capabilities enabling for key local cities by converging internal and external resources to build up local advantages, and fan out from a point to an area to seek breakthroughs in wider fields such as electricity, transportation, government services, water conservancy and broadcasting.

The Group will deeply penetrate into the ecosystem of domestic telecommunications operator customers, combine traditional services with smart services and integrate with the next-generation information technologies, such as accelerating the establishment of smart maintenance platform, to further promote the "CAPEX and OPEX-driven" businesses as dual growth drivers and support domestic telecommunications operator customers' new deployment in 5G and IoT, and cater for their new demand in the fields of Smart Family and smart industry applications. Meanwhile, the Group targets to create new values through the exploration of applying mature business models in the domestic non-telecom operator market to the domestic telecommunications operators along with their transformation.

Leveraging on its core advantages of informatization services, the Group will continue to promote the transformation and upgrade of overseas businesses, while capturing opportunities arising from the "Belt and Road" Initiative. We will continuously adapt to the new needs of overseas customers and markets, and forge new growth drivers that integrates "market+technology+capital+talents". We will emphasize on the synergy among the domestic and overseas markets and capabilities, replicate the mature products and capabilities in the domestic market to overseas market, broaden our overseas industrial customers, accelerate the expansion of large-scale projects, thus achieving rapid breakthroughs.

The Group will continue to deepen reforms and take full advantage of the opportunities arising from "Double-hundred Action" to promote diversity in share ownership, improve its corporate governance structure, optimize its market-oriented operation mechanism, improve incentive mechanism, and accelerate the establishment of an organizational structure that meets the requirements of future development. The Group will adhere to the guideline of "One CCS" and expedite the integration of professional businesses while fostering our enterprises with leading positions, capabilities centers and product centers. We will strengthen regional coordination to realize full coverage of capabilities, and develop the market as a whole. We will also explore the paradigm that matches the operation of an enterprise with hundred-billion scale, the model for smart operation and the mechanism for management and decision-making to ensure operation compliance, scientific decision-making, flexibility and efficiency, and healthy and sustainable development.

2019 marks the 70th anniversary of the founding of the People's Republic of China. We will fulfill our new commitment of "making our society smarter, making our life better, and making our employee happier". With reform as the engine and powered by innovation, we start a new journey and strive for high-quality development from the hundred-billion scale towards the goal of building a first class enterprise in the spirit of "fully committed and waste no time", with a view to delivering even more brilliant operating results, more high-quality achievements, and a better future.

Si Furong
President

Beijing, PRC
28 March 2019

INTEGRATED SERVICES
and extensive
SMART PRODUCTS

APPROXIMATELY 60 YEARS OF EXPERIENCE AND ACCUMULATION IN COMMUNICATIONS INFORMATIZATION FIELD

THROUGH CAPABILITY EXTENSION AND TECHNOLOGICAL INNOVATION

ACCELERATE **ENTERPRISE TRANSFORMATION**

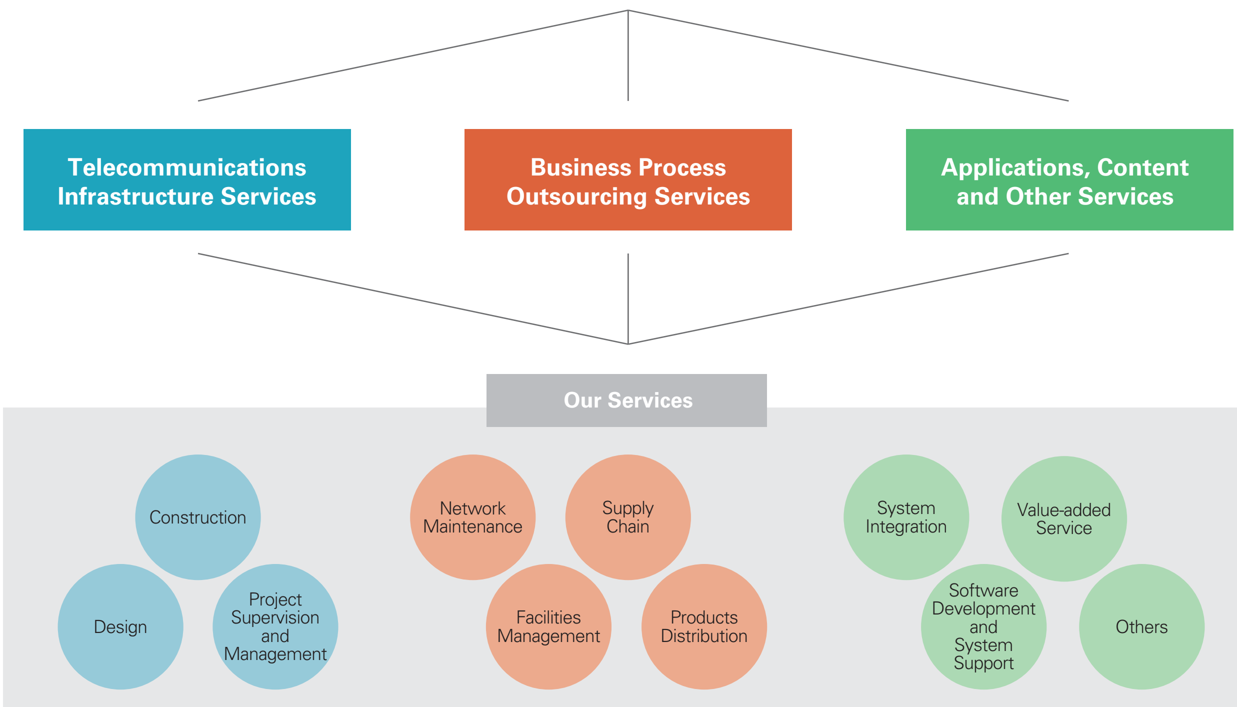
PROVIDE INTEGRATED AND **MULTI-PROFESSION** SMART SOLUTIONS


Construction
Design
Project Supervision
and Management
Network
Maintenance
Facilities
Management
Supply
Chain
System
Integration
Value-added
Service
Software Development
and System Support

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

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

WE PROVIDE INTEGRATED COMPREHENSIVE SOLUTIONS IN THE INFORMATIZATION AND DIGITALIZATION SECTOR



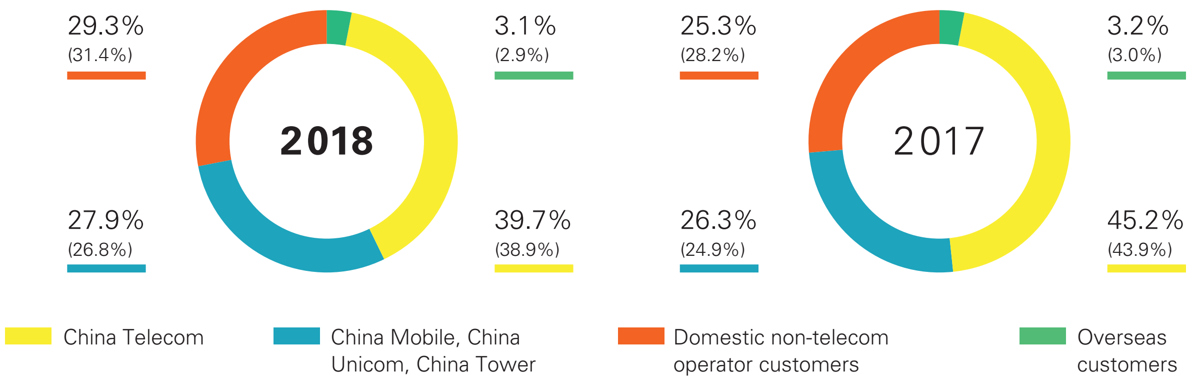
(In RMB million, except percentages)	**Revenue in 2018**	Revenue in 2017	Change
Domestic telecommunications operator customers	**69,705**	65,080	7.1%
Of which: China Telecom	**41,279**	41,568	–0.7%
China Mobile, China Unicom, China Tower	**28,426**	23,512	20.9%
Domestic non-telecom operator customers	**33,317**	26,656	25.0%
Overseas customers	**3,155**	2,836	11.2%
Total	**106,177**	94,572	12.3%

MARKET EXPANSION

In 2018, with the mission of "Bolstering Cyberpower Strategy, Building First-class Enterprise, Serving a Good Life", the Group adhered to the overall roadmap of "value-driven, seeking steady yet progressive growth and high-quality development" and continued to focus on "optimizing structure, sustaining growth, strengthening capabilities and enhancing efficiency". While seeking further development of the CAPEX[1]-driven business of the domestic telecommunications operator market, the Group continued to transform its growth momentum and increased its efforts in exploiting the OPEX[1]-driven business of the domestic telecommunications operator market, thereby maintaining the stable fundamentals of its businesses. Meanwhile, centering on building an ecological platform, the Group strengthened the internal and external collaboration and cooperation to make dedicated development in key industries and enhance the brand image of "Smart Comservice", thus continuously expanding the scale of domestic non-telecom operator market. In addition, the Group focused on the development of overseas sizable turnkey projects, and the overseas business stabilized and recovered. In 2018, the Group further optimized the business structure by continuing to proactively control products distribution business with low efficiency. Total revenues of the Group for the year amounted to RMB106,177 million, representing a year-on-year growth of 12.3%, in which, revenue from the Core Businesses[2] excluding the products distribution business achieved rapid growth and reached RMB101,294 million, representing a year-on-year growth of 15.6%. The Group's overall scale of revenue and revenue from Core Businesses both have achieved the leap from ten-billion level to hundred-billion level, embarking on a new journey of high-quality development.

In 2018, the Group continued to reinforce its market expansion and transform the growth drivers. Revenue from the Core Businesses achieved double-digit growth and its contribution to the total revenues recorded a year-on-year increase of 2.7 percentage points to 95.4%, demonstrating a stride towards high-quality development. During the year, revenue from domestic telecommunications operator customers (including China Tower) amounted to RMB69,705 million, representing a year-on-year increase of 7.1%. Revenue from domestic non-telecom operator customers amounted to RMB33,317 million, representing a year-on-year increase of 25.0%, in which the Core Businesses revenue increased by 33.9%. Revenue from overseas customers amounted to RMB3,155 million, representing a year-on-year increase of 11.2%.

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



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

[1] CAPEX and OPEX refer to the capital expenditure and operating expenditure of domestic telecommunications operators, respectively.
[2] Core Businesses include telecommunications infrastructure services, business process outsourcing services (excluding products distribution), and applications, content and other services.

Domestic Telecommunications Operator Market

In 2018, the Group continued to enhance project management and service quality in the domestic telecommunications operator market. The Group commenced research on key 5G technologies, as well as 5G network planning and testing. The Group captured the opportunities of upgrade of fiber optic broadband networks, optimization and upgrade of networks of domestic telecommunications operators and centralized procurement, with our market share showing a stable-to-rising trend. Meanwhile, we exploited the OPEX-driven business, overcame the unfavourable effect from the decrease of CAPEX and unit price of domestic telecommunications operators and realized a steady growth in the revenue from domestic telecommunications operator market. Of such revenue, revenue from China Telecom amounted to RMB41,279 million, representing a year-on-year decrease of 0.7%, and aggregate revenues from domestic telecommunications operator customers other than China Telecom amounted to RMB28,426 million, representing a year-on-year rapid growth of 20.9%. During the year, business from domestic telecommunications operators other than China Telecom recorded a substantial increase and was the largest contributor to the Group's incremental revenue from domestic telecommunications operators.

1 & 2. The Group undertook construction of telecommunications network and 5G project

3. The Group undertook Hunan Highway Informatization Project

4 & 5. The Group undertook the Smart Photovoltaic Project

Domestic Non-Telecom Operator Market

In recent years, the Group has been paying close attention to the development trend of digitalization of industries. Through innovation and transformation, the Company achieved rapid growth of its business from domestic non-telecom operator market and sustained optimization of its revenue structure. In 2018, the Group accelerated the transformation towards the direction of digital services by focusing on the development opportunities arising from Smart City, Internet of Things ("IoT"), Big Data and Cloud Computing and continuously improved service level to promote constructive and interactive development between its emerging and traditional businesses. The Group ranked 6th in "China's Top 100 Software Enterprises 2018" and the top ten "Leading Enterprises" for Information Technology Industry in 2019, demonstrating its industry position. Revenue from domestic non-telecom operator market amounted to RMB33,317 million, representing a year-on-year growth of 25.0%. Among that, the revenue from Core Businesses of domestic non-telecom operator market recorded a year-on-year growth of 33.9%, which became the largest contributor to the incremental revenue of the Group during the period. In 2018, the Group has already developed the group-level products[3] including more than 20 types of smart product solutions, such as Smart City, Smart Park, Smart Highway, Smart Safety, PaaS Cloud Platform, IoT Platform, Cloud Computing Engineering Services, and Electronic Certification. And the Smart Society Product Portfolio could be disassembled and combined according to customer needs, which also provides customers with full-process service from top-level design to product R&D and operation.

[3] The contents of certain group-level products are set out on the last page of "Business Overview".

The Group has established 227 independent business development units across the nation and allocated more than 9,000 staff for key industries. During the year, the Group signed approximately 500 projects with contract amount at RMB ten-million level. Large-scale projects of RMB hundred-million level included Intelligentization Project of Shenzhen World Exhibition and Convention Center, Intelligentization Project of Suzhou Smart Industrial Park, Non-stop Electronic Toll Collection of Hunan Highway, and Smart Park of Beijing International Horticultural Exhibition. Meanwhile, the Group expedited the cultivation of the team of technical experts for core products and currently has an expert team consisting of approximately 10,000 planning and consultation experts and 10,000 software engineers. In the next stage, the Group intends to continuously increase its training efforts, strengthen capabilities accumulation and capabilities enabling through informatization means including the Smart Comservice APP, continuously enrich core teams of professionals. In addition, the Group has devoted more efforts in the supply-side reform and actively adopted the "Consultant + Staff" model[4] to penetrate into and integrate with customers, for which the service not only satisfied, but also led customers' demand; and provided integrated high-quality services that will create value for customers and will realize the Group's own value. Currently, annual contracted revenue of the Group generated from customers in sectors of government, transportation, electricity, internet and IT, construction exceeded RMB1 billion each.

1. The Group undertook the Intelligentization Project of Shenzhen World Exhibition & Convention Center

2. The Group undertook the Smart Park Project of Beijing International Horticultural Exhibition

3 & 4. The Group undertook the telecommunications network construction of Hong Kong-Zhuhai-Macao Bridge

[4] "Consultant + Staff" model is an innovative service model adopted by the Group in recent years. "Consultant" means that the Group acts as the "Consultant" of its customers through leveraging on its talents and products advantages, so as to turn customers' needs into feasible solutions or projects, whereas "Staff" means that the Group, as appointed by customers, assists its customers in the capacity of a "Staff" in coordinating other stakeholders of the project, so as to promote the smooth implementation of the project and ensure its customers' expectation could be achieved.

Overseas Market

In 2018, the Group continued to promote deepened reform, the overall overseas market stabilized and recovered and achieved stable growth in scale. Revenue from overseas market of the Group amounted to RMB3,155 million, representing a year-on-year increase of 11.2%.

1. Chen Zhaoxiong, Vice Minister of the Ministry of Industry and Information Technology, visited the Group's booth at the ITU Telecom World
2. The Group participated in the 21st Africa Com

In 2018, the Group further optimized its four supporting systems, i.e. technology, commerce, financing and risk, persisted in market expansion and business transformation and upgrade, and continued to increase market development efforts and focused on the markets of Southeast Asia, the Middle East and Africa. The Group was awarded a number of large-scale projects, including: 4G Network Project in Nepal, Tiger Tower Turnkey Project in Myanmar, ITC National Broadband Network Project in Saudi Arabia, DU Network Installation in UAE, National ICT Backbone Network Phase III Project in Tanzania and Digital Mali Project in the Republic of Mali. In 2018, while vigorously penetrating into traditional telecommunications infrastructure services, the Group focused on the development of key products including Smart City, Smart Education and Smart Building and key industries including government, transportation, electricity and information security. The overseas business structure and customer structure become more diversified.

3. The Group entered into a service agreement regarding Network Installation with DU in UAE
4. The Group procured the launching of Nepal 4G Network Project through high-level marketing

BUSINESS EXPANSION

The Group is a leading service provider in the PRC that provides integrated comprehensive solutions in the informatization and digitalization sector. 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, supply chain and products distribution; and applications, content and other services, including system integration, software development and system support, and value-added services.

Telecommunications Infrastructure Services

As the largest telecommunications infrastructure service provider in China, the Group possesses all the highest grade qualifications in the communications construction industry in China. In 2018, revenue from telecommunications infrastructure services amounted to RMB57,359 million, representing a year-on-year growth of 13.6%.

The Group has the capabilities to provide worldwide telecommunications operators with comprehensive telecommunications infrastructure services including planning, design, construction and project supervision for fixed-line, mobile, broadband networks and supporting systems. In 2018, the Group fully addressed the needs of customers including the three domestic telecommunications operators and China Tower, and maintained its solid market leading position. The Group's revenue of telecommunications infrastructure services from domestic telecommunications operator customers amounted to RMB40,325 million, representing a year-on-year growth of 4.3%.

The Group also provides construction services of ancillary communications networks, and integrated solutions for informatization and smart solution for intelligentization of industries to domestic non-telecom operator customers, such as government agencies, financial institutions, broadcasting and television enterprises, construction enterprises, transportation and power sectors as well as overseas customers. The Group continuously achieves breakthroughs in the construction projects for Smart City, Smart Park, data centre and power projects. In 2018, revenue of telecommunications infrastructure services from domestic non-telecom operator customers amounted to RMB14,646 million, representing a year-on-year growth of 50.8%, maintaining a strong growth momentum.

Through tapping market potentials and capturing the demand on integrated construction, maintenance and network optimization services from domestic telecommunications operators, the Group expects to develop its traditional infrastructure business of domestic telecommunications operators steadily. With the further implementation of national strategies of "Digital China", "Cyberpower" and "Smart Society", Smart City and other application scenarios will be sustainably enriched, domestic telecommunications operators will promote 5G, Smart Family, construction of IoT, etc., and demand on infrastructure construction and industry informatization such as Smart City will also continuously increase. In addition, the national "Belt and Road" Initiative will lead to higher overseas market potential, which will create new opportunities for the growth of the Group.

1. The Group undertook IDC Data Center Projects

1

2

3

4

1. A subsidiary of the Group was awarded "National Excellent Logistic Enterprise 2018"

2 & 3. The Group provided storage and logistic services for customers

4. The Group's employees were providing facilities management services to the customers by applying unified IT platform

Business Process Outsourcing Service

The Group is the largest integrated provider of business process outsourcing services in the communications industry in China. We keep extending our business scope from core networks to access networks along the communications business value chain, and provide services including management of infrastructure for information technology (Network Maintenance), general facilities management, supply chain and products distribution. The targets of our services include domestic and overseas telecommunications operator customers, government agencies and enterprises customers. In 2018, the Group continued to exploit the OPEX-driven business of domestic telecommunications operators and the revenue from the Core BPO services[5] amounted to RMB30,220 million, representing a year-on-year growth of 17.1% while the overall revenue from the business process outsourcing services amounted to RMB35,103 million, representing a year-on-year increase of 7.1%.

The Group provides Network Maintenance services for telecommunications operators covering fiber optic cables, electric cables, mobile base stations, network equipment and terminals. In 2018, the Group proactively undertook on-site integrated maintenance services from the three domestic telecommunications operators and China Tower, and facilitated a relatively fast development in maintenance services with a revenue of RMB14,793 million, representing a year-on-year growth of 15.3%.

The Group provides general facilities management services to domestic telecommunications operators and domestic non-telecom operator customers for their data centres, cloud computing bases, commercial buildings, high-end residential buildings, high-speed railway stations and airports, etc. During the year, the Group continued to develop brand-building of intelligent building, and proactively promoted the construction of IT platform of intelligent building to enhance the synergistic operational capabilities of general facilities management service. In 2018, revenue from the general facilities management business of the Group was RMB5,278 million, representing a year-on-year growth of 15.9%.

The Group provides logistics and transportation, logistics, warehousing and auxiliary services, procurement agent, inspection and value-added services of supply chain to domestic telecommunications operators and domestic non-telecom operator customers. In 2018, with the industry-recognized AAAAA logistics qualification, the Group further consolidated the supply chain business. After consolidation, the registered capital of China Comservice Supply Chain Management Company Ltd., the Group's directly owned subsidiary engaging in supply chain business, reached RMB929 million. An all-process and network-wide integrated operation system has been preliminarily established, the economies of scale has started to emerge, and the service capability has been improved through enhanced synergistic operation. The Group intensified development effort on upstream and downstream customers in the information industry, and won the bid for nation-wide logistics businesses of Yangtze Optical Fibre and Cable, FiberHome Telecommunication Technologies, etc. and made breakthroughs in overseas logistics business and other domestic trunk transportation business. In 2018, the Group's revenue in supply chain service was RMB10,149 million, representing a year-on-year increase of 20.5%. In the future, the Group will take full play of the synergetic operation effect of China Comservice Supply Chain Management Company Ltd. in driving the expansion of supply chain business.

[5] Core BPO services include management of infrastructure for information technology (Network Maintenance), general facilities management and supply chain services.

In 2018, the Group's distribution sales and service capabilities were further enhanced. The Group strives to develop "中通福" (ZhongTongFu) as the core distributor recognized by operators and large nationwide chain store recognized by consumers. During the year, the Group undertook the business of China Telecom's "Yitianxia Tianyi Telecom Tmall Flagship Store", which ranked 7th in respect of online sales volume of mobile phone in China.

The Group provides terminals distribution and device distribution services to domestic telecommunications operator customers and provides distribution and procurement services of IT devices, auxiliary machinery and equipment to domestic non-telecom operator customers. In 2018, the Group proactively controlled the development of products distribution business with low efficiency and realized revenue of RMB4,883 million, representing a year-on-year decrease of 29.8%.

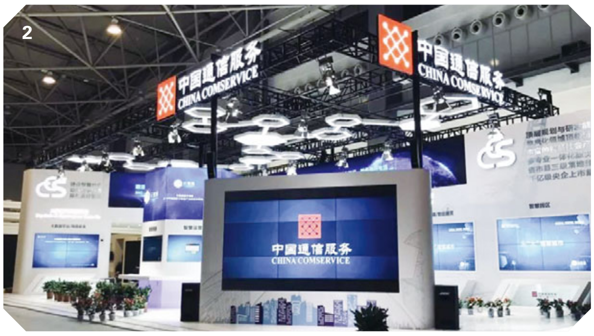
The Group believes that the OPEX business of domestic telecommunications operators have enormous room and potential to grow, and the domestic non-telecom operator customers also have strong demands for business process outsourcing services. The business process outsourcing business is characterized by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

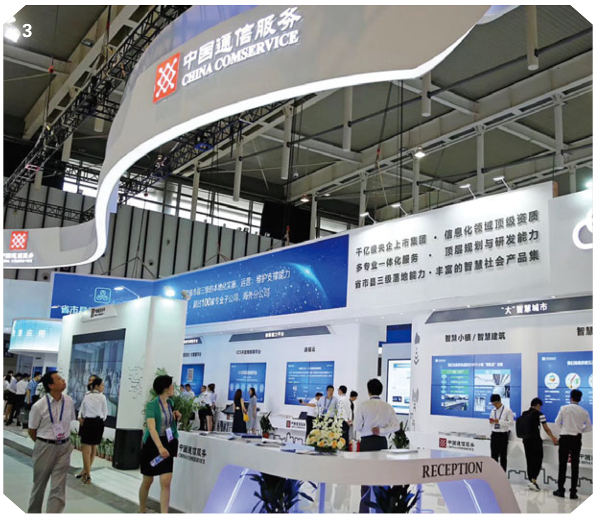
1 & 2. The Group provided Data Center Solutions to customers

Applications, Content And Other Services

The Group provides system integration, software development and system support as well as value-added services to customers including domestic telecommunications operators, government agencies and enterprises customers. In 2018, the Group accelerated the ecological deployment of smart industry, established the "Smart Service Industrial Ecosystem Alliance" with business partners, released the Smart Society Products Portfolio, and invested in the construction of foundation platforms such as Open IoT Platform, CCSYUN (our Cloud service) Platform to promote the convergence of products and services to the foundation platforms, which bolstered the cultivation of leading enterprises and professional capabilities. The Group's capabilities in software development and system integration have been widely recognized by the society. Revenue from applications, content and other services amounted to RMB13,715 million, representing a year-on-year increase of 21.4%.

3. The Group established Smart City Industrial Alliance with industrial partners





1. The Group participated in the 1st Smart China Expo in Chongqing
2. The Group participated in the 7th Big Data Expo in Guizhou
3. The Group participated in the 14th China (Nanjing) Soft Expo

In 2018, the Group leveraged on its strength on integrated service, software development and system integration capabilities to expand its industrial ecosystem through external collaboration. During the year, the Group set up internal Ecosystem Alliances for Cloud Computing, IoT, Smart City and Network Security, etc. and continued to increase its investment in research and development of key products, in which the Group completed a comprehensive upgrade of the smart-series products including Smart City, Smart Park and Smart Transportation with certain of them achieving industry-leading level with the needs of government and enterprise customers effectively addressed. At the same time, the Group participated in the Big Data Expo in Guizhou, Smart China Expo in Chongqing, Cybersecurity Week in Chengdu, China (Nanjing) Soft Expo, etc., which further increased the Group's influence in the industry. The domestic non-telecom operator customers were the major customer base of our applications, content and other services, which contributed to more than 50% of the overall revenue from such services. In 2018, the revenue from domestic non-telecom operator customers for applications, content and other services recorded a year-on-year increase of 23.4%, representing a major driver for the growth of this segment.

The Group will proactively grasp the opportunities arising from "Digital China" construction, make sustained upgrades of its key products and strengthen its research and development and platform construction in key areas such as Cloud Computing, IoT, Smart City and Big Data. With further enhancement and upgrade of the core competitiveness of products, the Group will accelerate the capabilities building of top-level planning and comprehensive solutions for Smart City. To continuously cultivate various smart products, the Group will navigate the integration and development of smart products on CCSYUN platform and Open IoT Platform. In an effort to expedite the deployment of relevant industries, the Group will converge and integrate internal and external resources to continuously cater for the needs of customers for digitalization construction and form new engines for capabilities.

CONTENTS OF CERTAIN GROUP-LEVEL PRODUCTS OF THE GROUP

1 Smart City

Based on its showcase-typed Smart City (Mini Smart City 1.0) and solution-typed Smart City products set (Mini Smart City 2.0), the Group developed the new generation of Smart City product (Mini Smart City 3.0) which represents the first product and service set for new Smart City solutions based on SDC (software defined city) structure. The product aims at building a user-friendly, service-oriented Smart City that takes CCSYUN Platform as the infrastructure, supported by the Open IoT Platform and leveraged on Smart Government Services.

2 Smart Park

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

3 Smart Highway

Upholding the principles of environmental friendly, efficient and safe, while integrated with advanced information processing technologies such as sensing, transmission and control, the highway informatization system could provide emergency command, smart toll collection and smart operation and maintenance that covers the operation and monitor of highway network.

4 Smart Safety

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

5 PaaS Cloud Platform

The Group developed the PasS Cloud Platform by utilizing cloud native technologies with an aim to solve problems in the era of Mobile Internet including high concurrency, massive data, sudden peaks, microservices and DevOps development. The product provides customers from governments, operators, financial industry, chemical industry, manufacturing industry and energy industry etc. with the new generation of "Internet+" Cloud Computing solutions to help enterprises accelerate innovation and transformation.

6 IoT Platform

An open IoT Platform launched by the Group for extensive industries that provides universal IoT infrastructure capabilities and vertical industry application services. It also integrates with the rich products and applications in the ecosystem to meet the differentiated needs of customers in the industry.

7 Cloud Computing Engineering Services

Based on energy efficiency management and BIM capabilities, the Group provides integrated solutions for parks, buildings and communication that cover the entire cloud infrastructure construction process to Internet enterprises, financial industry, government agencies and parks with cloud infrastructure needs. At the same time, riding on the experience in consultation and design services gained in long-term thorough development of industrial informatization construction and the CCSYUN Platform, supplemented by advanced technologies including Big Data, IoT and artificial intelligence, the Group provides an industry-oriented integrated cloud solutions consisting of cloud construction, migration and management.

8 Electronic Certification

As a response to the national information security strategy, the Group provides cryptography-based security solutions integrating identification and electronic certification for applications such as Internet, Cloud Computing, IoT, etc.

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

OVERVIEW

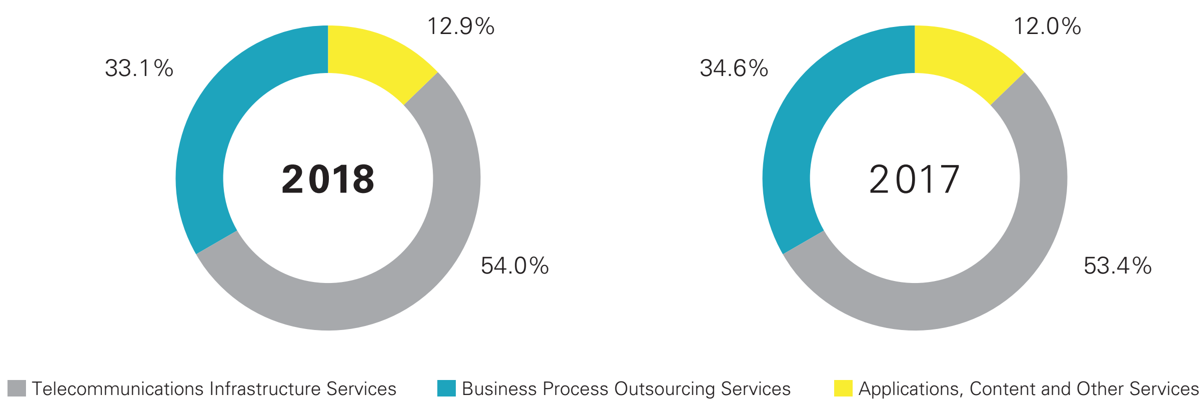
In 2018, the Group adhered to its overall roadmap of "value-driven, seeking steady yet progressive growth and high-quality development". By capturing new opportunities in digitalization, fostering the new brand of "Smart Comservice" and continuing to transform its growth momentum, the Group made the leap from a ten-billion enterprise to a hundred-billion enterprise. Total revenues for the year amounted to RMB106,177 million, representing an increase of 12.3% as compared to 2017. Profits attributable to the equity shareholders of the Company was RMB2,901 million, representing an increase of 6.9% as compared to RMB2,714 million in 2017, with basic earnings per share amounted to RMB0.419. Free cash flow was RMB3,613 million, and cash conversion ratio was 146.9%, remaining at a healthy level continuously.

TOTAL REVENUES

The Group's total revenues in 2018 amounted to RMB106,177 million, representing an increase of 12.3% as compared to 2017. From the business perspective, the revenue from telecommunications infrastructure ("TIS") services was RMB57,359 million, representing a year-on-year growth of 13.6%; the revenue from business process outsourcing ("BPO") services was RMB35,103 million, representing a year-on-year increase of 7.1%, of which the revenues from Core BPO services (i.e. excluding products distribution business) was RMB30,220 million, representing a year-on-year increase of 17.1%; and the revenue from applications, content and other ("ACO") services was RMB13,715 million, representing a year-on-year growth of 21.4%. The Group continuously improved the delivery capabilities of TIS services, and extended its competitive industrial capacity to different markets, making TIS services the biggest driver of its overall revenue growth. Meanwhile, the Group aggressively promoted its smart services, which in turn stimulated the growth of its software development and system integration businesses, development of the ACO services expedited and became the fastest growing business segment of the year. The Group continued to optimize its Core BPO services, aiming to turn it into a sustainable and recurrent business, with the related revenue maintaining at double-digit growth.

From the market perspective, the incremental revenue from the domestic non-telecom operator market surpassed those generated from the domestic telecommunications operator market in 2018, and the revenue from such market amounted to RMB33,317 million, representing a year-on-year increase of 25.0%, in which, revenue from the Core Businesses of such market amounted to RMB29,701 million, representing a rapid year-on-year increase of 33.9%. Revenue from the domestic telecommunications operator market amounted to RMB69,705 million, representing a year-on-year growth of 7.1%; and revenue from the overseas market amounted to RMB3,155 million, representing a year-on-year increase of 11.2%. In 2018, the Group fully exploited the demands arising from the Digital Economy and Smart Society of the domestic non-telecom operator customers, such as governments and enterprises, and businesses from such market became the main growth momentum of the Group's total revenues. Meanwhile, the Group kept abreast of the network construction of the domestic telecommunications operators and endeavoured to increase its market share, and also captured the opportunity of OPEX business of the domestic telecommunications operators through putting more efforts on the expansion of Network Maintenance business, and constantly promoting the synergistic operation of supply chain and general facilities management businesses, thus effectively alleviating the impact of the decrease in the telecommunications operators' CAPEX on the development of the Group.

BUSINESS REVENUE MIX



The following table sets forth a breakdown of our total revenues for 2017 and 2018, together with their respective changes:

	2018 RMB'000	2017 RMB'000	Change
Telecommunications Infrastructure Services			
Design services	**10,605,020**	10,239,148	3.6%
Construction services	**42,862,805**	36,668,312	16.9%
Project supervision and management services	**3,891,611**	3,603,528	8.0%
	57,359,436	50,510,988	13.6%
Business Process Outsourcing Services			
Management of infrastructure for information technology (Network Maintenance)	**14,793,165**	12,829,513	15.3%
General facilities management	**5,277,821**	4,554,889	15.9%
Supply chain	**10,148,648**	8,424,053	20.5%
Sub-total of Core BPO Services	**30,219,634**	25,808,455	17.1%
Products distribution	**4,883,188**	6,955,230	–29.8%
	35,102,822	32,763,685	7.1%
Applications, Content and Other Services			
System integration	**7,372,535**	5,789,503	27.3%
Software development and system support	**2,501,901**	2,048,496	22.1%
Value added services	**1,934,382**	1,570,458	23.2%
Others	**1,905,561**	1,889,281	0.9%
	13,714,379	11,297,738	21.4%
Total	**106,176,637**	94,572,411	12.3%

Telecommunications Infrastructure Services

In 2018, the Group's revenue from TIS services amounted to RMB57,359 million, representing an increase of 13.6% as compared to RMB50,511 million in 2017. TIS services was the primary source of revenue and accounted for 54.0% of our total revenues, representing an increase of 0.6 percentage point from 53.4% in 2017. As to the customer structure of the TIS services, the Group's TIS revenue from domestic telecommunications operators amounted to RMB40,325 million and accounted for 70.3% of the total TIS revenues, representing a decrease of 6.2 percentage points from last year. The aggregate TIS revenues from domestic non-telecom operator customers and overseas customers amounted to RMB17,034 million and accounted for 29.7% of the total TIS revenues, representing an increase of 6.2 percentage points from last year, whereas the increase in proportion was driven by domestic non-telecom operator customers.

In 2018, the Group's TIS revenue from domestic telecommunications operators increased by 4.3% over 2017. The Group persisted in strengthening project management and improving delivery quality, and its TIS revenue from the domestic telecommunications operator customers recorded a steady growth despite the CAPEX decrease from those customers. Meanwhile, the aggregate TIS revenues from domestic non-telecom operator customers and overseas customers increased by 43.6% over 2017, in which the TIS revenue from domestic non-telecom operator customers recorded a significant year-on-year growth of 50.8%, showing a remarkably enhanced growth momentum, as a result of which effectively alleviated the impacts from changes in network investments of the domestic telecommunications operators.

Business Process Outsourcing Services

In 2018, the Group's revenue from BPO services amounted to RMB35,103 million, representing an increase of 7.1% as compared to RMB32,763 million in 2017, accounting for 33.1% of our total revenues, a decrease of 1.5 percentage points as compared to 34.6% in 2017. Excluding the products distribution business, revenue from the Core BPO businesses amounted to RMB30,220 million, representing a year-on-year growth of 17.1%. Our Core BPO businesses achieved a rapid growth mainly due to our enhanced efforts in developing the OPEX business of the domestic telecommunications operators. In terms of customer structure of the BPO services, the BPO revenue from the domestic telecommunications operators amounted to RMB23,514 million, representing an increase of 10.0% over 2017, and accounting for 67.0% of the total revenues from the BPO services, representing an increase of 1.8 percentage points over 2017. The aggregate BPO revenues from the domestic non-telecom operator customers and overseas customers amounted to RMB11,589 million, representing an increase of 1.7% over 2017, accounted for 33.0% of the total revenues from the BPO services, representing a decrease of 1.8 percentage points over 2017.

In 2018, among each of the business under the Group's BPO services, revenue from the Network Maintenance business maintained a favourable growth and amounted to RMB14,793 million, representing an increase of 15.3% as compared to 2017, which is primarily due to the Group's focus on the OPEX business and the continuously increasing operation outsourcing demand of domestic telecommunications operators. The Group's capabilities for undertaking nation-wide integrated business and synergistic operation of supply chain business have been gradually enhanced, and the revenue from such business amounted to RMB10,149 million, representing an increase of 20.5% as compared to 2017. Revenue from the general facilities management service amounted to RMB5,278 million, representing an increase of 15.9% as compared to 2017, maintaining a favourable growth momentum. Besides, the Group adhered to the principle of high-quality development and proactively controlled products distribution business with low efficiency, and revenue from the products distribution business decreased by 29.8% as compared to 2017 and amounted to RMB4,883 million.

Applications, Content and Other Services

In 2018, the Group's revenue from ACO services amounted to RMB13,715 million, representing an increase of 21.4% as compared to RMB11,298 million in 2017, making it the fastest-growing business segment for the year. The revenue from ACO services accounted for 12.9% of the Group's total revenues, representing an increase of 0.9 percentage point from 12.0% in 2017, which has been constantly growing for three consecutive years. In terms of the customer structure of ACO services, the Group's ACO revenue from domestic telecommunications operators amounted to RMB5,866 million and accounted for 42.8% of the total ACO revenues, representing a decrease of 2.0 percentage points from the corresponding period of last year. Aggregate ACO revenues from domestic non-telecom operator customers and overseas customers amounted to RMB7,849 million, accounting for 57.2% of the total ACO revenues, representing an increase of 2.0 percentage points from the corresponding period of last year, which was driven by the domestic non-telecom operator customers.

In 2018, the Group adapted to the national strategies, including "Cyberpower", "Digital China" and "Smart Society", as well as the "Belt and Road" Initiative, and further enriched and optimized its smart solutions for different industries by consolidating its internal and external resources, strengthening synergistic cooperation, and leveraging advanced technologies such as Big Data, Cloud Computing, and IoT. Aggregate ACO revenues from the domestic non-telecom operator customers and overseas customers witnessed a rapid growth of 25.8% over 2017. With the Group's enhanced efforts in developing the domestic non-telecom operator customers, both the revenue and incremental revenue contribution of those customers from ACO services have surpassed those of the domestic telecommunications operators. ACO revenue from domestic telecommunications operators increased by 15.9% over 2017, maintaining a steady growth.

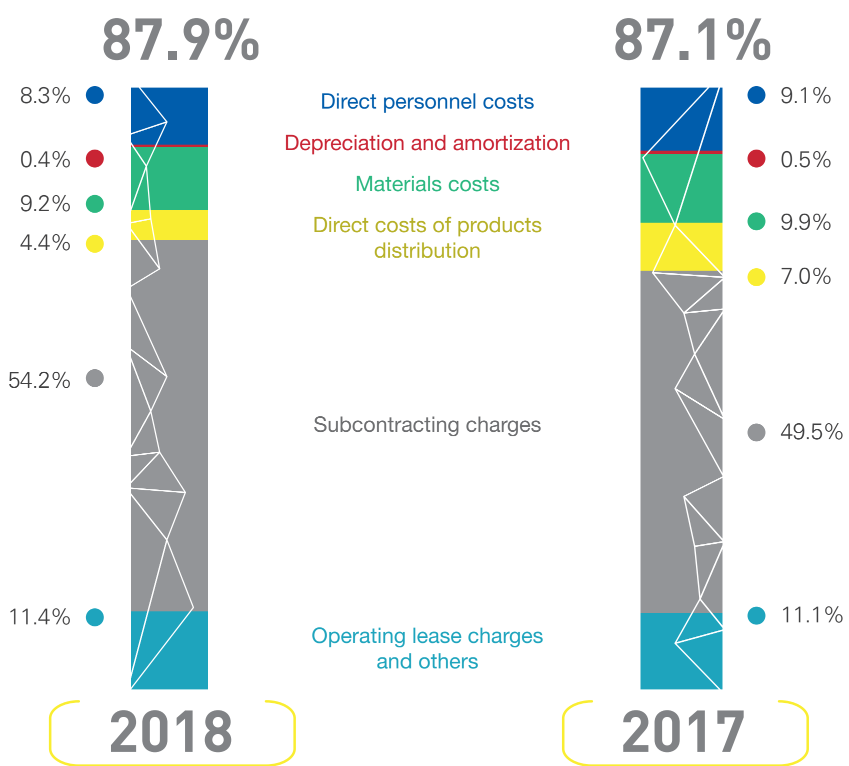
COST OF REVENUES

The Group's cost of revenues in 2018 amounted to RMB93,292 million, representing an increase of 13.3% from 2017 and accounting for 87.9% of the total revenues.

The following table sets out a breakdown of the Group's cost of revenues in 2017 and 2018 and their respective changes:

	2018 RMB'000	2017 RMB'000	Change
Direct personnel costs	**8,747,317**	8,647,493	1.2%
Depreciation and amortization	**466,096**	472,621	–1.4%
Materials costs	**9,783,239**	9,327,654	4.9%
Direct costs of products distribution	**4,629,177**	6,594,772	–29.8%
Subcontracting charges	**57,555,216**	46,858,020	22.8%
Operating lease charges and others	**12,110,626**	10,459,491	15.8%
Total cost of revenues	**93,291,671**	82,360,051	13.3%

COST OF REVENUES AS A % OF TOTAL REVENUES



Direct Personnel Costs

In 2018, direct personnel costs amounted to RMB8,748 million, representing an increase of 1.2% from RMB8,647 million in 2017. Direct personnel costs as a proportion to our total revenues was 8.3%, representing a decrease of 0.8 percentage point from 2017. With the growth in its business volume in 2018, the Group made use of outsourcing resources reasonably, strictly controlled its total headcount and staff costs, thereby improving its labour productivity.

Depreciation and Amortisation

In 2018, depreciation and amortisation were RMB466 million, representing a decrease of 1.4% from RMB473 million in 2017. Depreciation and amortisation as a proportion to our total revenues was 0.4%.

Materials Costs

In 2018, materials costs amounted to RMB9,783 million, representing an increase of 4.9% as compared to RMB9,328 million in 2017. Materials costs as a proportion to our total revenues was 9.2%, representing a decrease of 0.7 percentage point from 2017. The increase in materials costs was mainly attributable to the increase in relevant materials costs caused by the growth of our system integration and supply chain services.

Direct Costs of Products Distribution

In 2018, the direct costs of products distribution amounted to RMB4,629 million, representing a decrease of 29.8% as compared to RMB6,595 million in 2017. Direct costs of products distribution as a proportion to our total revenues was 4.4%, representing a decrease of 2.6 percentage points over 2017. The significant decrease in the direct costs of products distribution was mainly because the Group proactively controlled the development of certain low efficiency products distribution business.

Subcontracting Charges

In 2018, subcontracting charges were RMB57,555 million, representing an increase of 22.8% as compared to RMB46,858 million in 2017. Subcontracting charges as a proportion to our total revenues was 54.2%, representing an increase of 4.7 percentage points over 2017. The increase in subcontracting charges was mainly from the construction and Network Maintenance businesses. The Group has been transforming from the labour-intensive operation model to management and technology-intensive operation model. In order to meet the need for transformation and the demand for total headcount control, the Group focused on high-end businesses and promoted subcontracting of low-end businesses. In addition, the Group undertook more turnkey projects in the domestic non-telecom operator market, in which the turnkey projects have more needs for subcontracting for certain professional work.

Operating Lease Charges and Others

In 2018, operating lease charges and others were RMB12,111 million, representing an increase of 15.8% over RMB10,459 million in 2017. Operating lease charges and others as a proportion to our total revenues was 11.4%, representing an increase of 0.3 percentage point over 2017. The increase in costs was mainly due to the increase in technical service expenses under other expenses in order to support the business development of the Group.

GROSS PROFIT

In 2018, the Group recorded gross profit of RMB12,885 million, representing an increase of 5.5% over RMB12,212 million in 2017. The Group's gross profit margin in 2018 was 12.1%, representing a decrease of 0.8 percentage point from 12.9% in 2017. In 2018, there was a decline in gross profit margin of the Group due to various factors, including the decrease in unit prices of certain businesses from domestic telecommunications operator market and the increase in certain costs that were characterized as fixed in nature, such as labour-related costs. In addition, due to the fact that the development in the domestic non-telecom operator market is still in the preliminary introductory phase, the gross profit margin were affected to a certain extent with the rapid increase of revenue scale. In the meantime, the Group continued to optimize its revenue structure in 2018. Revenue from the Core Businesses as a proportion to our total revenues was 95.4%, representing an increase of 2.7 percentage points as compared to the previous year, thereby alleviating the impacts brought by the above factors on gross profit margin to a certain extent. Through continuous transformation and business upgrade, the Group will endeavour to increase the proportion of smart businesses and improve gross profit margin.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

In 2018, the selling, general and administrative expenses of the Group were RMB10,611 million, representing an increase of 7.3% as compared to RMB9,885 million in 2017. The selling, general and administrative expenses as a proportion of our total revenues was 10.0%, representing a decrease of 0.5 percentage point from 2017. The main reason for the increase in selling, general and administrative expenses was the increased investment on research and development as well as sales and marketing during the year to support the Group's direction of transformation towards digitalization and cultivate the brand of "Smart Comservice", so as to help expand its businesses.

FINANCE COSTS

In 2018, the finance costs of the Group were RMB25 million (2017: RMB47 million), which was lower than that of 2017. It was mainly due to the decrease in the relevant interest expenses as a result of the redemption of the convertible preference shares by one of the Group's subsidiaries in 2017.

INCOME TAX

In 2018, the income tax of the Group was RMB497 million and its effective tax rate was 14.5%, representing a decrease of 0.4 percentage point from 14.9% in 2017. 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 2018, 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 2018, profit attributable to equity shareholders of the Company was RMB2,901 million, representing an increase of 6.9% over RMB2,714 million in 2017. Profit attributable to equity shareholders of the Company accounted for 2.7% of our total revenues, which slightly decreased as compared to 2017. Basic earnings per share of the Company were RMB0.419, representing an increase of 6.9% as compared to RMB0.392 in 2017.

CAPITAL EXPENDITURE

The Group implemented stringent budget management over capital expenditure, and made adjustments according to changes in market condition. In 2018, capital expenditure amounted to RMB824 million, representing a decrease of 10.5% over RMB921 million in 2017. The capital expenditure in 2018 accounted for 0.8% of the total revenues, representing a decrease of 0.2 percentage point over 2017. The capital expenditure of the Group included the purchases of production facilities and equipment, machinery and meters, plant and office buildings, intangible assets and other operating assets.

CASH FLOW

The Group recorded a net cash inflow of RMB2,824 million in 2018, as compared with a net cash outflow of RMB21 million in 2017. Such change was mainly due to the decrease of cash used in investing activities during the reporting period. As at the end of 2018, the balance of cash and cash equivalents of the Group amounted to RMB16,106 million, of which 95.3% was denominated in Renminbi.

The following table sets out our cash flow positions in 2017 and 2018, respectively:

	2018 RMB'000	2017 RMB'000
Net cash generated from operating activities	**4,260,971**	6,964,245
Net cash used in investing activities	**(550,886)**	(5,683,712)
Net cash used in financing activities	**(885,710)**	(1,301,884)
Net increase/(decrease) in cash and cash equivalents	**2,824,375**	(21,351)

In 2018, net cash generated from operating activities was RMB4,261 million, representing a decrease of RMB2,703 million from RMB6,964 million in 2017. The change in operating cash flow was mainly because of the high base effect after substantial increases in the previous years, and it returned to a relatively normal level in 2018.

In 2018, net cash used in investing activities was RMB551 million, representing a decrease of RMB5,132 million from RMB5,683 million in 2017. The decrease was mainly attributable to the utilization of part of the fund to purchase short-term wealth management products and place in banks as structured deposits since 2017, but there was no further increase in the scale in 2018 considering the overall arrangement of the Group.

In 2018, net cash used in financing activities was RMB886 million, representing a decrease of RMB416 million from RMB1,302 million in 2017. The decrease was mainly due to the combined impact of the convertible preference shares redeemed by one of the subsidiaries of the Group in 2017 and the increase in borrowings for overseas business expansion in 2018.

WORKING CAPITAL

As at the end of 2018, the Group's working capital (i.e. current assets net of current liabilities) was RMB21,783 million, representing an increase of RMB1,005 million from RMB20,778 million in 2017. The increase in working capital was mainly due to the expansion of the Group's business and effective fund management which led to an increase in operating cash flow and current assets.

ASSETS AND LIABILITIES

The Group continued to maintain its solid financial position. As at the end of 2018, the Group's total assets was RMB80,926 million, representing an increase of RMB10,191 million from RMB70,735 million in 2017. Total liabilities was RMB48,097 million, representing an increase of RMB6,182 million from RMB41,915 million in 2017. The liabilities-to-assets ratio was 59.4%, which is basically the same as that of 59.3% at the end of 2017.

As at the end of 2018, among the current assets, there was an amount of RMB5,047 million under financial assets at fair value through profit or loss in relation to the purchase of wealth management products and structure deposits by the Group, in which such amount was remained at basically the same level as compared to the end of 2017. As at the end of 2017, an amount of RMB3,750 million under prepayments and other current assets and an amount of RMB1,262 million under financial assets at fair value through profit of loss were recorded in accordance with the actual nature of the products purchased. For details, please refer to note 31 and note 32 in the audited financial statement of this annual report.

As at the end of 2018, among the non-current assets, there was an amount of RMB3,738 million under equity instruments at fair value through other comprehensive income in relation to the equity instrument held for long-term strategic purposes and not held for trading, whereas such item was classified under available-for-sale financial assets with an amount of RMB852 million at the end of 2017. There was no new investment made during the year of 2018, and the reclassification and the change in value during 2018 was mainly due to the adoption of IFRS 9 (Financial Instruments) which changed the classification and the measurement method. For details, please refer to note 3, note 23 and note 24 in the audited financial statement of this annual report.

As at the end of 2018, there were reclassifications among the items of accounts and bills receivable (net) as well as contract assets (net) under the current assets, and also reclassifications among the items of contract liabilities, receipts in advance for contract work as well as accrued expenses and other payables under the current liabilities due to the adoption of IFRS 9 (Financial Instruments) and IFRS 15 (Revenue from Contracts with Customers). For details, please refer to note 3, note 28, note 30, note 37 and note 38 in the audited financial statement of this annual report.

INDEBTEDNESS

As at the end of 2018, total indebtedness of the Group was RMB471 million, representing an increase of RMB144 million from RMB327 million as at the end of 2017. Indebtedness of the Group was mainly denominated in US dollar, of which Renminbi loan accounted for 2.8% and US dollar loan accounted for 85.5%; and of which 21.3% was the loans with a fixed interest rate and 78.7% was those with a floating interest rate.

As at the end of 2018, our gearing ratio[6] was 1.4%, representing an increase of 0.3 percentage point from 1.1% as at the end of 2017.

CONTRACTUAL OBLIGATIONS

The following table sets out our contractual commitments as at 31 December 2018:

	Total RMB'000	**2019** RMB'000	**2020** RMB'000	**2021** RMB'000	**2022** RMB'000	**2023 and after** RMB'000
Short-term debt	462,003	462,003	–	–	–	–
Long-term debt	8,922	–	8,922	–	–	–
Operating lease commitments	1,301,802	508,960	283,124	175,383	97,493	236,842
Contracted for but not provided capital commitments	500,340	500,340	–	–	–	–
Total of contractual obligations	2,273,067	1,471,303	292,046	175,383	97,493	236,842

EXCHANGE RATE

Most of the Group's revenues and expenses are denominated in Renminbi. As at the end of 2018, the balance of the Group's cash and cash equivalents in foreign currencies accounted for 4.7% of the balance of its total cash and cash equivalents, of which 1.9% and 0.5% were denominated in US dollars and Hong Kong dollars, respectively.

6 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.

Enhancing

CAPABILITIES ACCUMULATION AND CAPABILITIES ENABLING

to develop market

SYNERGISTICALLY

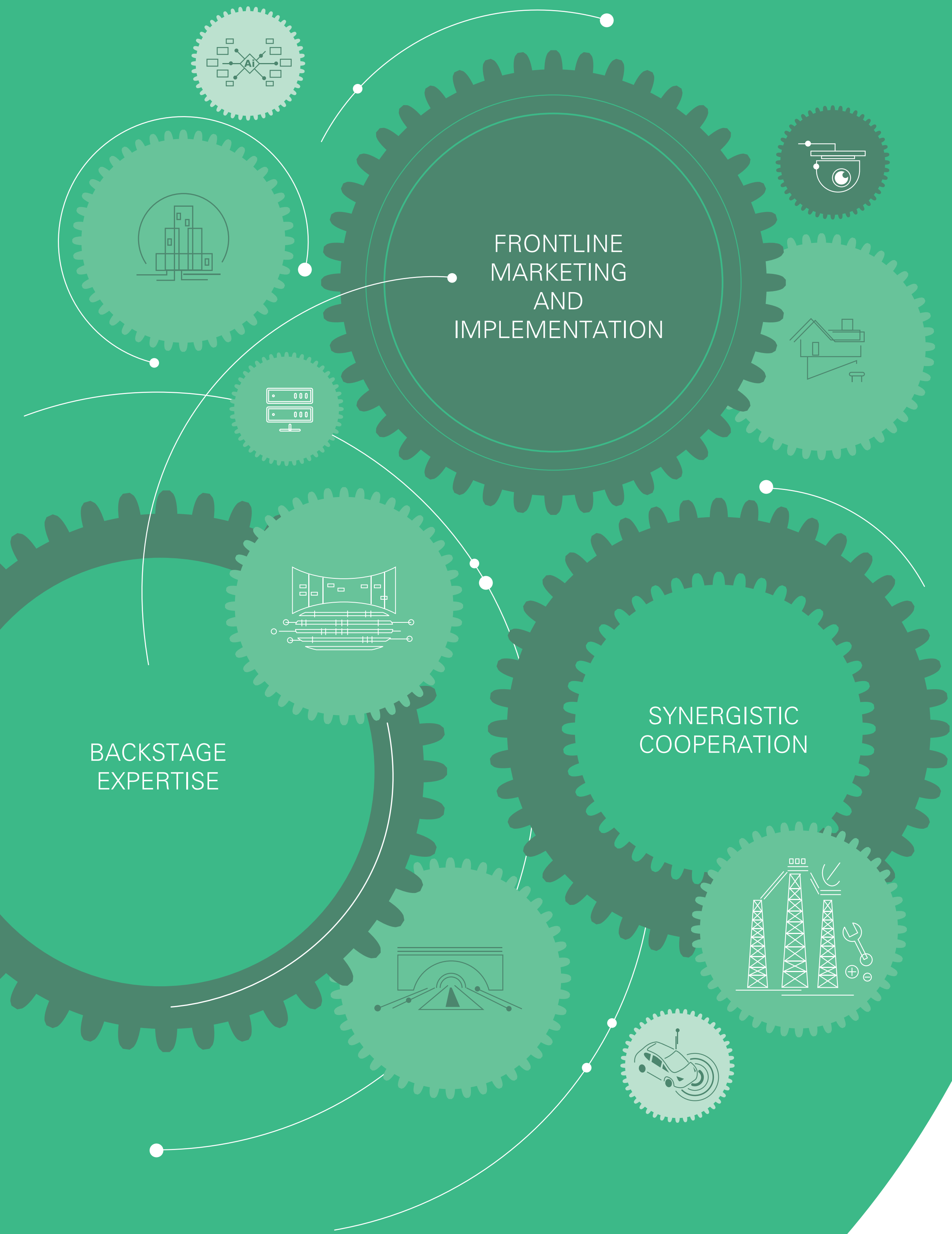
LEVERAGING ON LOCAL

FRONTLINE MARKETING AND IMPLEMENTATION CAPABILITIES

MOBILIZING DIFFERENT

BACKSTAGE TECHNICAL EXPERTISE FROM EACH PROVINCE

EXERTING SYNERGIES OF **THE GROUP AS A WHOLE**


FRONTLINE
MARKETING
AND
IMPLEMENTATION
SYNERGISTIC
COOPERATION
BACKSTAGE
EXPERTISE

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

HONORARY CHAIRMAN

Mr. WANG Xiaochu

age 60, is the Honorary Chairman[1] of our Company. Mr. Wang is currently the Chairman of China United Network Communications Group Company Limited and an Executive Director, Chairman and Chief Executive Officer of China Unicom (Hong Kong) Limited. Prior to that, Mr. Wang was the Chairman of China Telecommunications Corporation, and an Executive Director, Chairman and Chief Executive Officer of China Telecom Corporation Limited. Mr. Wang was also the Chairman and a Non-Executive Director of the Company.

EXECUTIVE DIRECTORS

Mr. ZHANG Zhiyong

age 53, is the Chairman of our Board of Directors and an Executive Director of our Company in charge of our overall management. Mr. Zhang is also the Vice President of China Telecommunications Corporation, an Executive Vice President of China Telecom Corporation Limited and a Non-Executive Director of China Tower Corporation Limited. Mr. Zhang is a senior engineer and received a bachelor degree in Radio Engineering from the Changchun Institute of Posts and Telecommunications in 1986, a master degree in Control Engineering from the Yanshan University in 2002 and a master of management degree from the BI Norwegian School of Management in 2005. Mr. Zhang previously worked as the General Manager of Beijing branch of China Telecom Corporation Limited, the General Manager of Xinjiang branch of China Telecom Corporation Limited, the Managing Director of the Sideline Industrial Management Department of China Telecommunications Corporation, and also the President and an Executive Director of our Company. Mr. Zhang has over 30 years of operational and management experience in the telecommunications industry in China.

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

Mr. SI Furong

age 58, is the President and an Executive Director of our Company responsible for our daily operations and management. Mr. Si is also the Managing Director of the Sideline Industrial Management Department of China Telecommunications Corporation and the Chairman of China Communications Services International Limited, a wholly-owned subsidiary of the Company. Mr. Si graduated from Information Engineering University in 1982 with a bachelor degree in radio communications. He also received an EMBA degree from Peking University Guanghua School of Management in 2006. Mr. Si previously served as the Director of the Corporate Affairs Department of China Telecommunications Corporation, the Director of the Corporate Affairs Department of China Telecom Corporation Limited, the General Manager of Shaanxi Telecom Company Limited of China Telecommunications Corporation, the General Manager of Shaanxi branch of China Telecom Corporation Limited, the General Manager of China Telecommunications Corporation Shaanxi network asset branch and Chairman of Shaanxi Communication Services Company Limited and a Director of China Tower Corporation Limited. Prior to joining China Telecommunications Corporation, Mr. Si was the Deputy Director of the Personnel Department of the Ministry of Information Industry. Mr. Si has over 30 years of operational and management experience in the telecommunications industry in China.

Ms. ZHANG Xu

age 49, is an Executive Director, Executive Vice President and Chief Financial Officer of our Company. Ms. Zhang graduated from Beijing University of Posts and Telecommunications in 1992 with a bachelor degree in posts and telecommunications management engineering, and she also received a master degree in international commence from The University of New South Wales in 2003. Prior to joining the Company, Ms. Zhang was Divisional Director of General Finance Division of China Telecommunications Corporation's Finance Department. Prior to that, Ms. Zhang served as Divisional Director of Treasury Division of China Telecommunications Corporation's Finance Department, a Director and Vice President of China Telecom (Hong Kong) International Limited and Divisional Director of Headquarter Finance and Accounting Division of China Telecommunications Corporation's Finance Department. Ms. Zhang has over 20 years of experience in telecommunications industry and financial management.

NON-EXECUTIVE DIRECTORS

Mr. LI Zhengmao

age 57, is a Non-Executive Director of our Company. Mr. Li is the Vice President of China Mobile Communications Group Co., Ltd., and the Director and Deputy General Manager of China Mobile Communication Company Limited. Mr. Li received a doctorate degree of radio engineering from the Southeast University. Mr. Li previously served as a professor of radio engineering, the Deputy Director of the Science and Technology Institute for the University of Electronic Science and Technology of China and the Director of national key laboratory. Mr. Li has held various positions in the China United Telecommunications Corporation, including the Deputy Head of the Network Technology Department, the Head of the Wireless Communication Department, the Head of the Technology Department and the Deputy Chief Engineer. He was also the Executive Director and Vice President of China Unicom Limited, the General Manager of the Yunnan branch of China United Telecommunications Corporation, and the Director and Deputy General Manager of China United Telecommunications Corporation. Mr. Li has extensive experience in telecommunications technology and business operations.

Mr. SHAO Guanglu

age 54, is a Non-Executive Director of our Company. Mr. Shao is an Executive Director and Senior Vice President of China Unicom (Hong Kong) Limited. He also is a Vice General Manager of China United Network Communications Group Company Limited, a Senior Vice President of China United Network Communications Limited and a Director and Senior Vice President of China United Network Communications Corporation Limited. He is also a Non-Executive Director of PCCW Ltd. and a Non-Executive Director of China Tower Corporation Limited. Mr. Shao is a professor-level senior engineer. He received a bachelor's degree from Harbin Institute of Technology in 1985, a master's degree in engineering and a master's degree in economics from Harbin Institute of Technology in 1988 and 1990, respectively, a master's degree in management from BI Norwegian Business School in 2002 and a doctor's degree in management from Nankai University in 2009. Mr. Shao joined China United Network Communications Group Company Limited in February 1995. He used to be Deputy General Manager of Tianjin Branch, Deputy General Manager of Henan Branch, General Manager of Guangxi Branch, as well as General Manager of Human Resource Department of China United Network Communications Group Company Limited. Mr. Shao has worked in the telecommunications industry for a long period of time and has extensive management experience.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. SIU Wai Keung, Francis

age 65, is an Independent Non-Executive Director of our Company. Mr. Siu is currently an Independent Non-Executive Director of the following listed companies, including GuocoLand Limited, CITIC Limited, CGN Power Co., Limited and China International Capital Corporation Limited. Mr. Siu is also an Independent Non-Executive Director of Beijing Gao Hua Securities Company Limited and BHG Retail Trust Management Pte. Ltd. Mr. Siu graduated from the University of Sheffield, United Kingdom, with a Bachelor of Arts in Economics and Accounting and Financial Management in 1979. He is also a fellow member of the Institute of Chartered Accountants in England and Wales, and a fellow member of the Hong Kong Institute of Certified Public Accountants. He joined KPMG Manchester, UK in 1979, returned to Hong Kong in 1986 and became a partner of KPMG Hong Kong in 1993. He was previously a Senior Partner of KPMG Shanghai Office, a Senior Partner of KPMG Beijing Office as well as a Senior Partner of Northern Region, KPMG China. Mr. Siu has been in the accounting profession for over 30 years.

Mr. LV Tingjie

age 64, is an Independent Non-Executive Director of our Company. Mr. Lv graduated from Beijing University of Posts and Telecommunications with a master's degree, and obtained a doctorate degree from Kyoto University of Japan. Mr. Lv is now a professor and doctoral tutor at the School of Economics and Management of Beijing University of Posts and Telecommunications. Mr. Lv also serves as the Director of the Teaching and Research Centre for Ecommerce in Beijing University of Posts and Telecommunications and the Director of the Academic Committee of "Information Management and Information Economics Key Laboratory" of the Ministry of Education. Mr. Lv is currently an Independent Non-executive Director of Beijing Digital Telecom Co., Ltd., and also an Independent Director of China United Network Communications Limited, Gohigh Data Networks Technology Co., Ltd., BOE Technology Group Co., Ltd. and Shenzhen Aisidi Co., Ltd. Mr. Lv is also a member of the Technology Committee and a member of Telecommunication Economics Expert Committee of the Ministry of Industry and Information Technology, a Deputy Director of the E-commerce Instruction Advisory Committee of the Ministry of Education, a member of the Technology Committee of China Post Group Corporation, a Standing Director of the International Telecommunications Society and a Standing Vice Chairman of China Information Economics Society. Mr. Lv used to serve as an Independent Non-executive Director of Global Link Communications Holdings Limited, and also a consultant for the business management and strategic development in many telecommunication enterprises and provide advice and solutions to their development and reform. Mr. Lv has a deep insight in the development of China's communication industry and the management of telecommunication enterprises with extensive management experience.

Mr. WU Taishi

age 72, is an Independent Non-Executive Director of our Company. Mr. Wu graduated from Department of Management of Fudan University with a bachelor degree in economics, majoring in Industrial Economics. Mr. Wu is a certified public accountant in the PRC and a senior accountant at researcher level. Mr. Wu used to serve as an External Director of China Energy Conservation and Environmental Protection Group and China Shipbuilding Industry Corporation, Deputy Chief Economist and Chief Accountant of Shanghai Carrier Rocket Assembly Plant, Director of Finance Bureau of Aviation Industry Corporation of China, General Manager of the Research & Development Department and Director of Postdoctoral work station of the Head Office of Bank of Communication, an Independent Non-executive Director of China Railway Construction Corporation Limited and an Independent Director of Power Construction Corporation of China, Ltd. Mr. Wu has extensive experience in financial management.

Mr. LIU Linfei

age 62, is an Independent Non-Executive Director of our Company. Mr. Liu is currently an attorney and a senior partner of Jun He Law Offices. He graduated from Heilongjiang University with a bachelor degree in 1982 and obtained a Master of Laws from the University of International Relations in Beijing in 1985, after which he served in the research office under the Standing Committee of the National People's Congress. He went to the United States in the autumn of 1987 and studied in the School of Advanced International Studies, Johns Hopkins University and served as an intern in the Congress of the United States. He enrolled in the School of Law of the University of Kansas in the United States in 1989 and graduated in 1992 with a Juris Doctor degree, after which he practiced in a law firm in the United States and was qualified as a practicing lawyer in the United States. He joined the Jun He Law Offices as a partner in early 1995. His practice primarily covers international legal affairs, in particular, foreign direct investment and mergers and acquisitions.

SUPERVISORS

Ms. HAN Fang

age 46, is the Chairperson of our Supervisory Committee. Ms. Han is the Vice President of the Audit Department of China Telecommunications Corporation. Ms. Han graduated from the Beijing University of Posts and Telecommunications with a bachelor's degree in engineering management in 1995. She obtained a master degree in business administration at the Norwegian School of Management in 2007. Ms. Han is an international internal auditor, a qualified accountant in PRC and a senior accountant. She worked as a Supervisor of the Supervisory Committee of China Telecom Corporation Limited, the Chief Accountant of China Telecom Global Limited and a Divisional Director of the General Audit Division of China Telecommunications Corporation's Audit Department. Ms. Han has over 20 years of finance and audit experience in the telecommunications industry.

Mr. HAI Liancheng

age 74, is an Independent Supervisor of our Company. Mr. Hai studied at the Civil Aviation College and Chinese Communist Party's (CPC) School, and obtained a college diploma. Mr. Hai served as Vice-Divisional Director and Divisional Director of the Financial Division of the Financial Department of Civil Aviation Administration of China ("CAAC"), Vice-Director and Director of the Financial Department of CAAC, General Manager of China Aviation Oil Supply Corporation and Vice General Manager of China Aviation Oil Holding Company. Mr. Hai served as the Chairman of South China BlueSky Aviation Oil Co., Ltd. and China Aviation Oil Corporation Ltd.. Mr. Hai has been the Director General of the CAAC Sub-association of the China Association of Chief Financial Officers and Chairman of the CAAC Training Centre for Accounting and Auditing since January 2006. Mr. Hai served as consultant of PICC Property and Casualty Co. Ltd., Chairman of Zhong Peng Certified Public Accountants Ltd. and senior advisor of China PnR Co., Ltd.

Mr. SI Jianfei

age 56, is an Employee Representative Supervisor and senior manager of the Company. Prior to that, Mr. Si was the Director of the General Manager's Office and Office of Board of Directors of the Company and concurrently served as the General Manager of Beijing Hongxiang Hotel. Mr. Si graduated from University of International Business and Economics in 2002 with an MBA degree. Mr. Si joined the Sideline Industrial Management Department of China Telecommunications Corporation in 2003 and served as the Divisional Director of the General Management Division. Prior to that, Mr. Si was the Deputy Director of Corporate Affairs Department of China Telecom Corporation Limited Xinjiang Branch. Mr. Si has over 20 years working experiences in the telecommunications industry.

MANAGEMENT

Mr. ZHANG Zhiyong
(Please refer to the "Executive Directors" section)

Mr. SI Furong
(Please refer to the "Executive Directors" section)

Ms. ZHANG Xu
(Please refer to the "Executive Directors" section)

Mr. XU Chuguo
age 55, is an Executive Vice President of our Company. Mr. Xu is a professor-level senior engineer. Mr. Xu is a director and the General Manager of China Communications Services International Limited, a wholly-owned subsidiary of the Company. Mr. Xu graduated from Chongqing University of Posts and Telecommunications in 1987 with a bachelor degree in telecommunications engineering and received an EMBA degree from Peking University Guanghua School of Management in 2006. Mr. Xu previously served as the Director of The 3rd Engineering Bureau and the Deputy General Manager of the predecessor of China International Telecommunications Construction Corporation, the General Manager of China International Telecommunications Construction Corporation (a wholly-owned subsidiary of the Company). Mr. Xu has over 30 years of market development, operational and managerial experience in domestic and overseas telecommunications industry.

Mr. LIANG Shiping
age 49, is an Executive Vice President of our Company. Mr. Liang joined the Company in August 2008 and served as Director of the Marketing Department of the Company. Mr. Liang received a bachelor's degree in Computer Engineering from the Computer Science Department of Jilin University in 1992 and master's degree in Computer Application from the Sixth Research Institute of the Ministry of Machinery and Electronics Industry in 1996. Prior to joining the Company, Mr. Liang served at the Data Communication Bureau of the Ministry of Posts and Telecommunications, the Multimedia Bureau of the Telecom Administration of the Ministry of Posts and Telecommunications and the Technology Development Department of China Telecom Data Communication Bureau. From October 2000 to August 2008, Mr. Liang served as a Divisional Director of the Planning Division of the Data Communication Bureau and the Application Development Division of the Corporate Informatization Department of China Telecommunications Corporation. Mr. Liang has over 20 years of experience in telecommunications and IT industry.

Mr. YAN Dong
age 47, is an Executive Vice President and Chief Risk Officer of our Company. Mr. Yan is also the Deputy Managing Director of the Sideline Industrial Management Department of China Telecommunications Corporation and a Director of Besttone Holding Co., Ltd. Prior to that, Mr. Yan was the Director of the Corporate Affairs Department of the Company, the Employee Representative Supervisor of the Company, the Director of the Risk Management Department of the Company and the Deputy General Manager and Chief Financial Officer of China International Telecommunications Construction Corporation. Mr. Yan graduated from Shandong University in 2002 with an MBA degree. Prior to joining the Company in 2006, Mr. Yan served as a Project Manager in Shandong International Trust and Investment Corporation, Office Director and Manager of the Investment Department of Shandong Luxin Investment Corporation, General Manager of Shandong Luxin Property Investment and Development Co., Ltd. and Divisional Director of Coordinated Development Division and Sideline Industrial Restructuring Division of the Sideline Industrial Management Department of China Telecommunications Corporation. Mr. Yan has extensive experience in financial management, business administration and operation of listed companies.

COMPANY SECRETARY

Mr. CHUNG Wai Cheung, Terence
age 45, is the Company Secretary and Deputy Chief Financial Officer of our Company. Mr. Chung graduated from Melbourne University, Australia in 1996, with a bachelor of commerce degree and received a master's degree in business administration from the Australian Graduate School of Management in 2005. Mr. Chung is a member of the Hong Kong Institute of Certified Public Accountants and the CPA Australia. Mr. Chung previously worked in an international accounting firm, China Mobile Limited and China Telecom Corporation Limited, and has over 20 years of extensive experience in auditing, company secretary and financial management of listed companies.

REPORT OF THE DIRECTORS

The board of directors (the "Board") of China Communications Services Corporation Limited (the "Company") is pleased to present the Report of the Directors of the Company, together with the audited financial statements of the Company and its subsidiaries (the "Group") prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2018.

PRINCIPAL BUSINESSES

The Group is a leading service provider in the PRC that provides integrated comprehensive 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 ("facilities management"), supply chain and products distribution; and applications, content and other services, including system integration, software development and system support, and value-added services. The major customers of the Group include domestic telecommunications operator customers, domestic non-telecom operator customers such as government agencies, industrial customers and small and medium enterprises, and overseas customers.

RESULTS

Results of the Group for the year ended 31 December 2018 and the financial position of the Group as at that date are set out in the audited financial statements on page 103 to page 192 in this annual report.

BUSINESS REVIEW

A fair review of the business, business outlook and the key financial performance indicators of the Group are provided in the "Chairman's Statement", "President's Statement", "Business Overview" and "Management Discussion and Analysis of Financial Conditions and Results of Operations" of this annual report. Description of the principal risks and uncertainties faced by the Group is disclosed in this section. Particulars of important events affecting the Group that have occurred since the end of the financial year of 2018, if applicable, can also be found in the aforesaid sections.

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

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

DIVIDENDS

The Board proposes a final dividend of RMB0.1257 per share and a special dividend of RMB0.0251 per share, and the total dividend is RMB0.1508 per share (pre-tax) for the year ended 31 December 2018. The dividend proposal will be submitted for consideration at the annual general meeting to be held on 21 June 2019 (the "AGM").

Dividends will be denominated and declared in Renminbi. Dividends will be paid in Renminbi for holders of domestic shares and holders of H shares (including enterprises and individuals) who invest in the H shares of the Company listed on the Hong Kong Stock Exchange through the Shanghai Stock Exchange or Shenzhen Stock Exchange ("the Southbound Trading") (the "Southbound Shareholders"), and dividends for H share shareholders other than the Southbound Shareholders will be paid in Hong Kong dollars. The relevant exchange rate will be the average of the mid-point rates of Renminbi to Hong Kong dollars as announced by the People's Bank of China for the week prior to the date of approval of declaration of dividends by the AGM. The record date for entitlement to the shareholders' rights and the relevant arrangements of dividend distribution for Southbound Shareholders are the same as those for the Company's H share shareholders. The proposed dividends are expected to be paid on or about Friday, 16 August 2019 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 148 of this annual report.

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

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

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

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

DIRECTORS AND SENIOR MANAGEMENT OF THE COMPANY

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

Name	Position in the Company	Date of the first appointment
Wang Xiaochu	Honorary Chairman[1]	8 April 2008
Zhang Zhiyong	Chairman Executive Director	16 March 2018 16 March 2018[2]
Si Furong	Executive Director President	21 February 2014 19 December 2013
Zhang Xu	Executive Director Chief Financial Officer Executive Vice President	13 December 2018 14 November 2018 14 November 2018
Li Zhengmao	Non-executive Director	27 November 2012
Shao Guanglu	Non-executive Director	23 June 2017
Siu Wai Keung, Francis	Independent Non-executive Director	28 June 2012
Lv Tingjie	Independent Non-executive Director	26 June 2015
Wu Taishi	Independent Non-executive Director	26 June 2015
Liu Linfei	Independent Non-executive Director	24 June 2016
Xu Chuguo	Executive Vice President	21 July 2014
Liang Shiping	Executive Vice President	3 March 2010
Yan Dong	Executive Vice President Chief Risk Officer	18 June 2013
Chung Wai Cheung, Terence	Company Secretary Deputy Chief Financial Officer	16 October 2006

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

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

On 16 March 2018, Mr. Sun Kangmin resigned as the Chairman and an executive director of the Company, on the same day, Mr. Zhang Zhiyong was appointed as an executive director and the Chairman of the Company. On 14 November 2018, Ms. Hou Rui resigned as the Chief Financial Officer and an executive vice president of the Company, and Mr. Cheng Hongyan resigned as an executive vice president of the Company, on the same date, Ms. Zhang Xu was appointed as the Chief Financial Officer and an executive vice president of the Company. On 13 December 2018, except for Ms. Hou Rui who resigned as an executive director and Mr. Zhao Chunjun who retired as an independent non-executive director of the Company upon expiry of his term of office, the remaining directors of the fourth session of the Board were re-elected as directors of the fifth session of the Board at the extraordinary general meeting held on the same day, and Ms. Zhang Xu was newly appointed as an executive director of the Company.

SUPERVISORS OF THE COMPANY

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

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

On 13 December 2018, the supervisors of the fourth session of the Supervisory Committee of the Company, Ms. Han Fang and Mr. Hai Liancheng, were re-elected as supervisors of the fifth session of the Supervisory Committee at the extraordinary general meeting held on the same date. Upon the election by employees, Mr. Si Jianfei continues to serve as the Employee Representative Supervisor in the fifth session of the Supervisory Committee.

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

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

SHARE CAPITAL

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

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

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

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

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

As at 31 December 2018, the share capital of the Company was RMB6,926,018,400 divided into 6,926,018,400 shares with a nominal value of RMB1.00 each. The share capital of the Company was comprised of the following:

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

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

As at 31 December 2018, the interests or short positions of persons who at any of the Company's general meetings (excluding the directors and supervisors of the Company) are entitled to exercise or control the exercise of 5% or more of the voting power in the shares and underlying shares of equity derivatives of the Company in each class as recorded in the register required to be maintained under Section 336 of the Securities and Futures Ordinance (Cap 571 of the Laws of Hong Kong) (the "SFO") were as follows:

Name of shareholder	Class of shares	Capacity	Number of shares held	Percentage of the respective class of share (%)	Percentage of the total number of shares in issue (%)
China Telecommunications Corporation	Domestic shares	Beneficial owner	3,559,362,496 (L)	78.49	51.39
China Mobile Communications Group Co., Ltd.	Domestic shares	Beneficial owner	608,256,000 (L)	13.41	8.78
China United Network Communications Group Company Limited	Domestic shares	Beneficial owner	236,300,000 (L)	5.21	3.41
JPMorgan Chase & Co.	H shares	26,914,618 shares as Interests of controlled corporations; 4,026,000 shares as investment manager; 7,739,496 shares as person having a security interest in shares and 152,303,590 shares as approved lending agent	190,983,704 (L)	7.98	2.76
		Interests of controlled corporations	8,479,024 (S)	0.35	0.12
		Approved lending agent	152,303,590 (P)	6.36	2.20
BlackRock, Inc.	H shares	Interests of controlled corporations	187,877,702 (L)	7.86	2.71
		Interests of controlled corporations	822,000 (S)	0.03	0.01
Citigroup Inc.	H shares	74,000 shares as person having a security interest in shares; 238,400 shares as interests of controlled corporations and 151,398,301 shares as approved lending agent	151,710,701 (L)	6.34	2.19
		Interests of controlled corporations	194,000 (S)	0.00	0.00
		Approved lending agent	151,398,301 (P)	6.33	2.19
Hermes Investment Management Ltd	H shares	Investment manager	121,608,000 (L)	5.08	1.76

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

Save as stated above, as at 31 December 2018, in the register required to be maintained under Section 336 of the SFO, no other persons were recorded as holding any interests or short positions in the shares or underlying shares of the equity derivatives of the Company.

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

As at 31 December 2018, 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 2018, 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 2018 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 2018.

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 2018.

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 193 to 194 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 2018.

BANK LOANS AND OTHER BORROWINGS

Please refer to note 35 to the audited financial statements for details of bank loans and other borrowings of the Group.

PROPERTY, PLANT AND EQUIPMENT

Please refer to note 16 to the audited financial statements for movements in the fixed assets of the Group for the year ended 31 December 2018.

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 2018.

DONATIONS

For the year ended 31 December 2018, the Group made charitable and other donations of a total amount of RMB1.26 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 2018.

CHANGES IN EQUITY

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

PLAN OF EMPLOYEES’ RETIREMENT BENEFITS

Please refer to note 41 to the audited financial statements for details of the retirement benefits provided by the Group.

PRE-EMPTIVE RIGHTS

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

MAJOR CUSTOMERS AND SUPPLIERS

For the reporting period, the revenue from sales of goods or rendering of services to the five largest customers (including China Telecom, China Mobile, China Unicom and China Tower) of the Group represented 65.9% of the total revenues of the Group; of which, the revenue from the largest customer of the Group represented 38.9% of the total revenues of the Group. The purchases from the five largest suppliers of the Group accounted for less than 5.0% of the total annual purchases of the Group.

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

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

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

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

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

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

CONTINUING CONNECTED TRANSACTIONS

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

The Company revised the annual caps of engineering related services provided to China Telecom Group and operation support services provided by China Telecom Group in 2015, which were approved by the independent shareholders of the Company at the extraordinary general meeting held on 11 December 2015. The following table sets out the annual caps and actual amounts of the continuing connected transactions of the Group during the year ended 31 December 2018:

Unit: RMB million

	Year ended 31 December 2018		Year ending 31 December 2019	Year ending 31 December 2020	Year ending 31 December 2021
	Annual Caps	Actual Amounts	Annual Caps	Annual Caps	Annual Caps
Engineering related services provided to China Telecom Group	24,000	18,646	26,000	33,000	35,000
Ancillary telecommunications services provided to China Telecom Group	15,600	13,976	20,000	24,000	27,000
Operations support service provided to/by China Telecom Group					
Revenue	3,600	3,092	3,800	4,000	4,200
Expenditure	1,100	704	1,600	2,000	2,400
IT application services provided to/by China Telecom Group					
Revenue	2,900	2,387	3,600	4,300	5,000
Expenditure	490	285	500	500	500
Centralized services provided to China Telecom Group	450	329	450	450	450
Property leasing provided to/by China Telecom Group					
Revenue	220	98	230	240	250
Expenditure	240	238	270	300	330
Supplies procurement services provided to/by China Telecom Group					
Revenue	10,000	3,080	6,000	6,500	7,000
Expenditure	7,000	1,811	5,000	5,200	5,400

CONTINUING CONNECTED TRANSACTIONS AGREEMENTS BETWEEN THE COMPANY AND CHINA TELECOM

The Company and China Telecom entered into seven continuing connected transactions agreements on 29 September 2015 to govern the continuing connected transactions between the Group and China Telecom Group. These agreements include the Engineering Framework Agreement, the Ancillary Telecommunications Services Framework Agreement, the Operation Support Services Framework Agreement, the IT Application Services Framework Agreement, the Centralized Services Agreement, the Property Leasing Framework Agreement and the Supplies Procurement Services Framework Agreement (the "2015 Agreements"). Each of the 2015 Agreements had an initial term expired on 31 December 2018 and, subject to approval from the shareholders (if applicable), the 2015 Agreements would be automatically renewed for a further period of 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 (see table above). The 2018 Supplemental Agreements and the new annual caps (excluding the new annual caps for the Property Leasing Framework Agreement and Centralized Services Agreement that did not require any independent shareholders' approval under the Listing Rules) were approved by the independent shareholders of the Company at the extraordinary general meeting held on 13 December 2018.

The Board considers that it is in the interest of the Company to enter into the 2018 Supplemental Agreements and cooperate with China Telecom Group to ensure a stable revenue source from one of the largest telecommunications operators in the PRC so as to benefit the Company's future growth and development.

Details of each of the 2018 Supplemental Agreements are set out below.

ENGINEERING FRAMEWORK AGREEMENT AND SUPPLEMENTAL AGREEMENT

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

The charges for engineering related services rendered under the Engineering Framework Agreement shall be determined at market price or prices obtained through tender process. According to the supplemental agreement to the Engineering Framework Agreement entered into between the Company and China Telecom, the parties amended the thresholds which the project must be determined through tender process under the Engineering Framework Agreement: whenever the value of any design or project supervision and management project exceeds RMB1 million, or the value of any construction project exceeds RMB4 million, the award of the relevant project must be subject to a tender process (with a minimum of three parties tendering bids) in accordance with the Bidding Law of the PRC and Regulation on the Implementation of the Bidding Law of the PRC, except as otherwise provided by related laws and regulations. The amendments were made in accordance with the Provisions on Projects Subject to Tender Process issued under the Order No. 16 of the National Development and Reform Commission of the PRC in March 2018, which increased (i) the threshold for design or project supervision and management projects that must be determined through tender process from RMB0.5 million to RMB1 million, and (ii) the threshold for construction project that must be determined through tender process from RMB2 million to RMB4 million. China Telecom Group (including the Group) has also adjusted the internal guidelines and increased such thresholds accordingly.

In determining the market price, the business and financial department of the relevant subsidiary of the Company shall collect the relevant market information (including but not limited to the change in price for the same or similar type of services), review and compare the costs and profits of transactions conducted in the most recent year of the same or similar type entered into with China Telecom Group or independent third parties, and prepare fee quotes for review by the marketing department of the relevant subsidiary of the Company. The marketing department or management of the relevant subsidiary of the Company shall primarily consider the following factors: (1) cost of service; (2) prices of the same or similar type of services provided to China Telecom Group by other service providers in the market; (3) prices of the same or similar type of services provided to China Telecom Group and independent third parties previously by the Company.

The Company will be given priority by China Telecom Group in the provision of the engineering related services except in the tender process, provided that the terms and conditions offered by independent third parties to China Telecom Group are no more favorable than those offered by the Company for the same type of services, and in return, the Company has undertaken to China Telecom Group that the Company shall not provide services to it on terms which are less favorable than those offered by the Company to independent third parties. The payment for engineering related services provided by the Company under the Engineering Framework Agreement is normally made in accordance with the work progress of practical work following the general market practice in the industry.

ANCILLARY TELECOMMUNICATIONS SERVICES FRAMEWORK AGREEMENT AND SUPPLEMENTAL AGREEMENT

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

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

(1) market price. In determining the market price, the business and financial department of the relevant subsidiary of the Company shall collect the relevant market information (including but not limited to the change in price for the same or similar type of services), review and compare the costs and profits of transactions conducted in the most recent year of the same or similar type entered into with China Telecom Group or independent third parties, and prepare fee quotes for review by the marketing department of the relevant subsidiary of the Company. The marketing department or management of the relevant subsidiary of the Company shall primarily consider the following factors: (i) cost of service; (ii) prices of the same or similar type of services provided to China Telecom Group by other service providers in the market; (iii) prices of the same or similar type of services provided to China Telecom Group and independent third parties previously by the Company;

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

The Company will be given priority by China Telecom Group in the provision of the ancillary telecommunications services, provided that the terms and conditions offered by independent third parties to China Telecom Group are no more favorable than those offered by the Company for the same services. In return, the Company has undertaken to China Telecom Group that the Company and its subsidiaries shall not provide ancillary telecommunications services to it on terms which are less favorable than those offered by the Company to independent third parties. Subject to the terms and conditions set out above, the payment for the ancillary telecommunications services is made in the manner provided for in each specific contract entered into between the parties with reference to the market practices.

OPERATION SUPPORT SERVICES FRAMEWORK AGREEMENT AND SUPPLEMENTAL AGREEMENT

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

The Operation Support Services Framework Agreement shall adopt the same pricing policy as the Ancillary Telecommunications Services Framework Agreement. In addition, in determining the market price of the operation support services provided to the Company by the China Telecom Group, the Company primarily considered the following factors: (i) prices of the same or similar type of services provided to the Company by other service providers in the market; (ii) prices of the same or similar type of services provided to the Company by China Telecom Group and independent third parties previously. Subject to the terms and conditions set out above, the payment for the operation support services is made in the manner provided for in each specific contract entered into between the parties with reference to the market practices.

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

IT APPLICATION SERVICES FRAMEWORK AGREEMENT AND SUPPLEMENTAL AGREEMENT

The IT Application Services Framework Agreement governs the arrangements between the Group and China Telecom Group with respect to mutual provision of IT application services. Pursuant to this agreement, the Company agreed to provide China Telecom Group with telecommunications network support services, software and hardware development and other related IT services. China Telecom Group also agreed to provide to the Company certain IT application services including voice and data, value added services and information application services.

The IT Application Services Framework Agreement shall adopt the same pricing policy as the Engineering Framework Agreement. In addition, in determining the market price of the IT application services provided to the Company by the China Telecom Group, the Company primarily considers the following factors: (i) prices of the same or similar type of services provided to the Company by other service providers in the market; (ii) prices of the same or similar type of services provided to the Company by China Telecom Group and independent third parties previously. Subject to the terms and conditions set out above, the payment for the IT application service is made in the manner provided for in each specific contract entered into between the parties with reference to the market practices.

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

CENTRALIZED SERVICES AGREEMENT AND SUPPLEMENTAL AGREEMENT

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

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

(2) the provincial headquarters management function to manage remaining assets of China Telecom in the primary service areas of the Group.

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

PROPERTY LEASING FRAMEWORK AGREEMENT AND SUPPLEMENTAL AGREEMENT

The Property Leasing Framework Agreement governs the arrangements with respect to the mutual leasing of properties between the Group and China Telecom Group. China Telecom Group currently lease from the Company and its subsidiaries certain properties for use as business premises, offices, equipment storage facilities and sites for network equipment. The Company and its subsidiaries also lease from China Telecom Group certain properties for use as business premises, offices and equipment storage facilities. These arrangements fall within the Property Leasing Framework Agreement.

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

SUPPLIES PROCUREMENT SERVICES FRAMEWORK AGREEMENT AND SUPPLEMENTAL AGREEMENT

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

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

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

(2) 3% of the contract value at the maximum for procurement services relating to domestic telecommunications supplies and other domestic non-telecommunications materials;

(3) for other services:

(i) market price. In determining the market price, the business and financial department of the relevant subsidiary of the Company shall collect the relevant market information (including but not limited to the change in price for the same or similar type of services), review and compare the costs and profits of transactions conducted in the most recent year of the same or similar type entered into with China Telecom Group or independent third parties, and prepare fee quotes for review by the marketing department of the relevant subsidiary of the Company. The marketing department or management of the relevant subsidiary of the Company shall primarily consider the following factors: (i) cost of service; (ii) prices of the same or similar type of services provided to China Telecom Group or the Company by other service providers in the market; (iii) prices of the same or similar type of services provided to China Telecom Group and independent third parties by the Company, or prices of the same or similar type of services provided to the Company by China Telecom Group and independent third parties;

(ii) in the absence of market price or where the market price cannot be determined, the price shall be agreed between both parties, which shall be the aggregate amount of reasonable costs, the taxes in sales and reasonable profits. In determining such price, the business and financial department of the relevant subsidiary of the Company will review and compare the costs and profits of transactions conducted in the most recent year of the same or similar type entered into with China Telecom Group or independent third parties, take into account factors such as historical price, transaction size, average profit ratio within the relevant industry, supply and demand, labor cost, local commodity prices and economic development levels, and prepare fee proposals for review by the marketing department of the relevant subsidiary of the Company.

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

ESTABLISHMENT OF CHINA TELECOM GROUP FINANCE CO., LTD.

On 22 June 2018, the Company entered into the Capital Contribution Agreement ("Capital Contribution Agreement") with China Telecom and China Telecom Corporation Limited ("China Telecom Corporation"). Pursuant to the Capital Contribution Agreement, the parties agreed to jointly establish China Telecom Group Finance Co., Ltd. ("China Telecom Finance") for the purpose of providing funds and financial management services with a registered capital of RMB5.0 billion, of which China Telecom, China Telecom Corporation and the Company had contributed RMB0.75 billion, RMB3.5 billion and RMB0.75 billion, respectively, representing 15%, 70% and 15% of the total registered capital of China Telecom Finance, respectively. China Telecom Finance, a non-banking financial institution legally established in the PRC on 8 January 2019 with the approval of the China Banking and Insurance Regulatory Commission ("CBIRC"), is a limited liability company approved by the relevant PRC government authorities (including but not limited to the CBIRC).

On 1 February 2019, the Company and China Telecom Finance entered into the Financial Services Framework Agreement ("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. The Financial Services Framework Agreement was with effect from 1 February 2019 until 31 December 2021. Subject to the compliance with relevant laws and regulations and relevant regulatory requirements, both parties shall negotiate and agree on the renewal arrangement. Upon the Financial Services Framework Agreement becoming effective, each of the services under the Financial Services Framework Agreement, except the deposit services, can be provided by China Telecom Finance to the Group immediately in accordance with the business scope of China Telecom Finance as approved by the CBIRC. The deposit services shall be provided after obtaining the approval from the Independent Shareholders at the EGM which will be held on 18 April 2019.

China Telecom holds approximately 51.39% of the total issued share capital of the Company. Therefore, China Telecom is a controlling shareholder and a connected person of the Company under Chapter 14A of the Listing Rules. China Telecom Corporation is a subsidiary of China Telecom, and thus 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 contemplated under the Capital Contribution Agreement constitutes a connected transaction of the Company, and the Financial Services Framework Agreement also constitutes a continuing connected transaction of the Company.

Please refer to the Company's announcement dated 22 June 2018 and 1 February 2019, and the circular dated 27 February 2019 for details.

The independent non-executive directors of the Company have confirmed that all the continuing connected transactions for the year ended 31 December 2018 to which the Group was a party:

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

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

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

The independent non-executive directors have further confirmed that:

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

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

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

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

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

4. with respect to the actual amounts of the continuing connected transactions, nothing has come to their attention that causes them to believe that those actual amounts have exceeded the annual caps disclosed in the previous announcement dated 29 September 2015 of the Company which were approved by the independent shareholders of the Company on 11 December 2015.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

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

MATERIAL LEGAL PROCEEDINGS

As at 31 December 2018, so far as the directors are aware, the Company was not involved in any material litigation or arbitration and no material litigation or claims had been made against, or were pending or threatened against the Company.

RISK FACTORS

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

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

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

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

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

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

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

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

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

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

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

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

AUDITORS

Deloitte Touche Tohmatsu and Deloitte Touche Tohmatsu Certified Public Accountants LLP were engaged as the international and domestic auditors of the Company respectively for the year ended 31 December 2018. Deloitte Touche Tohmatsu and Deloitte Touche Tohmatsu Certified Public Accountants LLP have audited the accompanying financial statements, which were prepared in accordance with International Financial Reporting Standards. A resolution for the reappointment of Deloitte Touche Tohmatsu and Deloitte Touche Tohmatsu Certified Public Accountants LLP as the international and domestic auditors of the Company for the year ending 31 December 2019 will be proposed at the upcoming AGM.

By order of the Board
Zhang Zhiyong
Chairman

Beijing, PRC
28 March 2019

REPORT OF THE SUPERVISORY COMMITTEE

Dear Shareholders,

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

During the reporting period, the Supervisory Committee convened two meetings. At the seventh meeting of the fourth session of the Supervisory Committee convened on 23 March 2018, we reviewed and approved proposals such as the Company's 2017 financial report, profit allocation and dividend distribution plan, auditors' report issued by the external auditors, the Company's work report on internal control for 2017 and work plan for 2018, the work report of the Supervisory Committee for 2017 and the work plan of the Supervisory Committee for 2017 and formed resolutions. At the eighth meeting of the fourth session of the Supervisory Committee convened on 24 August 2018, we reviewed and approved proposals such as the Unaudited Interim Financial Report for 2018, the Report on the Review of the Interim Financial Report for 2018 issued by the external auditors and the internal control work report for the first half of 2018 and work plan for the second half and formed resolutions. The meetings of the Supervisory Committee provided management suggestions to the continuous enhancement of internal management and risk prevention of the Group. During the reporting period, the members of the Supervisory Committee attended the board meetings for 2018, general meetings and audit committee meetings of the Company. By attending these meetings, the Supervisory Committee supervised significant decision making of the Company and the duty performance of the members of the Board and senior management.

The Supervisory Committee is of the opinion that during the reporting period, the Company continued to innovate and transform and allocate resources pursuant to the needs of the markets, strengthen corporate governance and comprehensively deepen reform and drive for transformation and innovation. In 2018, the Company realized stable growth of revenue and profit.

The Supervisory Committee is of the opinion that, in 2018, all members of the Board and senior management of the Company complied with applicable laws and regulations, and performed their duties in accordance with the Articles of Association of the Company. They have also safeguarded the interests of the shareholders, earnestly implemented various resolutions of the general meetings and the board meetings, and operated strictly in accordance with the regulatory requirements for a listed company. The Supervisory Committee was not aware of any violation of relevant PRC laws and regulations and the Articles of Association, or any acts which would prejudice the interests of the Company.

The Supervisory Committee carefully reviewed the information intended to be submitted by the Board of Directors to the general meeting such as the financial report of the Company for 2018 which were prepared according to relevant requirements and issued with unqualified opinion by the external auditors. The Supervisory Committee is of the opinion that the financial report gives an objective and true view of the Company's financial position and operating results.

In 2019, the Supervisory Committee will continue to comply with the relevant requirements of the PRC Company Law and the Articles of Association of the Company strictly and assume the responsibilities of safeguarding the interests of the shareholders and the benefits of the Company, to focus on the supervision of the Company's implementation of its commitment to shareholders and to expand our scope of work approach, with a view to enhancing our supervision and inspection efforts in major adjustment events and important operating activities and duly perform our duties in a thoughtful manner.

By order of the Supervisory Committee
Han Fang
Chairperson of the Supervisory Committee

Beijing, PRC
22 March 2019

CORPORATE GOVERNANCE REPORT

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

CORPORATE GOVERNANCE PRACTICES

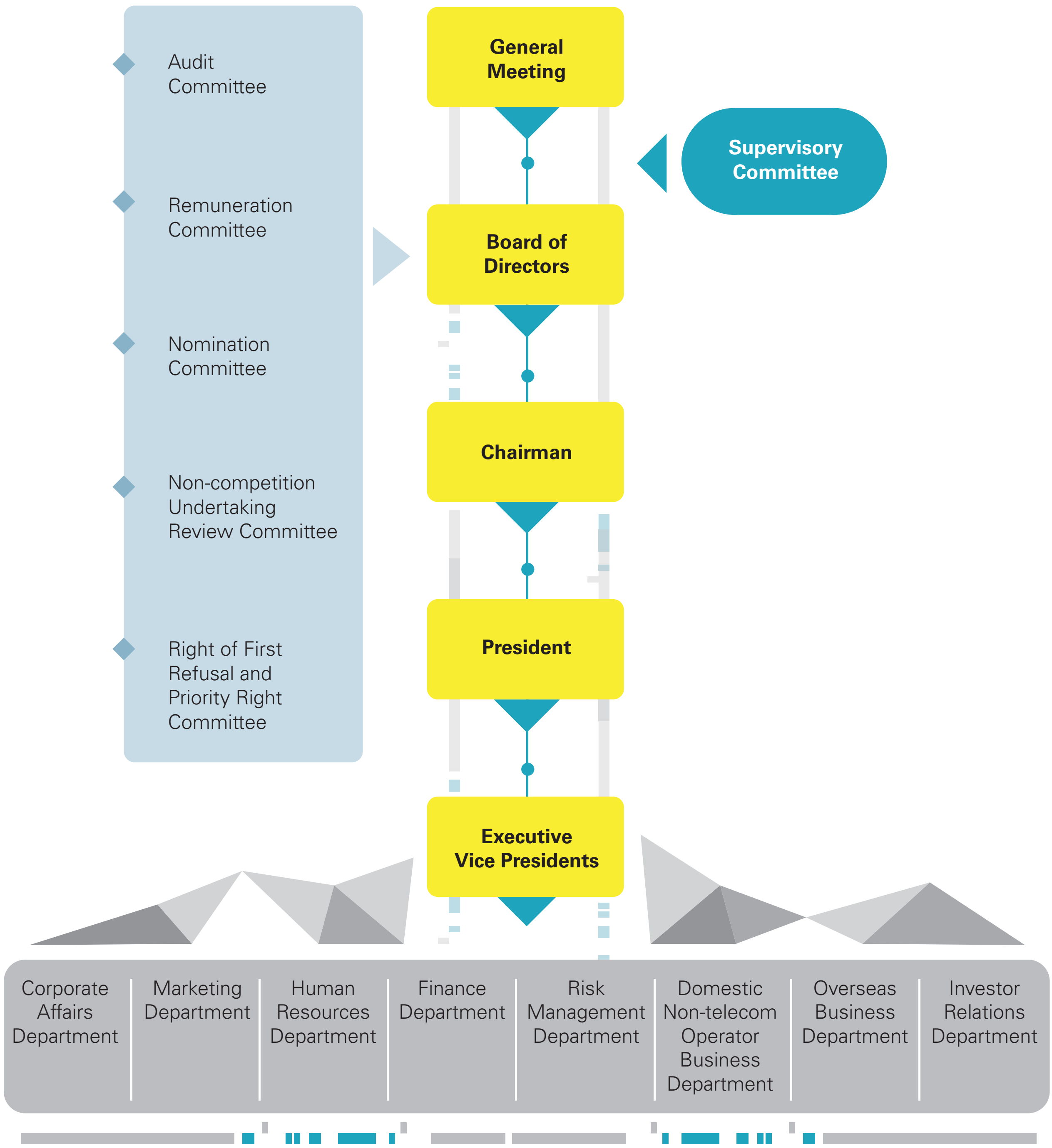
As a company incorporated in the PRC and listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company has not only complied with the relevant provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), but also abided by the PRC Company Law and other applicable laws, regulations and regulatory requirements of Hong Kong and the PRC as fundamental guidelines for the Company's corporate governance. While strictly complying with relevant laws and regulations, the Group is continually striving to further strengthen its internal control and risk management systems in order to improve its corporate governance standards and transparency.

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

The Company has been recognized by capital market for its sound corporate governance over the years. In 2018, the Company was awarded "The Best of Asia – Icon on Corporate Governance" and "Asian Corporate Director" by *Corporate Governance Asia*. Moreover, the Company was also awarded the "Platinum Award – Excellence in Environmental, Social and Corporate Governance" by *The Asset*.

Throughout the year ended 31 December 2018, the Company has complied with the code provisions as set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules.

CORPORATE STRUCTURE OF THE COMPANY



GENERAL MEETING

Pursuant to the Company's Articles of Association, the general meetings are classified as annual general meeting (the "AGM") and extraordinary general meeting (the "EGM"). The AGM is convened once a year and within six months after the end of a financial year. A resolution will be proposed for consideration in respect of each independent matter. The details of the voting procedures will be set out in the notices of the general meetings in accordance with the provisions of the Articles of Association and the Listing Rules. In accordance with the Listing Rules, all the resolutions were voted by poll in the general meeting held in 2018.

For the first EGM of 2018, a physical meeting was held in Beijing on 16 March 2018, at which the resolutions of the appointment of Mr. Zhang Zhiyong as an executive director of the Company and the amendments to the Articles of Association, were considered and approved by shareholders. Shareholders and authorized proxies representing 86.95% of the total voting shares of the Company were present at the EGM, and the percentage of votes cast in favour of each resolution was over 99%.

For the 2017 AGM, a physical meeting was held in Beijing on 29 June 2018, at which the resolutions, including the 2017 financial statements, profit distribution proposal and dividend declaration proposal, appointment of auditors, report of the Directors, and report of the Supervisory Committee were considered and approved by shareholders. Shareholders and authorized proxies representing 87.50% 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 77%.

For the second EGM of 2018, a physical meeting was held in Beijing on 13 December 2018, at which the resolutions regarding the renewal of continuing connected transactions and proposed new annual caps between the Company and the Company's controlling shareholder, China Telecom and the election of the fifth session of the Board and Supervisory Committee were considered and approved by shareholders. China Telecom, being a connected person to the Company, abstained from voting on resolutions related to the connected transactions. Related to the resolutions of connected transactions, shareholders and authorized proxies representing 76.69% of the total voting shares of the Company were present at the EGM, and the percentage of votes cast in favour of each resolution was 100%. Related to the resolutions of directors and supervisors election, shareholders and authorized proxies representing 88.67% of the total voting shares of the Company were present at the EGM, and the percentage of votes cast in favour of each resolution was over 77%.

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

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

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

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

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

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

SHAREHOLDERS' ENQUIRIES

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

COMMUNICATION WITH SHAREHOLDERS

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

BOARD OF DIRECTORS

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

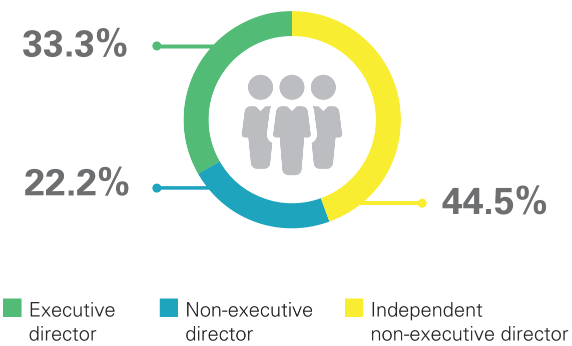
CHAIRMAN AND PRESIDENT

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

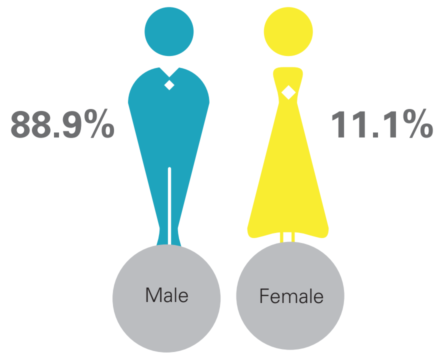
COMPOSITION OF THE BOARD AND DIVERSITY POLICY

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

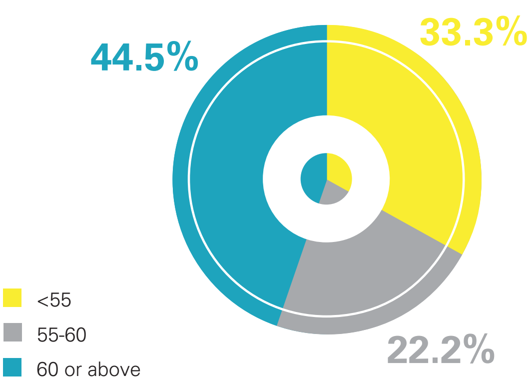
COMPOSITION



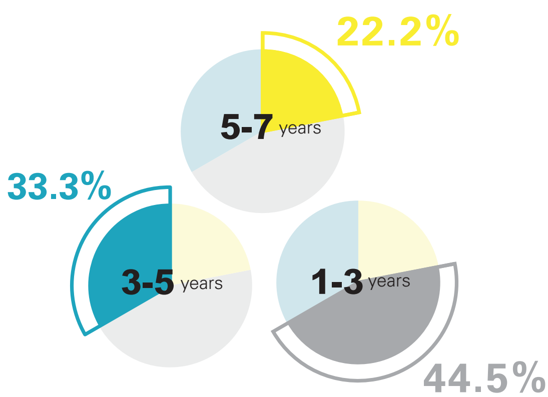
GENDER



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, finance, legal, management and academics. 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.

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

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

SECURITIES TRANSACTIONS BY DIRECTORS

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

APPOINTMENT OF DIRECTORS

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

Among the board members, except for Ms. Hou Rui who resigned as an executive director of the Company and Mr. Zhao Chunjun who retired as an independent non-executive director of the Company, the remaining directors of the fourth session of the Board were re-elected as directors of the fifth session of the Board at the extraordinary general meeting held on 13 December 2018, and Ms. Zhang Xu was newly appointed as an executive director of the Company. The directors of the Company are all eligible for re-election at the expiration of the term.

MEETINGS OF THE BOARD

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

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

All minutes of the Board meetings record the details of resolutions considered and decisions made, and are kept by meeting secretary and open for inspection by the directors. A director shall abstain from voting on any board resolution approving any proposal in which he or any of his associates has a material interest, nor shall he be counted in the quorum present at the meeting. In 2018, the Board held six meetings and passed two written resolutions. In addition to general matters such as review of the annual and interim financial statements, dividend distribution, Corporate Governance Report, ESG Report and budget, the Board also considered the resolutions regarding to appointment of Chairman, amendment of the Articles of Association, renewal of continuing connected transactions, election of directors and remuneration package of directors. For the resolutions on the connected transactions such as the renewal of continuing connected transactions and the proposed new annual caps between the Company and China Telecom, directors with conflict of interests abstained from voting. Meanwhile, in the agenda of approving director remuneration, relevant directors with conflicts of interests on their own remuneration also abstained from voting.

In 2018, the Chairman of the Company had a meeting with the non-executive directors (including independent non-executive directors) without the presence of the executive directors.

The attendance record of the Company's directors in Board meetings, board committee meetings and general meeting(s) in 2018 were as follows:

	Attendance in 2018/Meeting convened during period of appointment					
	Board of Directors	Audit Committee	Non-competition Undertaking Review Committee	Independent Board Committee	AGM	EGM
Executive Directors						
Zhang Zhiyong[(1)]	5/5	–	–	–	1/1	1/1
Si Furong	6/6	–	–	–	1/1	2/2
Zhang Xu[(2)]	1/1	–	–	–	0/0	0/0
Non-executive Directors						
Li Zhengmao	6/6[(3)]	–	–	–	0/1	1/2
Shao Guanglu	6/6[(4)]	–	–	–	0/1	0/2
Independent Non-executive Directors						
Siu Wai Keung, Francis	6/6	2/2	2/2	1/1	1/1	2/2
Lv Tingjie	6/6[(5)]	2/2[(5)]	2/2[(5)]	1/1	1/1	2/2
Wu Taishi	6/6	–	–	1/1	1/1	2/2
Liu Linfei	6/6	2/2	2/2	1/1	1/1	2/2
Resigned Directors						
Sun Kangmin[(6)]	1/1	–	–	–	–	0/1
Hou Rui[(7)]	5/5[(8)]	–	–	–	1/1	1/2
Zhao Chunjun[(9)]	5/5	–	–	1/1	1/1	2/2

(1) Mr. Zhang Zhiyong was appointed as an executive director and the Chairman of the Company with effect from 16 March 2018.
(2) Ms. Zhang Xu was appointed as an executive director of the Company with effect from 13 December 2018.
(3) Mr. Li Zhengmao appointed other directors to attend four meetings.
(4) Mr. Shao Guanglu appointed other directors to attend six meetings.
(5) Mr. Lv Tingjie appointed another director to attend one meeting.
(6) Mr. Sun Kangmin resigned as the Chairman and an executive director of the Company on 16 March 2018.
(7) Ms. Hou Rui resigned as an executive director of the Company on 13 December 2018.
(8) Ms. Hou Rui appointed another director to attend one meeting.
(9) Mr. Zhao Chunjun resigned as a non-executive director of the Company on 13 December 2018.

DIRECTOR'S TRAINING

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

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

In 2018, the training records of the directors of the Company were as follows:

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

(1) Mr. Zhang Zhiyong was appointed as an executive director of the Company and the Chairman of the Board on 16 March 2018.
(2) Ms. Zhang Xu was appointed as an executive director of the Company on 13 December 2018.

BOARD COMMITTEES

As an important part of a sound corporate governance practice, the Board has set up five board committees: the Audit Committee, the Remuneration Committee, the Nomination Committee, the Non-competition Undertaking Review Committee and the Right of First Refusal and Priority Right Committee, and all of which 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 the overall safeguard and supervision. The list of members of each committee is published on the websites of the Company and the Stock Exchange.

Audit Committee

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

In 2018, the Audit Committee held two meetings, and mainly reviewed the resolutions of the Company for the audited financial report of the Company of 2017, interim report of 2018, 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 2018, the Remuneration Committee passed one written resolution, and mainly reviewed the remuneration packages of the fifth session of the Board and made recommendations to the Board.

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 2018, the Nomination Committee passed two written resolutions, and mainly reviewed the resolutions of the appointment of director, the Board structure and composition and directors election, as well as the resolution of recommending the appointment of Ms. Zhang Xu as an executive director of the Company and made their recommendations to the Board. Based on the background and extensive industry experience of Ms. Zhang Xu, her appointment was in line with the Company's board diversity policy and enhanced the Board's overall performance.

Non-Competition Undertaking Review Committee

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

In 2018, 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 2018. 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 2018, 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 28 September 2018, at which all former independent non-executive directors of the Company attended. The Independent Board Committee mainly reviewed the resolution regarding the renewal of continuing connected transactions and proposed new annual caps between the Company and China Telecom, and made its recommendations to the independent shareholders. Details of this resolution and the Independent Board Committee's recommendation were contained in the circular dispatched to shareholders on 19 November 2018.

SUPERVISORY COMMITTEE

The Company established a Supervisory Committee pursuant to the PRC Company Law. The Supervisory Committee consists of three members: Ms. Han Fang (the chairperson), Mr. Hai Liancheng (the external independent supervisor) and Mr. Si Jianfei (the employee representative supervisor). The term of service of the supervisors are three years, commencing from the EGM on 13 December 2018 approving the fifth session of the Supervisory Committee. The supervisors may serve consecutive terms if re-elected upon the expiry of their terms of service. The Supervisory Committee is a standing supervisory institution of the Company and is accountable and reports to all the shareholders. The Supervisory Committee normally meets at least twice a year.

The primary duties of the Supervisory Committee are to supervise the financial activities of the Group, to review the financial statements and other financial information prepared and presented by the Board at the general meeting(s); to supervise the performance of duties of the directors and other senior management; to prevent them from abusing power; and to deal with the directors or to initiate legal actions against the directors on behalf of the Company. In 2018, 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

In the first EGM of 2018, the shareholders of the Company approved the amendments to the Articles of Association. Pursuant to the Company Law of the People's Republic of China and in accordance with the Company's operation and management situation, the Board amended the legal representative from the Chairman of the Company to the general manager of the Company in the Articles of Association. In addition, due to the change of company names of our domestic shareholders, the Company need to make the corresponding amendments to the relevant contents in the Articles of Association. The amended Articles of Association was 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 2018.

REMUNERATION OF THE AUDITORS

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

DIRECTORS' RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

The responsibility statement of Deloitte Touche Tohmatsu, our external auditors, regarding its Independent Auditor's Report on the financial statements of the Group is set out on pages 99 to 102 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 2018, 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 2019, 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 2018 and the assessment of material risks and the control plan for 2019.

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

The risk management department of the Company has established an internal audit division, which is responsible for organizing the Company's daily risk management and internal control assessment, and reporting to the Audit Committee and the Board of Directors to ensure that the Board and management maintain and operate a sound risk management and internal control system in accordance with established procedures and standards. In 2018, the Company further strengthened audit supervision, and attached importance to the utilization of the results of audit, so as to foster management improvement and to prevent loophole. The above work plays an important role in supporting the Board, the management and the risk management and internal control assessment.

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

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

Annual Risk Management and Internal Control Assessment

The Company continues to focus on strengthening internal control and risk management and has sound internal control and management systems in place. The main internal control and risk management measures of the Company in 2018 are summarized as below:

In 2018, 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's internal control self-assessment switched to a risk-oriented principle, which was organized from top to bottom and under an unified manner. With the changes in the Company's internal and external environments as well as the continuous expansion of its business scale, the Company increased its attention to comprehensive risk management. On the basis of its risk-oriented internal control self-assessment system and a comprehensive assessment, the Company identified the key areas and points to focus on according to the major risks that might be faced by the Company during the year, and effectively and adaptively prepare the list of contents to be addressed for the self-assessment in the year, so as to accomplish a comprehensive and well-targeted inspection and assessment, which covered all of its subsidiaries.

The internal control self-assessment was conducted under the supervision of the Company's working group on risk management, led by the internal 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 2018, the Company continued to promote the management of audit project plan and conducted comprehensive internal audit to make independent and objective supervision and assessment of the operation activities and the appropriateness, compliance and effectiveness of its internal control through applying certain auditing procedures and methodologies, with an aim to enhance its operation and create more value for the Company, improve the processes for risk management, control and corporate governance and contribute to the fulfillment of its strategic goals. In light of the requirement on annual key risk control and the characteristics of its operation and management, the internal audit in this year mainly included, among others, economic accountability audit, revenues audit and audit for construction work with focuses on relevant matters such as income and cost accounting, cash management, subcontracting management, and product distribution business management. Upon the request of the management of the Company and in light of the needs of relevant business departments, the internal audit division made use of the data from the audit and the audit outcomes to hold the audit joint meeting, so as to provide advice for the decision-making and operation and management activities of the Company.

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 2018. 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.

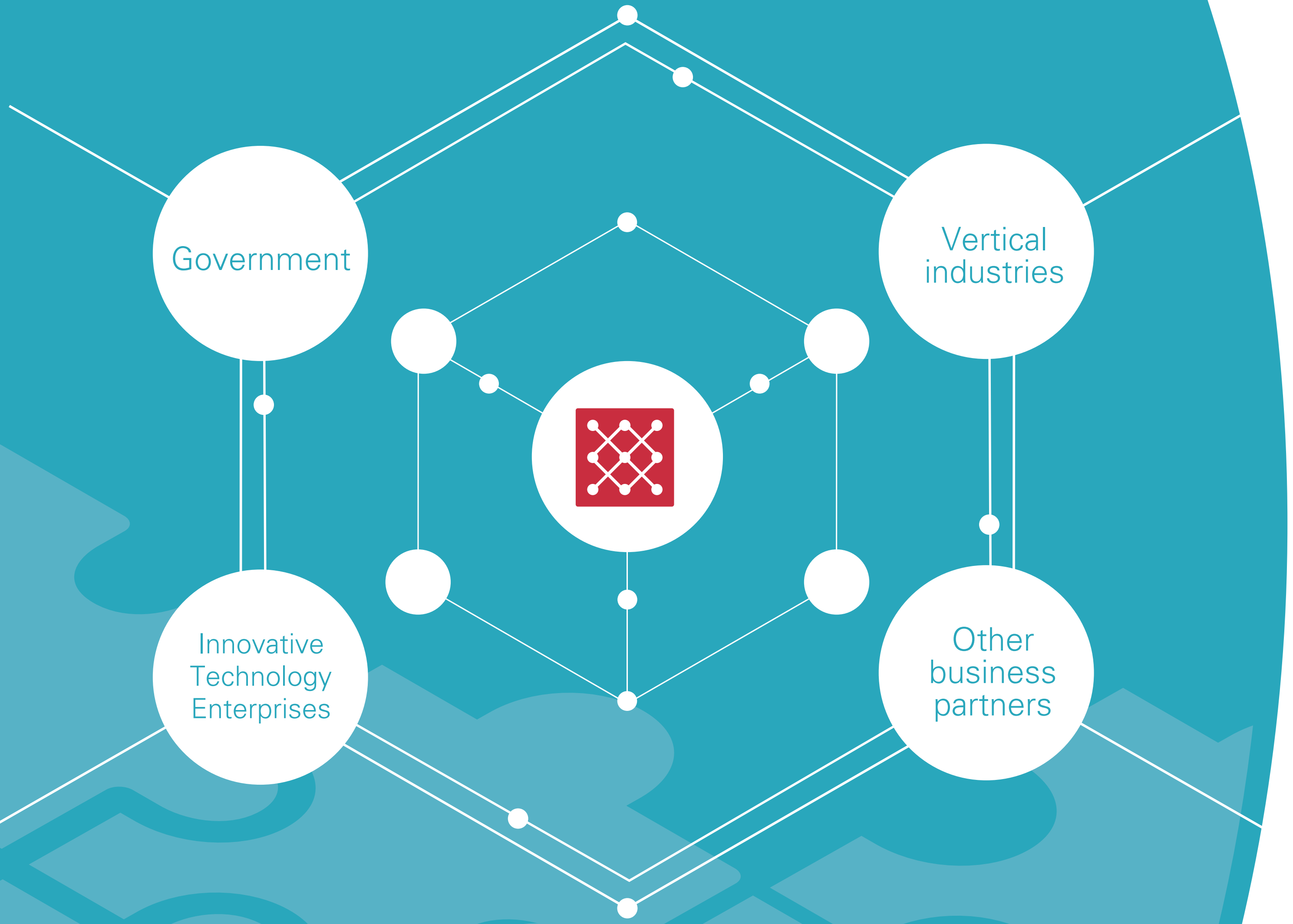
Building **ECOSYSTEMS** together in open **COOPERATION**

LEVERAGING ON OUR **BRAND AND SCALE**

WE BUILD ECOLOGICAL **PLATFORMS**

CONVERGE RESOURCES ALONG INDUSTRIAL CHAINS

IMPROVE SERVICE **CAPABILITIES AND QUALITY**


Government
Vertical industries
Innovative Technology Enterprises
Other business partners

This report is prepared pursuant to the Environmental, Social and Governance Reporting Guideline (the "Guideline") in Appendix 27 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). This report covered the key performance indicators in respect of environmental protection of the Company from 1 January 2018 to 31 December 2018, which were mainly based on the data provided by the Company and certain large-scale subsidiaries. There is no significant change in the scope of this report from that of the 2017 Environmental, Social and Governance Report. This report has complied with all the "comply or explain" provisions as set out in the Guideline. We did not disclose certain key performance indicators which are required to be disclosed by the Stock Exchange but not directly related to the business of the Group or have minimal influence.

OVERVIEW

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

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

ENVIRONMENTAL PROTECTION AND RESOURCES UTILISATION

As a communications services enterprise, the Group has always complied with relevant national laws, regulations and standards on emission during the course of service provision. We have established an internal management system, and embarked on energy saving and consumption reduction activities to ensure that we can meet our energy conservation and emission reduction goals. In 2018, the total energy consumption of the Group was approximately 150 thousand tons of standard coal (2017: approximately 142 thousand tons of standard coal).

According to the energy report of the Group, the emission of greenhouse gases arising from energy consumption of the Group in 2018 pursuant to the Greenhouse Gas Protocol was approximately 388.3 thousand tons (2017: approximately 377.8 thousand tons).

Type of Emissions and Energies	2018	2017
Total greenhouse gases emission (10,000 T)	**38.83**	37.78
Carbon dioxide	**38.62**	37.58
Direct/indirect energies by type:		
Electricity (GWh)	**200.63**	211.25
Gasoline (Million L)	**93.21**	86.01
Diesel fuel (Million L)	**13.20**	11.58
Natural gas (Million standard cubic meter)	**7.21**	6.01

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

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

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

The Group also actively facilitates energy saving and emission reduction for its customers and other sectors in the society to accomplish energy saving. The online energy consumption monitoring system independently developed by our Chongqing subsidiary has been assisting the government to monitor energy consumption by key energy consuming units in real time, helping them conserve energy and reduce emission, exploit energy-saving potential, and improve energy efficiency.

The Group strictly complies with the national laws, regulations and relevant policies regarding energy conservation & emission reduction ("ECER"), and has established comprehensive internal rules and regulations on ECER in accordance with the national guidelines and schedule. Following the basic principles of integrating enterprise development with ECER, achieving energy conservation by combining efforts from management and technology aspects, executing ECER within the Group while assisting its customers in ECER, and combining centralized regulation with hierarchical management, the Group undertakes responsibilities for ECER through three major management systems, namely, organizational support, statistical monitoring, appraisal with award and punishment, and performs its duties regarding ECER vigilantly, aiming to achieve sustainable enterprise development.

Consumption of packaging materials

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

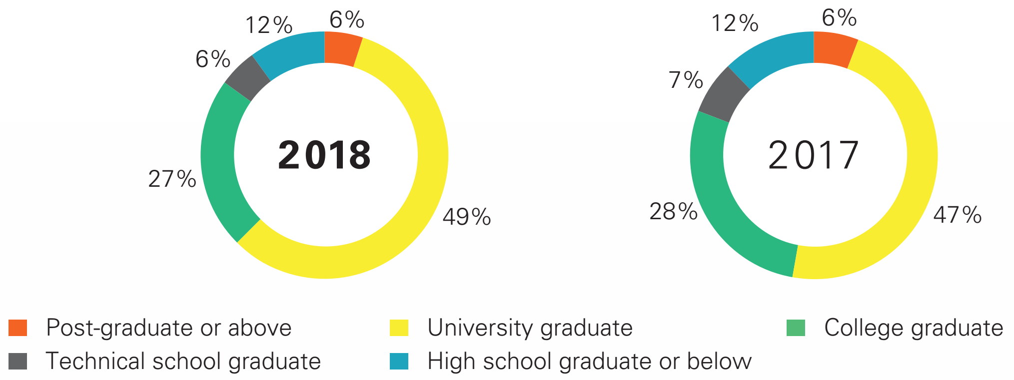
HUMAN RESOURCES MANAGEMENT

Employment

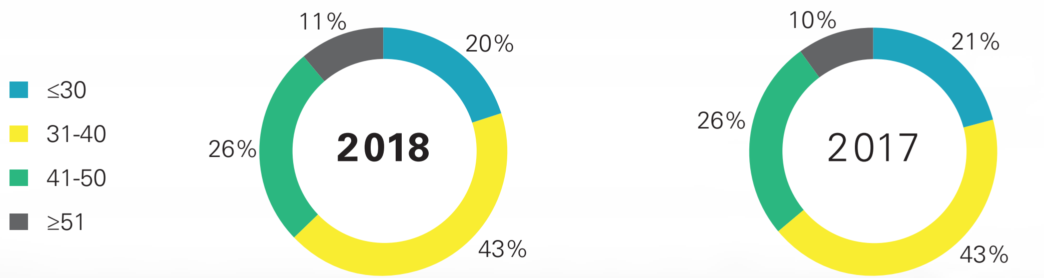
The Group had 93 thousand employees as at 31 December 2018. We are committed to ensuring equal employment opportunities and protecting the rights of female employees. Our employees are located primarily in the PRC with certain located in the other districts such as Africa and Southeast Asia. Our employees are divided into contract employees, dispatched employees, part-time employees and other employees.

Indices (as at 31 December 2018)	2018	2017
Total number of employees	**93,087**	99,201
Ratio of male employees to female employees (male: female) (On contract)	**74:26**	74:26
Percentage of ethnic minority employees (On contract)	**2%**	2%
Turnover of employees (On contract)	**14%**	10%

EDUCATION LEVEL (ON CONTRACT)



AGE STRUCTURE (ON CONTRACT)



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

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

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

The Group attaches great importance to the professional skill and expertise development of its employees. In 2018, we made noticeable efforts to cultivate, discover and publicize outstanding individuals and teams within the Group, held annual election for outstanding teams and individuals regarding innovation at work so as to encourage employees to advance, innovate and take responsibilities, ultimately making a greater contribution to the development and expansion of the Group. In 2018, a total of 21 people of the Group were dubbed the Model Employees of different levels, and 6 teams were named Leading Teams of different levels. In addition, the Group held 305 workplace innovation activities, with 419 innovative achievements accomplished; it also held 395 competitions for excellence at work, skill and knowledge with a total prize amounting to RMB7.67 million.

In 2018, to promote the spirit of craftsmanship, the Group organized the "Comservice Craftsmanship" Cup, a Smart Family Installation & Maintenance Skill Competition, with a total of 128 contestants participated, which effectively improved the theoretical foundation, skills, service quality and competitive spirit of our employees in primary level. From 2016 to 2018, a total of 49 employees of the Group won the honorary title of "Star of Comservice Craftsmanship", while 22 employees dubbed "Expert Technician", in which 6 were dubbed "Expert Technician of State-owned Enterprises".

The Group organized the "Comservice Craftsmanship" Cup, a Smart Family Installation & Maintenance Skill Competition

Development and Training

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

In 2018, the Group organized a training programme named the "China Comservice Pioneer Training Camp for Non-telecom Operator Business" in five sessions and 528 business managers from the domestic non-telecom operator business segment participated the training. Such training enhanced their comprehension of strategies, synergistic marketing abilities and efficient execution capability.

In 2018, the Group organized a training programme known as "China Comservice Training Camp for the Elite of Financial Department", with a total of 57 core financial talents attending the programme, where they analyzed the industry trends through multiple ways such as interpreting the financial strategies and domestic non-telecom operator market strategies of the Company, topic seminars on team dynamics and strategies etc., thus learning to integrate their work with our businesses and promoting the integration of financial development and business development.

Our Gansu subsidiary has carried on its "Eaglet Plan" for four consecutive years, which selects outstanding new employees for targeted post training under a tutor system with rotating transfer of positions, aiming to breed qualified reserve talents for its primary level management teams and core talent teams.

Each year, we conduct two-way exchanges between employees in the headquarter and the provincial companies, and hold periodic training seminars on leadership for the exchange employees and the management. We attach importance to the selection and recommendation of management reserves and have gradually built up a high-quality team with diverse background and sound structure. In 2018, the Group arranged relocation for 14 provincial-level management reserves to different regions with the same position, which further promoted the sharing of human resources and accelerated regional balanced development.

The Group actively organized staff training activities

OPERATING PRACTICES

Health and Safety

The Group is committed to safe production, consistently complies with the requirements of laws and regulations such as the PRC Labour Law, PRC Safe Production Law and PRC Fire Services Law as well as the requirements of the government, and has established a sound work safety management department and safety management rules. The Group launched "Safe Production Month" activities to carry out promotions and trainings on work safety, aiming to continuously raise safety awareness and consciousness of employees in workplace. We organized work safety supervision and inspection within the Group and required all the units to be equipped with a sound safety regulation system, standardized procedures, effective management and strict inspections, with painstaking efforts to eliminate potential safety risks. We fully implemented a work safety accountability system and formulated emergency response and management measures to eliminate safety hazards. In 2018, the Group did not experience any major work safety incident.

Supply Chain Management

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

The Group has considered business outsourcing as the key area for auditing and supervision. We conducted review on supplier admission, tendering and bidding, outsourcing pricing, signing of outsourcing contracts, materials procurement and settlement of outsourcing costs, with the aim to prevent illegal and non-compliant activities such as violation of the administrative measures of the Company and interests conveyance. Through vigorous promotion and implementation of its system, execution with proper supervision and inspection measures, optimizing its service team by eliminating unqualified subcontractors, strengthening safety production by introducing full insurance coverage for the working personnel of subcontractors, improving project management, building its IT systems, and consolidating its management processes, the Group managed to eliminate the hidden risks and promote the healthy development of the Company.

Product Liability and Customers

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

The Group actively participated in large-scale exhibitions and Expos

In 2018, the Group participated in a number of large-scale exhibitions and Expos, demonstrating its brand image and corporate strength and promoting its smart products. Our Jiangsu subsidiary, leveraging on its smart product which is built on the Internet+ security management platform, provided smart inspection and management, secured construction safety and quality, helping its customers reduce costs by about RMB2.5 million and decrease safety accidents by 20%; through its vehicle positioning and risk control products, it helped its customers reduce non-standard driving behavior by 25% and save a total vehicle cost of RMB5.48 million. Our Zhejiang subsidiary completed comprehensive environmental improvement in a total of 802 small towns in Zhejiang Province by leveraging on its smart products such as the underground pipeline management system, smart light poles and smart cloud booths, which has effectively improved the quality of production, living and ecological environment in those towns. Our Guangdong subsidiary participated in the telecommunications network construction project for the Hong Kong-Zhuhai-Macao Bridge, and enabled full 4G network coverage over the Bridge with pre-deployment of 5G networks and informatization upgrade. Particularly, Guangdong Southern Communications Construction Co., Ltd. (廣東南方通信建設有限公司) which is the project team responsible for cable and communication line relocation at the Zhuhai section of the Hong Kong-Zhuhai-Macao Bridge, was dubbed the "National Worker Pioneer" by the All-China Federation of Trade Unions. Our Sichuan subsidiary undertook the poverty alleviation project through telecommunication infrastructure in Lijiazui, Muli County, Liangshan Prefecture, which initiated fiber optic broadband and 4G network coverage in the high and remote mountainous areas. In 2018, the Group's subsidiaries provided communication support for the Boao Forum for Asia Annual Conference 2018, Shanghai Cooperation Organization Qingdao Summit and the Fifth World Internet Conference (Wuzhen Summit), respectively.

1. Our Hainan subsidiary provided communication support for the Boao Forum for Asia
2. Our Sichuan subsidiary undertook the poverty alleviation project through telecommunication infrastructure in Lijiazui, Muli County, Liangshan Prefecture

The Group has participated in the natural disaster relief and telecommunications network restoration during and after major disasters and safety incidents to fulfil our corporate social responsibilities. We assisted in the repair of communications lines to ensure smooth communications network. In 2018, multiple areas of Xuancheng region of Anhui Province and Suiyang County of Zunyi City, Guizhou Province suffered from thunderstorms and strong winds; Typhoon Maria and Typhoon Mangkhut occured; a magnitude 5.0 earthquake hit Tonghai County, Yunnan Province; Mengdong Town, Masupo County, Wenshan Prefecture, Yunnan Province suffered from catastrophic flood and mudslide; and Dingxi City, Gansu Province suffered from snowstorms. Upon the occurrence of above catastrophes, the Group took instant actions and dispatched rescue forces to the disaster-stricken areas and made best efforts to ensure normal operation of the local communication network.

In 2018, the Group dispatched more than 20,000 person-times and more than 6,000 vehicles/times, and repaired more than 30,000 communication facilities while actively participating in post-disaster epidemic prevention and disinfection and environmental cleaning, fully demonstrating our corporate capabilities and commitment to society responsibility in disaster relief.

The Group actively participated in the post-disaster telecommunications network restoration

Information Security and Privacy Protection/Network Security

The Group attaches great importance to the information security, privacy and data protection of the Company, its employees and customers. The Group's internal information security is under strict control, and the Group would enter into data protection agreements at customers' requirements. We also sign relevant agreements with our employees depending on actual needs and comply with it strictly, and no leakage of private information of our customers or employees occurred. In 2018, the Group conducted a new technology and business evaluation for the newly-launched businesses and major existing businesses. Those technologies and products which did not pass the evaluation will not be offered to our customers, which significantly enhanced the Group's risk management and control capabilities on network security.

The Group held information security training activities

Intellectual Property Protection

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

In the process of its research and development of various smart society products, the Group attaches great importance to the protection of intellectual properties and the application for corresponding patents or software copyrights. In 2018, the Group received 303 new authorized patents, applied for 477 new patents and obtained 821 new software copyrights.

Anti-corruption

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

We focus on strengthening anti-corruption and disciplinary education in various ways, such as seminars, training programmes and themed conferences to draw the awareness of our employees on relevant requirements. In addition, we reinforce our daily supervision by combined supervision efforts such as audit and monitoring, and strictly prevent activities such as bribery, blackmail, fraud and money laundering. The Company has established departments in charge of discipline, inspection and supervision at different levels. The Company also strengthened its supervision by hiring full-time and part-time employees and set up a smooth channel for identifying and resolving existing problems in a timely manner. We have attached great importance to the establishment of an anti-corruption system. An accountability system was established to clearly define responsibilities while anti-corruption responsibility letters were signed with the relevant responsible parties. The Company will duly address relevant illegal and non-compliant activities according to the requirements of laws, disciplines and rules, with a view to safeguarding the normal operation of its businesses. During the year, we continuously launched thorough corporate governance work on business of our management team and their relatives which are related to the Group, off-book accounts and construction procurement, which further eliminated potential risks and optimized our prevention system in respect of bribery, blackmail, fraud and money laundering.

Whistle-blowing mechanism

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

COMMUNITY PARTICIPATION

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

Our Shanghai subsidiary, which operated a new and open-ended elderly home, committed to turning it into a "six-in-one" high-quality elderly care service institution which provide services such as daily care, medical care, rehabilitation care, nutritional catering, psychological counseling, and cultural entertainment. It has applied to serve as a "Volunteer Base for Elderly Care Service" in Shanghai.

In 2018, the Group implemented the government's call for poverty alleviation and carried out poverty alleviation activities in various forms. Our Xinjiang subsidiary provided vocational and technical training to poverty-stricken families of ethnic minorities in Shufu County and other regions of Kashgar City, Xinjiang, which help raise their employability and lead them out of poverty.

Our Chongqing subsidiary visited the people in distressed condition in village, and the isolated elderly in elderly care center to deliver love and care as well as supplies. Our Zhejiang subsidiary has carried on the Yixing Charity Sale for 10 consecutive years, with all the proceeds spent in supporting the students in the poverty-stricken areas in Yunnan and improving their learning environment so that they can continue their studies.

The Group actively carried out poverty alleviation activities

The Group participated in blood donation activities in response to the government's call for voluntary blood donation

The Group's charity sale to support students was awarded gratitude letter

Our Hainan subsidiary organized the theme activities known as "Taking off from the Book, Growing up in the Sun", "Loving Heart" Book Corners donation (6) and linked up partner assistance in three primary schools in Haikou City, respectively. Our Guizhou subsidiary organized the "Campus Network Information Security Training Camp" sponsored by the Education Bureau of Liupanshui City, Guizhou Province to promote the PRC Cybersecurity Law among the schools in Liupanshui City, aiming to strengthen the campus network security construction of the education system, raise the awareness of information network security and protection, improve the schools' capabilities of information security protection and emergency response, so that the development of the schools' informatization construction is in sync with network information security and campus security.

In 2018, a magnitude 7.4 earthquake struck Central Sulawesi, Indonesia which also triggered a tsunami. Our Indonesian subsidiary donated food, water and other relief supplies to local people.

Caring about our Employees

The Group upholds the philosophy of "Dignity within the Company and Respect to Employees" and shows sincere and enhanced care about its employees. In 2018, the Group consistently improved the production and living environment for its employees, and set up the "Four Small Facilities" such as the "Small Canteens, Small Activity Rooms, Small Restrooms and Small Shower Rooms" in timely manner and the utilization rate of which increased. During the year, the Group made a total expenditure of RMB10.21 million in building "Four Small Facilities", with 470 frontline units newly equipped, and 1,001 frontline units upgraded and optimized. The Group cares about its employees stationed outside of the province, enhances rights protection of female employees, sends greetings to families of employees stationed overseas, and did 2,587 practical favours for employees, including improving the conditions of dinning, working environment and drinking water supply. The Group made regular efforts to help people in poverty, ensure that students from poverty-stricken families can go to school and keep them warm in winter and cool in summer. It spent a total amount of RMB3.56 million in poverty alleviation and RMB25.18 million in consoling its employees during the year.

The Group actively carried out employee caring activities

The Group organized volunteer service team.

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 2018, the Company further strengthened its investor relations' initiatives under the principle of high transparency, accuracy, timeliness, fair and effectiveness.

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

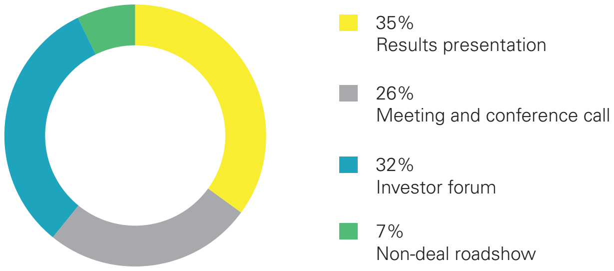
INVESTOR RELATIONS ACTIVITIES

In 2018, the Company maintained direct and close communications with its investors through diverse channels including investor and press conferences, non-deal roadshows, investor forums organized by investment banks, one-on-one meetings, teleconferences and video conferences to achieve effective interactions with investors. During the year, the Company held meetings and communicated with analysts and investors through the above channels over 470 person-times.

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.

2018 Annual Results Presentation

ATTENDANCE ANALYSIS OF INVESTOR RELATIONS ACTIVITIES IN 2018



List of Investor Relations Activities of the Company in 2018

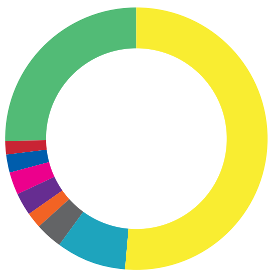
Date	Event	Venue
Jan 2018	DB Access China Conference 2018	Beijing
Mar 2018	2017 Annual Results Announcement – Analyst Briefing – Press Conference	Hong Kong
Mar 2018	Non-deal Roadshow	Hong Kong
May 2018	J.P. Morgan Global China Summit 2018	Beijing
May 2018	Macquarie Greater China Conference 2018	Hong Kong
May 2018	HSBC 5th Annual China Conference	Shenzhen
May 2018	Goldman Sachs TechNet Conference – Asia Pacific 2018	Hong Kong
May-Jun 2018	Morgan Stanley Fourth Annual China Summit	Beijing
Jun 2018	Nomura Investment Forum Asia 2018	Singapore
Jun 2018	UBS Asia TMT Conference 2018	Hong Kong
Aug 2018	2018 Interim Results Announcement – Analyst Briefing – Press Conference	Hong Kong
Aug 2018	Non-deal Roadshow	Hong Kong
Sep 2018	Nomura China Investor Forum 2018	Shanghai
Nov 2018	Goldman Sachs China Conference 2018	Shenzhen
Nov 2018	Jefferies 8th Annual Greater China Conference	Hong Kong
Nov 2018	J.P. Morgan 6th Global TMT Conference	Hong Kong
Nov 2018	Citi 13th China Investor Conference	Macau
Nov 2018	CGS-CIMB HK/China Smartphone & 5G Corporate Day	Hong Kong

SHAREHOLDING STRUCTURE

In 2018, the Company continued to appoint an international survey company to conduct two comprehensive surveys on the shareholding structure to keep abreast of the information on its shareholders, including structure and position changes of shareholders, shareholder type, geographical distribution and investment styles. When organizing its roadshows, the Company would develop a targeted visiting list of shareholders and potential investors by referencing on the above information. Such practice facilitated a more proactive and targeted interactive communications between the Company and investors, thereby significantly enhancing the efficiency and effectiveness of investor relations initiatives.

The Company's shares have been admitted in the Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect Programmes which are open for trading by investors from Mainland China. According to the information from the Central Clearing and Settlement System operated by the Hong Kong Securities Clearing Company Limited, as at 31 December 2018, 2.21% of the issued H share capital of the Company was held by the investors from Mainland China through China Securities Depository and Clearing Corporation Limited.

SHAREHOLDING STRUCTURE AS OF 31 DECEMBER 2018[1]



51.39%
China Telecommunications Corporation

8.78%
China Mobile Communications Group Co., Ltd.

3.41%
China United Network Communications Group Company Limited

1.89%
China National Postal and Telecommunications Appliances Co., Ltd.

2.76%
JPMorgan Chase & Co.

2.71%
BlackRock, Inc.

2.19%
Citigroup Inc.

1.76%
Hermes Investment Management Ltd

25.11%
Other public shareholders

INFORMATION DISCLOSURE

The Company has strictly complied with the information disclosure requirements for listed companies and made information disclosure with consistent adherence to the principle of accuracy, timeliness, openness and fairness. We consider information disclosure as the responsibility and obligation that must be discharged for the protection of investors' interest, 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.

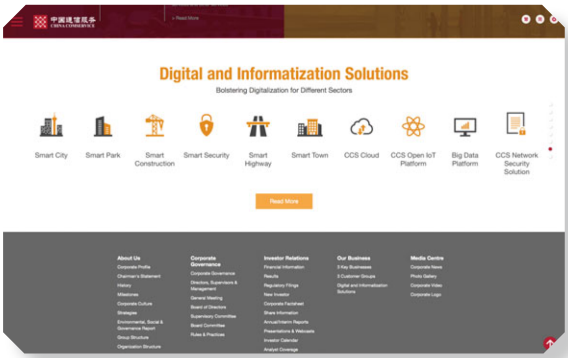
In 2018, in accordance with the Listing Rules, the Company published approximately 29 corporate communications such as announcements and circulars on the websites of the Stock Exchange and the Company. Such publications have objectively and comprehensively disclosed information regarding the Company's results, operating performance, financial information, dividend payment, inclusion in the list of state-owned enterprise reform, connected transactions and poll results for the appointment of director(s) and general meetings, details of which are as follows:

[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".

23/01/2018	Articles of association
29/01/2018	Announcement of resignation of chairman, proposed appointment of director and proposed amendments to articles of association
30/01/2018	Notice of extraordinary general meeting to be held on 16 March 2018, form of proxy and attendance slip
16/03/2018	Announcement of poll results of the extraordinary general meeting held on 16 March 2018 and appointment of executive director
16/03/2018	Announcement of appointment of chairman and authorized representative
16/03/2018	Announcement of the list of directors and their role and function
16/03/2018	Announcement relating to the date of board meeting to approve the 2017 annual results
27/03/2018	Announcement of annual results for the year ended 31 December 2017
20/04/2018	Articles of association
24/04/2018	2017 annual report
24/04/2018	Notice of annual general meeting to be held on 29 June 2018, form of proxy and attendance slip
20/06/2018	Voluntary announcement in relation to the audit of national audit office
22/06/2018	Announcement relating to connected transaction – establishment of finance company
28/06/2018	Announcement of the postponed election of the new session of the board and the supervisory committee
29/06/2018	Announcement of poll results of the 2017 annual general meeting held on 29 June 2018 and payment of dividend
17/08/2018	Announcement relating to the date of board meeting to approve the 2018 interim results
17/08/2018	Announcement relating to inclusion in the list of "double-hundred enterprises" for state-owned enterprise reform
30/08/2018	Announcement of interim results for the six months ended 30 June 2018
14/09/2018	2018 interim report
28/09/2018	Announcement relating to the renewal of continuing connected transactions and proposed new annual caps
22/10/2018	Announcement of the delay in despatch of circular
26/10/2018	Announcement of the further delay in despatch of circular
29/10/2018	Notice of extraordinary general meeting to be held on 13 Dec 2018, form of proxy and attendance slip
14/11/2018	Announcement of resignation of director, proposed appointment of director and change of important executive positions
19/11/2018	Announcement of proposed election and re-election of directors and supervisors
19/11/2018	Circular relating to renewal of continuing connected transactions and proposed new annual caps; proposed election and re-election of directors and supervisors; and supplemental notice of the extraordinary general meeting
19/11/2018	Supplemental notice and supplemental form of notice for the extraordinary general meeting to be held on 13 December 2018
13/12/2018	Announcement of poll results of the extraordinary general meeting held on 13 December 2018 and changes in directors and supervisors
13/12/2018	Announcement of the list of directors and their role and function

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

To enhance the corporate promotion in the area of infomatization and digitalization and to better cater for the change of users' habit which is more common to browse our corporate website through various mobile terminals including tablets and handsets, the Company carried out an upgrade and redesign for the layout and content of the website in 2018, and added "Digital and Informatization Solutions" page to introduce various smart services that the Company offers for different industries. In addition, the Company has adopted a "responsive web design" function that allows automatic adjustment of webpage layout on different terminals and enhances readers' experience.



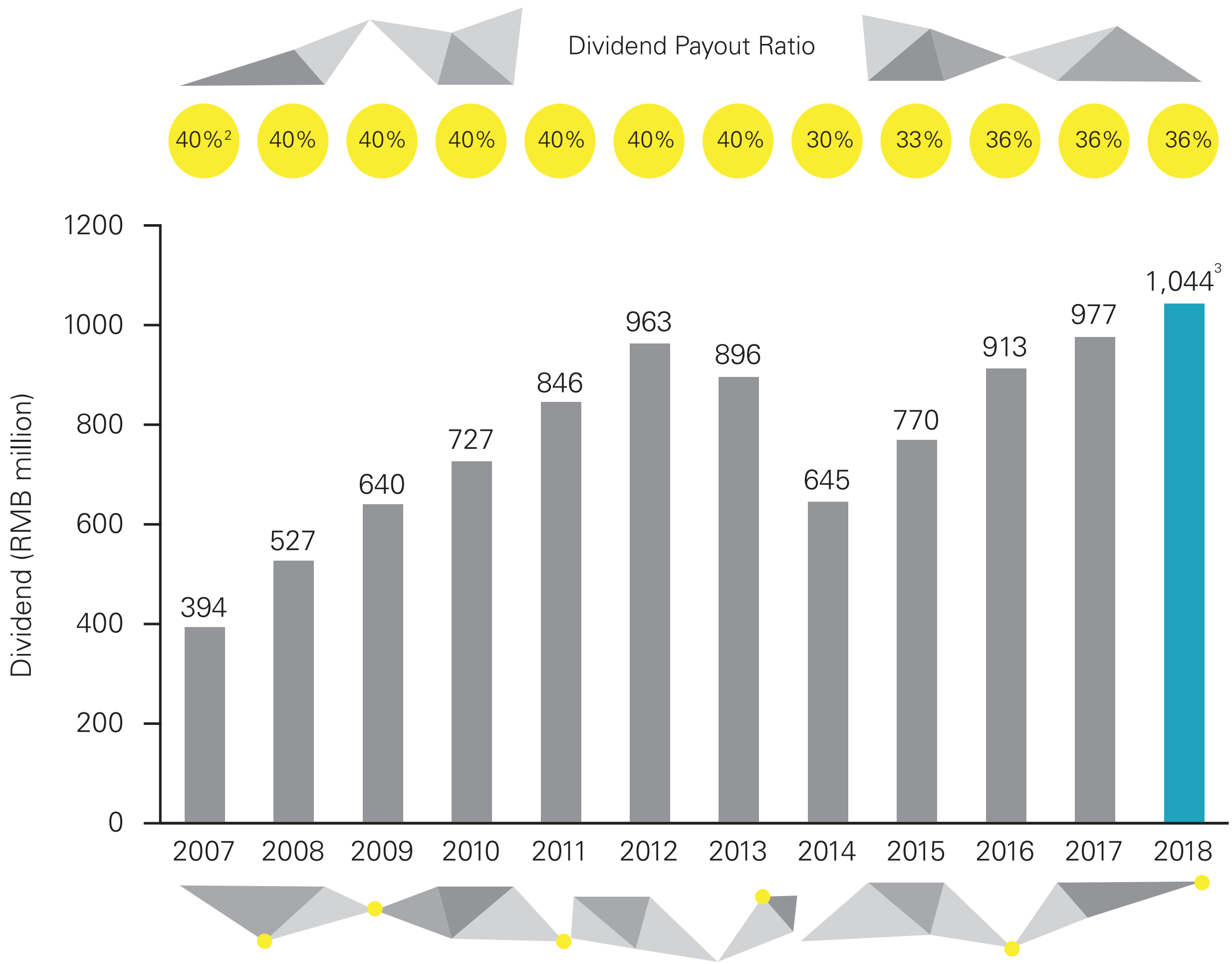
Annual report is not only an important document for information disclosure of a listed company in accordance with the regulatory requirement, the Company can also disclose more comprehensive information to investors through the annual report, such as its operating philosophy, strategies, current operating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

In 2018, the preparation and design of the 2017 annual report of the Company were again recognized by international award organizations and received Platinum Award and ranked 35 in the Top 100 Annual Reports Worldwide of the "Vision Awards" in "The League of American Communications Professionals" (LACP) and 2 Gold Awards in both "Cover Photo & Design" and "Traditional Annual Report" in "International ARC Awards".

DIVIDEND

The Company always values the interests and returns to shareholders since its listing, and distributes relatively stable and sustainable dividend to shareholders. The Company determines the dividend payment for the year with reference to factors such as the Company's results performance, financial position, cash flow, long-term development and business needs and other investment opportunities in the year. In 2018, the Group achieved satisfactory operating results and free cash flow for the year. In view of the Company's confidence in operating performance and future development, the Board has proposed to distribute a final dividend of RMB0.1257 per share (equivalent to a payout ratio of 30%) and a special dividend of RMB0.0251 per share. Total dividend for 2018 is RMB0.1508 per share (equivalent to a payout ratio of 36%).

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



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

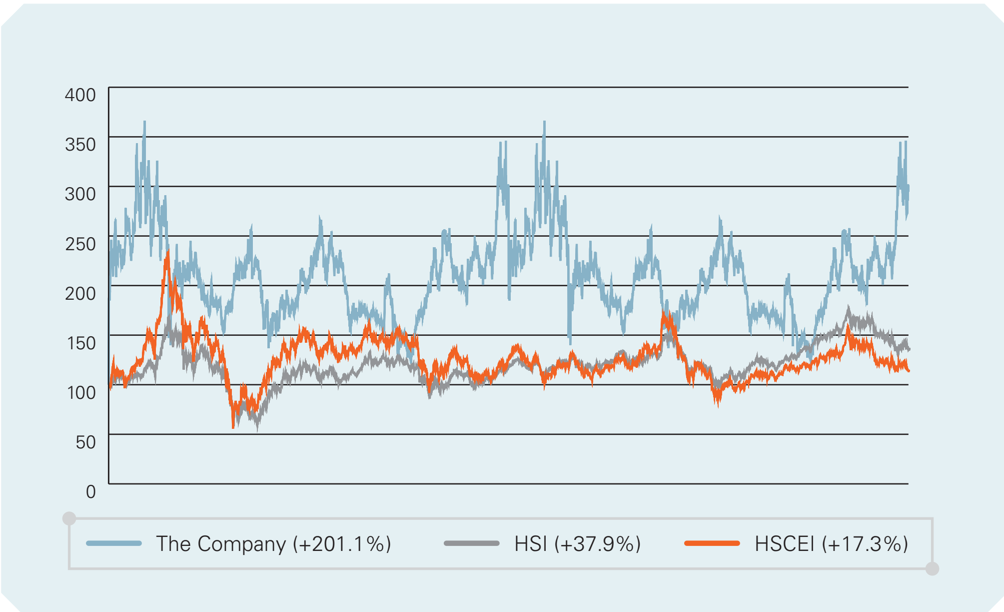
3 Subject to the approval at the 2018 annual general meeting to be held on 21 June 2019.

SHARE PRICE PERFORMANCE

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

Share Price Performance Since Listing

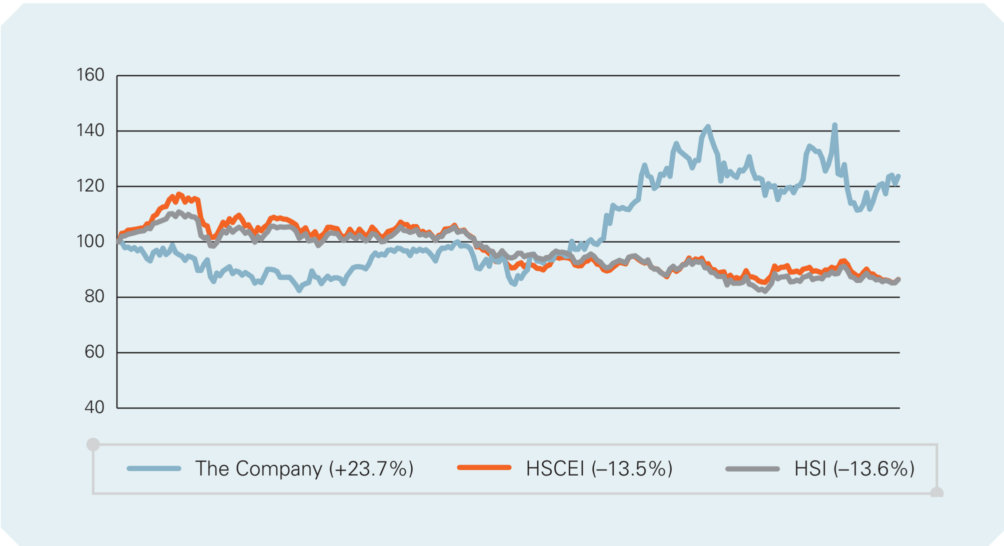
From 8 December 2006 to 31 December 2018



Global stock market experienced great volatility in 2018 because of macro factors such as the impact from US-China trade war and Brexit. Though stock price of the Company was relatively weak at the beginning of the year, it still outperformed the market for the full year of 2018. With a growing concern on US-China trade war, Hong Kong stock market gradually stepped down during the year, while investors became more risk-averse and started to focus on companies with steady growth and solid fundamentals. After the announcement of the 2017 annual results of the Company in March, which was in line with market expectation and the significant increase in the cash flow outperformed the market forecast, stock price of the Company rose gradually. In mid-August, the Company announced that it was included in the list of "Double-Hundred Action" for state-owned enterprise reform and investors expected that such reform could facilitate a better future development, stock price of the Company maintained an upward trend. Together with the favourable 2018 interim results that surpassed market expectation, stock price continued to surge after results announcement and the closing price even further hit the 10-year high in October. Approaching the end of year, the capital market entered into a downward trend while at the same time it also had high expectation on companies that are in relation to the 5G development in China, stock price of the Company experienced fluctuation but still outperformed the overall stock market for the year. As at 31 December 2018, stock price of the Company increased by 23.7% year-on-year.

2018	Highest	Lowest	Closing
Price per H share of the Company (HK$)	7.60	4.25	6.48

Share Price Performance in 2018
From 1 January 2018 to 31 December 2018



As at 31 December 2018, the total number of shares of the Company was 6,926,018,400 shares, including 4,534,598,160 domestic shares and 2,391,420,240 H shares, both at nominal value of RMB1.00 each. All the H shares of the Company are listed on the Stock Exchange, representing approximately 34.5% of the total number of shares of the Company. Based on the closing price as of 31 December 2018, the Company's total market capitalization was about HK$44.9 billion.

MAJOR AWARDS AND RECOGNITIONS IN 2018

1. **"14th Corporate Governance Asia Recognition Awards" by *Corporate Governance Asia***
   - The Best of Asia – Icon on Corporate Governance
   - Asian Corporate Director

2. **"8th Asian Excellence Recognition Awards" by *Corporate Governance Asia***
   - Best CEO
   - Best CFO
   - Best Investor Relations

3. **"The Asset Corporate Awards 2018" by *The Asset***
   - Platinum Award – Excellence in Environmental, Social and Corporate Governance
   - Best Investor Relations Team

4. **"Asia's Best Managed Companies Poll 2018" by *FinanceAsia***
   - Rank 6th in "Best Managed Company"
   - Rank 4th in "Most Committed to Corporate Governance"
   - Rank 5th in "Best at Investor Relations"
   - Rank 5th in "Best at Corporate Social Responsibility"

5. **"Golden Hong Kong Equities Awards" by *Zhitong Finance and Tonghuashun Finance***
   - Golden Hong Kong Equities Grand Award
   - Best Value TMT Company

6. **"Vision Awards" by *LACP***
   - Platinum Award
   - Rank 35th in the Top 100 Annual Reports Worldwide

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

8. **"2018 FORTUNE China 500" by *FORTUNE China***
   - Rank 81st

9. **"China's Top 100 Software Enterprises 2018" coordinated by *China Information Technology Industry Federation***
   - Rank 6th

10. **"Voting for the Leading Enterprises for Information Technology Industry in 2019" hosted by *China Information Technology Industry Federation***
    - Leading Enterprises

RECOGNITIONS AND HONOURS IN THE CAPITAL MARKET

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

In 2018, more than 10 international investment banks and institutions prepared and published research reports for the Company on a regular basis. Since its listing, the Company's investment value has been recognized by the capital market. As of 31 December 2018, major research institutions maintained positive investment ratings such as "Buy" or "Hold" on the Company.

The Company has been dedicated to improving its management and operation in all aspects. In 2018, the Company was recognized by many domestic and overseas organizations and institutions. *Corporate Governance Asia*, *Finance Asia* and *The Asset* also offered recognitions and awards to the Company in respect of its corporate governance and investor relations. At "Golden Hong Kong Equities Awards" that co-organized by the PRC leading information service platform for Hong Kong equities – *Zhitong Finance* and leading financial data service provider *Tonghuashun Finance*, the Company was granted "Golden Hong Kong Equities Grand Award" and "Best Value TMT Company". 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: 09:00–18:00):
Telephone: (852) 3699 0000

Investor relations enquiries

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

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

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the annual general meeting of China Communications Services Corporation Limited (the "Company") for the year 2018 will be held at 10:00 a.m. on Friday, 21 June 2019 at No. 19, Chaoyangmen Beidajie, Dongcheng District, Beijing, PRC, to consider and, if thought fit, pass the following businesses:

ORDINARY RESOLUTIONS

1. **THAT** the consolidated financial statements of the Company, the report of the Directors, the report of the Supervisory Committee and the report of the international auditors for the year ended 31 December 2018 be considered and approved, and the board of directors of the Company (the "Board") be authorized to prepare the budget of the Company for the year 2019;

2. **THAT** the proposal on profit distribution and dividend declaration and payment for the year ended 31 December 2018 be considered and approved;

3. **THAT** the appointment of Deloitte Touche Tohmatsu and Deloitte Touche Tohmatsu Certified Public Accountants LLP as the international auditors and domestic auditors of the Company, respectively, for the year ending 31 December 2019 be considered and approved, and the Board be authorized to fix the remuneration of the auditors.

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

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

SPECIAL RESOLUTIONS

4. **THAT**:

   (a) subject to paragraph (c) below, the exercise by the Board during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares of the Company and to make or grant offers, agreements and options which might require the exercise of such powers be hereby generally and unconditionally approved;

   (b) the approval in paragraph (a) shall authorize the Board during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such powers after the end of the Relevant Period;

   (c) the amount of additional domestic shares or overseas-listed foreign invested shares ("H shares") (as the case may be) allotted, issued and dealt with or agreed conditionally or unconditionally to be allotted, issued and dealt with either separately or concurrently by the Board pursuant to the approval in paragraph (a), otherwise than pursuant to any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares in accordance with the Articles of Association of the Company, shall not exceed 20% of each of the Company's existing domestic shares and H shares (as the case may be) in issue at the date of passing this special resolution; and

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

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

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the 12 months period following the passing of these special resolutions; and

(iii) the revocation or variation of the authority given to the Board under these special resolutions by a special resolution of the Company's shareholders by way of a general meeting.

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

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

Beijing, PRC
24 April 2019

Notes:

(1) Buyers who submit the share transfer application forms to the Company's share registrar before 4:30 p.m. on Tuesday, 21 May 2019 and then register as shareholders on the register of members of the Company are entitled to attend the annual general meeting.

(2) Each shareholder entitled to attend and vote at the annual general meeting may appoint one or more proxies to attend and vote on his behalf at the annual general meeting. A proxy need not be a shareholder. Each shareholder who wishes to appoint one or more proxies should first review the annual report of the Company for the year 2018, which is expected to be despatched to shareholders on around Wednesday, 24 April 2019.

(3) To be valid, the form of proxy together with the power of attorney or other authorization document (if any) signed by the authorized person or notarially certified power of attorney must be delivered to the Office of the Board of the Company for holders of domestic shares and to the Computershare Hong Kong Investor Services Limited for holders of H shares not less than 24 hours before the designated time for the holding of the annual general meeting (i.e. on 20 June 2019, 10:00 a.m.). Completion and return of a form of proxy will not preclude a shareholder from attending in person and voting at the annual general meeting if he so wishes.

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

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

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

(5) The registration procedure for attending the annual general meeting:

(a) Shareholders attending the annual general meeting in person or by proxy shall present their identity certification. If the attending shareholder is a corporation, its legal representative or person authorized by the board or other decision making authority shall present a copy of the relevant resolution of the board or other decision making authority in order to attend the annual general meeting.

(b) Shareholders intending to attend the annual general meeting shall return the attendance slip via hand delivery, mail or fax to the Office of the Board of the Company on or before Friday, 31 May 2019.

(6) Closure of the register of members:

(a) Annual General Meeting

The H share register of members of the Company will be closed, for the purpose of determining H share shareholders' entitlement to attend the annual general meeting to be held on Friday, 21 June 2019 (the "Annual General Meeting"), from Wednesday, 22 May 2019 to Friday, 21 June 2019 (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, 21 May 2019. H share shareholders of the Company who are registered on the register of members held by Computershare Hong Kong Investor Services Limited on Friday, 21 June 2019 are entitled to attend the Annual General Meeting.

(b) Proposed Final Dividend and Special Dividend

The Board proposes a final dividend of RMB0.1257 per share and a special dividend of RMB0.0251 per share, and the total dividend is RMB0.1508 per share (pre-tax) for the year ended 31 December 2018. The dividend proposal will be submitted for consideration at the Annual General Meeting. If such proposed dividend distribution is approved by the shareholders, the final dividend and special dividend will be distributed to those shareholders whose names appear on the register of members of the Company on Wednesday, 10 July 2019. The register of members will be closed from Friday, 5 July 2019 to Wednesday, 10 July 2019 (both days inclusive). In order to be entitled to the final dividend and special dividend, H share shareholders who have not registered the transfer documents are required to lodge the transfer documents together with the relevant share certificates at Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong at or before 4:30 p.m. on Thursday, 4 July 2019.

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, 16 August 2019 upon approval at the Annual General Meeting.

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

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

No. 19, Chaoyangmen Beidajie
Dongcheng District
Beijing 100010
PRC

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

Deloitte. 德勤

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

OPINION

We have audited the consolidated financial statements of China Communications Services Corporation Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 103 to 192 which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Revenue recognition of construction service	
We identified revenue recognition of construction service as a key audit matter due to the significant degree of judgement of measuring progress for performance obligation of incomplete construction service. Revenue from construction service for the year ended 31 December 2018 amounting to RMB42,863 million and are recognised over time by estimating the progress towards complete satisfaction of the performance obligation, which is based on output method. Details of revenue recognised on construction service, the related accounting policy of contract revenue and the related significant accounting estimates and judgements are disclosed in notes 4, 2(r) and 44(a) to the consolidated financial statements, respectively.	Our audit procedures in relation to revenue recognition of construction service included: • testing the key controls related to measurement of progress for performance obligation; • obtaining a sample of contracts in progress and comparing management's estimation of measuring progress for performance obligation with evidence including project progress reports or reconciliation reports and actual costs incurred; and • performing analytical procedures to compare revenue and gross margin with those reported in prior periods for identifying significant fluctuations, and obtaining explanations from management about such fluctuations.

OTHER INFORMATION

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
28 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
Revenues	4	**106,176,637**	94,572,411
Cost of revenues	5	**(93,291,671)**	(82,360,051)
Gross profit		**12,884,966**	12,212,360
Other operating income	6	**1,244,889**	1,014,492
Selling, general and administrative expenses		**(10,611,071)**	(9,885,426)
Other operating expenses	7	**(173,722)**	(126,278)
Finance costs	8	**(25,179)**	(47,119)
Share of profits of associates and joint ventures		**105,421**	63,782
Profit before tax	9	**3,425,304**	3,231,811
Income tax	10	**(497,405)**	(482,733)
Profit for the year		**2,927,899**	2,749,078
Attributable to:			
Equity shareholders of the Company		**2,901,324**	2,714,213
Non-controlling interests		**26,575**	34,865
Profit for the year		**2,927,899**	2,749,078
Basic earnings per share (RMB)	15	**0.419**	0.392

The notes on pages 111 to 192 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
Profit for the year		**2,927,899**	2,749,078
Other comprehensive (expense)/income for the year (after tax)			
Item that will not be reclassified to profit or loss (after tax):			
Equity instruments at fair value through other comprehensive income:			
Net movement in the fair value reserve	11	**(205,066)**	–
Items that may be subsequently reclassified to profit or loss (after tax):			
Exchange differences on translation of financial statements of subsidiaries outside Mainland China		**9,968**	(33,083)
Available-for-sale securities:			
Net movement in the fair value reserve	11	**–**	(12,603)
		(195,098)	(45,686)
Total comprehensive income for the year		**2,732,801**	2,703,392
Attributable to:			
Equity shareholders of the Company		**2,706,214**	2,668,640
Non-controlling interests		**26,587**	34,752
Total comprehensive income for the year		**2,732,801**	2,703,392

The notes on pages 111 to 192 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	Notes	31 December 2018 RMB'000	31 December 2017 RMB'000
Non-current assets			
Property, plant and equipment, net	16	**4,384,700**	4,190,375
Investment properties	17	**606,065**	637,867
Construction in progress	18	**342,427**	539,359
Lease prepayments	19	**722,672**	738,886
Goodwill	20	**103,005**	103,005
Other intangible assets	21	**355,339**	325,690
Interests in associates and joint ventures	22	**318,059**	220,117
Available-for-sale financial assets	23	**–**	851,560
Equity instruments at fair value through other comprehensive income	24	**3,737,553**	–
Deferred tax assets	25	**622,202**	542,672
Other non-current assets	26	**1,220,145**	240,523
Total non-current assets		**12,412,167**	8,390,054
Current assets			
Inventories	27	**2,253,027**	2,275,735
Accounts and bills receivable, net	28	**18,668,024**	30,370,500
Contract assets, net	30	**15,664,758**	–
Prepayments and other current assets	31	**8,646,123**	11,815,129
Financial assets at fair value through profit or loss	32	**5,046,898**	1,262,514
Restricted deposits	33	**2,128,757**	3,354,288
Cash and cash equivalents	34	**16,106,246**	13,266,631
Total current assets		**68,513,833**	62,344,797
Total assets		**80,926,000**	70,734,851
Current liabilities			
Interest-bearing borrowings	35	**462,003**	308,876
Accounts and bills payable	36	**28,279,533**	24,600,681
Contract liabilities	37	**8,648,060**	–
Receipts in advance for contract work		**–**	4,997,284
Accrued expenses and other payables	38	**9,017,427**	11,320,729
Income tax payable		**323,514**	339,393
Total current liabilities		**46,730,537**	41,566,963
Net current assets		**21,783,296**	20,777,834
Total assets less current liabilities		**34,195,463**	29,167,888

At 31 December 2018

	Notes	31 December 2018 RMB'000	31 December 2017 RMB'000
Non-current liabilities			
Interest-bearing borrowings	35	8,922	17,642
Other non-current liabilities	39	617,488	328,859
Deferred tax liabilities	25	740,192	1,736
Total non-current liabilities		1,366,602	348,237
Total liabilities		48,097,139	41,915,200
Equity			
Share capital	40	6,926,018	6,926,018
Reserves		25,405,305	21,403,080
Equity attributable to equity shareholders of the Company		32,331,323	28,329,098
Non-controlling interests		497,538	490,553
Total equity		32,828,861	28,819,651
Total liabilities and equity		80,926,000	70,734,851

The notes on pages 111 to 192 form part of these consolidated financial statements.

Approved and authorised for issue by the board of directors on 28 March 2019.

Zhang Zhiyong
Chairman

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

		Equity attributable to equity shareholders of the Company											
	Notes	Share capital RMB'000	Share premium RMB'000 (note a)	Capital reserve RMB'000 (note b)	Statutory surplus reserve RMB'000 (note c)	Specific reserve RMB'000 (note d)	Fair value reserve RMB'000 (note e)	Exchange reserve RMB'000 (note f)	Other reserve RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance as at 31 December 2017 (audited)		6,926,018	4,529,310	1,852,461	1,051,256	198,140	34,515	5,619	(68,310)	13,800,089	28,329,098	490,553	28,819,651
Adjustments	3	–	–	–	–	–	2,367,784	–	–	(93,987)	2,273,797	(387)	2,273,410
Balance as at 1 January 2018 (restated)		6,926,018	4,529,310	1,852,461	1,051,256	198,140	2,402,299	5,619	(68,310)	13,706,102	30,602,895	490,166	31,093,061
Changes in equity for the year ended 31 December 2018													
Profit for the year		–	–	–	–	–	–	–	–	2,901,324	2,901,324	26,575	2,927,899
Other comprehensive (expense)/ income for the year		–	–	–	–	–	(205,066)	9,956	–	–	(195,110)	12	(195,098)
Total comprehensive (expense)/ income for the year		–	–	–	–	–	(205,066)	9,956	–	2,901,324	2,706,214	26,587	2,732,801
Dividend declared	14(b)	–	–	–	–	–	–	–	–	(977,261)	(977,261)	–	(977,261)
Distribution to non-controlling interests		–	–	–	–	–	–	–	–	–	–	(13,589)	(13,589)
Appropriation		–	–	–	168,454	–	–	–	–	(168,454)	–	–	–
Appropriation of specific reserve		–	–	–	–	570,948	–	–	–	(570,948)	–	–	–
Utilisation of specific reserve		–	–	–	–	(543,789)	–	–	–	543,789	–	–	–
Others		–	–	(525)	–	–	–	–	–	–	(525)	(5,626)	(6,151)
Balance as at 31 December 2018		6,926,018	4,529,310	1,851,936	1,219,710	225,299	2,197,233	15,575	(68,310)	15,434,552	32,331,323	497,538	32,828,861
Balance as at 1 January 2017		6,926,018	4,529,310	1,852,461	951,760	178,525	47,118	38,589	(68,310)	12,117,958	26,573,429	474,353	27,047,782
Changes in equity for the year ended 31 December 2017													
Profit for the year		–	–	–	–	–	–	–	–	2,714,213	2,714,213	34,865	2,749,078
Other comprehensive expense for the year		–	–	–	–	–	(12,603)	(32,970)	–	–	(45,573)	(113)	(45,686)
Total comprehensive (expense)/ income for the year		–	–	–	–	–	(12,603)	(32,970)	–	2,714,213	2,668,640	34,752	2,703,392
Dividend declared	14(b)	–	–	–	–	–	–	–	–	(912,849)	(912,849)	–	(912,849)
Distribution to non-controlling interests		–	–	–	–	–	–	–	–	–	–	(11,766)	(11,766)
Appropriation		–	–	–	99,496	–	–	–	–	(99,496)	–	–	–
Appropriation of specific reserve		–	–	–	–	478,174	–	–	–	(478,174)	–	–	–
Utilisation of specific reserve		–	–	–	–	(458,559)	–	–	–	458,559	–	–	–
Others		–	–	–	–	–	–	–	–	(122)	(122)	(6,786)	(6,908)
Balance as at 31 December 2017		6,926,018	4,529,310	1,852,461	1,051,256	198,140	34,515	5,619	(68,310)	13,800,089	28,329,098	490,553	28,819,651

For the year ended 31 December 2018

Notes:

(a) Share premium
The share premium represents the difference between the total amount of the par value of shares issued and the amount of the net proceeds received from the initial public offering in 2006 and subsequent share issuance in 2008 and 2012 respectively.

(b) Capital reserve
The capital reserve mainly represents the difference between the total amount of the par value of shares issued and the amount of the net assets transferred from China Telecommunications Corporation ("CTC"), Guangdong Telecom Industry Group Corporation and Zhejiang Telecom Industry Corporation upon the formation of the Company and the difference between the consideration for the acquisition of Target Business (as defined in note 1(b)) and the net assets value of the Target Business in 2007.

(c) Statutory surplus reserve
According to the People's Republic of China (the "PRC") Company Law and the Articles of Association of the Company and its PRC subsidiaries, these companies are required to transfer 10% of their respective net profit as determined in accordance with the PRC Accounting Rules and Regulations to the statutory surplus reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of a dividend to shareholders.

Statutory surplus reserve can be used to make good previous years' losses, if any, or to expand the business, and may be converted into share capital by the issuance of new shares to shareholders in proportion to their existing shareholdings or by increasing the par value of the shares currently held by them, provided that the balance after such issue is not less than 25% of the registered capital.

The amount represents the statutory surplus reserve appropriated by the Company and the statutory surplus reserve appropriated by the Company's subsidiaries is not presented.

For the year ended 31 December 2018, the Company transferred RMB168 million (2017: RMB99 million) being 10% of the profit for the current year as determined in accordance with the PRC Accounting Rules and Regulations to this reserve.

(d) Specific reserve
Pursuant to the relevant PRC regulations, the Group appropriated and utilised the provision for production safety. The Group is required to make a transfer for the provision for production safety from retained earnings to a specific reserve. The provision for production safety could be utilised when expenses or capital expenditures on production safety measures are incurred. The amount of the provision for production safety utilised would be transferred from the specific reserve back to retained earnings.

(e) Fair value reserve
The fair value reserve represents the net change in the fair value of equity instruments held at the end of the reporting period.

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

The notes on pages 111 to 192 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	2018 RMB'000	2017 RMB'000
Operating activities		
Profit before tax	3,425,304	3,231,811
Adjustments for:		
Depreciation and amortisation	838,137	828,441
Impairment losses on accounts receivable, other receivables and contract assets, net	289,992	166,965
Impairment losses on inventories, net	27,944	34,261
Interest income	(181,612)	(202,679)
Finance costs	25,179	47,119
Share of profits of associates and joint ventures	(105,421)	(63,782)
Dividend income	(1,575)	(77,732)
Investment income and fair value gains of financial instruments at fair value through profit or loss	(252,058)	(17,362)
Gain on disposal of subsidiaries	(20,206)	(11,759)
Gain on disposal of property, plant and equipment, construction in progress, other intangible assets and lease prepayments, net	(48,588)	(14,255)
Exchange differences	23,899	22,448
Write-back of non-payable liabilities	(37,184)	(23,698)
Operating profit before changes in working capital	3,983,811	3,919,778
Decrease/(increase) in inventories	5,078	(88,662)
Increase in accounts and bills receivable	(188,956)	(1,112,331)
Increase in contract assets	(4,208,117)	–
Increase in prepayments and other current assets	(166,367)	(2,074,062)
Increase in accounts and bills payable	3,693,666	4,201,272
Increase in contract liabilities	358,185	–
Increase in receipts in advance for contract work	–	951,187
Increase in accrued expenses and other payables	1,177,350	1,580,281
Net cash inflow from operations	4,654,650	7,377,463
Interest paid	(20,598)	(40,167)
Interest received	206,616	200,100
Income tax paid	(579,697)	(573,151)
Net cash generated from operating activities	4,260,971	6,964,245

For the year ended 31 December 2018

	Note	2018 RMB'000	2017 RMB'000
Investing activities			
Payments for purchase of property, plant and equipment, construction in progress, other intangible assets and lease prepayments		**(987,379)**	(1,013,640)
Proceeds from disposal of property, plant and equipment, other intangible assets and lease prepayments		**268,144**	27,079
Restricted bank deposits received		**626,116**	286,080
Dividends received		**55,928**	125,401
Proceeds from disposal of investments		**17,270**	–
Payments for acquisition of wealth management products and structured deposits		**(10,650,000)**	(6,950,000)
Proceeds from disposal of wealth management products and structured deposits		**10,650,000**	1,950,000
Payments for acquisition of investments		**(759,359)**	(129,377)
Other cash paid related to investing activities		**(21,237)**	(7,692)
Other cash received related to investing activities		**249,631**	28,437
Net cash used in investing activities		**(550,886)**	(5,683,712)
Financing activities			
Proceeds from bank and other loans		**793,786**	296,896
Repayments of bank and other loans		**(660,823)**	(689,496)
Dividends paid		**(1,013,058)**	(938,242)
Other cash paid related to financing activities		**(5,768)**	(49)
Other cash received related to financing activities		**153**	29,007
Net cash used in financing activities		**(885,710)**	(1,301,884)
Net increase/(decrease) in cash and cash equivalents		**2,824,375**	(21,351)
Cash and cash equivalents at beginning of year		**13,266,631**	13,324,079
Effect of foreign exchange rate changes		**15,240**	(36,097)
Cash and cash equivalents at end of year	34	**16,106,246**	13,266,631

The notes on pages 111 to 192 form part of these consolidated financial statements.

For the year ended 31 December 2018

1. PRINCIPAL ACTIVITIES AND ORGANISATION

(a) Principal activities

China Communications Services Corporation Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") is a leading service provider in the PRC that provides integrated comprehensive solutions in the field of informatisation and digitalization. The Group offers telecommunications infrastructure services, including design, construction and project supervision and management; business process outsourcing services, including management of infrastructure for information technology, general facilities management, supply chain and products distribution; and applications, content and other services, including system integration, software development and system support, and value-added services.

(b) Organisation

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

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

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

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

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

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

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

For the year ended 31 December 2018

1. PRINCIPAL ACTIVITIES AND ORGANISATION (continued)

(b) Organisation (continued)

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

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

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

For the year ended 31 December 2018

1. PRINCIPAL ACTIVITIES AND ORGANISATION (continued)

(b) Organisation (continued)

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

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

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

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

For the year ended 31 December 2018

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Basis of preparation of the consolidated financial statements

The consolidated financial statements for the year ended 31 December 2018 comprise the Group and its interests in associates and joint ventures.

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

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

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

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

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

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

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

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

For the year ended 31 December 2018

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Basis of consolidation

(i) Business combinations involving enterprises under common control

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

(ii) Business combinations involving entities not under common control

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

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

(iii) Subsidiaries and non-controlling interests

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

a. has power over the investee;

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

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

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

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

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

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

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

For the year ended 31 December 2018

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Basis of consolidation (continued)

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

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

Changes in the Group's 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/IAS 39 Financial Instruments: Recognition and Measurement, or when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

(iv) Investments in associates and joint ventures

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

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

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

For the year ended 31 December 2018

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Basis of consolidation (continued)

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

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

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

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

(d) Goodwill

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

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

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

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.

For the year ended 31 December 2018

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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(k)). Depreciation is calculated to write off the cost less estimated residual value if applicable and is charged to profit or loss on a straight-line basis over the estimated useful lives ranging from 20 years to 30 years.

Rental income from investment properties is recognised over the term of the lease.

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

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

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

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

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

(g) Construction in progress

Construction in progress is stated at cost less impairment losses (see note 2(k)). 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.

For the year ended 31 December 2018

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Lease prepayments

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

(i) Intangible assets (other than goodwill)

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

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

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

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

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

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

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

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

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

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

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

Both the period and method of amortisation are reviewed annually.

(j) Leased assets

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) impairment of long-lived assets

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

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

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

- *Calculation of recoverable amount*

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

- *Recognition of impairment losses*

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

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

- *Reversals of impairment losses*

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) 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.

(m) 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 since 1 January 2018. 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) 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 fair value through profit or loss 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 (upon application of IFRS 9 in accordance with transitions in note 3.2)

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

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

For the year ended 31 December 2018

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Financial instruments (continued)

Financial assets (continued)

Classification and subsequent measurement of financial assets (upon application of IFRS 9 in accordance with transitions in note 3.2) (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 operating income" line item in profit or loss.

(iii) Financial assets at FVTPL

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

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

Impairment of financial assets (upon application of IFRS 9 with transitions in accordance with note 3.2)

The Group recognises a loss allowance for expected credit losses ("ECL") on financial assets which are subject to impairment under IFRS 9 (including accounts receivable and financial assets included in prepayments and other current assets), lease receivables and contract assets. 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.

For the year ended 31 December 2018

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (upon application of IFRS 9 with transitions in accordance with note 3.2) (continued)

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

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

(i) Significant increase in credit risk

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

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);
- 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).

For the year ended 31 December 2018

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (upon application of IFRS 9 with transitions in accordance with note 3.2) (continued)

(iii) Credit-impaired financial assets

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

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

(iv) Write-off policy

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

(v) Measurement and recognition of ECL

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

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition. For a lease receivable, the cash flows used for determining the ECL is consistent with the cash flows used in measuring the lease receivable in accordance with IAS 17 Leases.

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

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

For the year ended 31 December 2018

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Financial instruments (continued)

Financial assets (continued)

Classification and subsequent measurement of financial assets (before application of IFRS 9 on 1 January 2018)

The Group's financial assets are classified into the following specified categories: financial assets at fair value through profit or loss, available-for-sale ("AFS") financial assets and loans and receivables.

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

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

A financial asset is classified as held for trading if:

– It has been acquired principally for the purpose of selling in the near term; or

– On initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

– It is a derivative that is not designed and effective as hedging instrument.

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

– Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

– The financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

– It forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract (asset or liability) to be designated as at fair value through profit of loss.

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

(ii) AFS financial assets

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Financial instruments (continued)

Financial assets (continued)

Classification and subsequent measurement of financial assets (before application of IFRS 9 on 1 January 2018) (continued)

(ii) AFS financial assets (continued)

Investments in securities which do not fall into the above category are classified as available-for-sale securities carried at fair value. At each end of the reporting period the fair value is re-measured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve. Dividend income from equity investments is recognised in profit or loss. When these investments are derecognised or impaired, the cumulative gain or loss is reclassified from equity to profit or loss.

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

(iii) Loans and receivables

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

Impairment of financial assets (before application of IFRS 9 on 1 January 2018)

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

– Significant financial difficulty of the debtor or the issuer;

– A breach of contract, such as default or delinquency in interest or principal payments;

– It becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– Significant changes in the technological, market, economic or legal environment that have an adverse effect on the issuer; and

– A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

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

– For unquoted equity securities carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

– For accounts receivable and other financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

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

For the year ended 31 December 2018

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (before application of IFRS 9 on 1 January 2018) (continued)

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

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

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

Derecognition of financial assets

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

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

On derecognition of an investment in equity instrument which the Group has elected on initial recognition/initial application to measure at FVTOCI upon application of IFRS 9, 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.

On derecognition of an AFS financial asset, the cumulative gain or loss previously accumulated in fair value reserve is reclassified to profit or loss.

Financial liabilities and equity

Classification as debt or equity

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

Equity instruments

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Financial instruments (continued)

Financial liabilities and equity (continued)

Financial liabilities

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

(i) Financial liabilities at FVTPL

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

A financial liability is classified as 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.

(n) Cash and cash equivalents

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

(o) Employee benefits

(i) Short-term employee benefits and contributions to defined contribution retirement plans

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

(ii) Termination benefits

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

For the year ended 31 December 2018

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Income tax

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

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

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

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Income tax (continued)

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.

(q) 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.

(r) Revenue from contracts with customers (upon application of IFRS 15 in accordance with transitions in note 3.1)

Under IFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied. i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

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

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

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and 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.

For the year ended 31 December 2018

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Revenue from contracts with customers (upon application of IFRS 15 in accordance with transitions in note 3.1) (continued)

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

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service. As such, revenues from products distribution are recognised at a point in time when the control over the products have been transferred to customers.

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

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

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

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

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

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

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

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

Warranties

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

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

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

For the year ended 31 December 2018

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Revenue from contracts with customers (upon application of IFRS 15 in accordance with transitions in note 3.1) (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.

(s) Revenue recognition (before application of IFRS 15 on 1 January 2018)

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

(i) Contract revenue

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

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

(ii) Services rendered

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

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

(iii) Sales of goods

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

(iv) Rental income from operating leases

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

(v) Dividends

– Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

– Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

For the year ended 31 December 2018

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Revenue recognition (before application of IFRS 15 on 1 January 2018) (continued)

(vi) Interest income

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

(t) Government grants

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

(u) Translation of foreign currencies

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

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

(v) Borrowing costs

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

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

For the year ended 31 December 2018

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(w) Segment reporting

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

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

The Group principally has one operating segment and hence no segment information is provided (see note 46).

(x) Dividends or profit distributions

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

(y) Related parties

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

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

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

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

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

For the year ended 31 December 2018

3. CHANGES IN ACCOUNTING POLICIES

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

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers and the related Amendments
IFRIC 22	Foreign Currency Transactions and Advance Consideration
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
Amendments to IAS 28	As part of the Annual Improvements to IFRS Standards 2014-2016 Cycle
Amendments to IAS 40	Transfers of Investment Property

Except for IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers and the related Amendments as described below, the application of the new and amendments to IFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

3.1 IFRS 15 Revenue from Contracts with Customers

The Group has applied IFRS 15 for the first time in the current year. IFRS 15 superseded IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations.

The Group has applied IFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained earnings and comparative information has not been restated. Furthermore, in accordance with the transition provisions in IFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 January 2018 and has used the practical expedient for all contract modifications that occurred before the date of initial application, the aggregate effect of all of the modifications was reflected at the date of initial application. Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations.

The Group mainly recognises revenue from the following major sources which arise from contracts with customers:

(i) construction;

(ii) management of infrastructure for information technology; and

(iii) design.

Information about the Group's performance obligations and the accounting policies resulting from application of IFRS 15 are disclosed in notes 4 and 2(r) respectively.

For the year ended 31 December 2018

3. CHANGES IN ACCOUNTING POLICIES (continued)

3.1 IFRS 15 Revenue from Contracts with Customers (continued)

Summary of effects arising from initial application of IFRS 15

For the major service contracts of the Group, the timing of revenue recognition and the method to measure the progress towards complete satisfaction of the performance obligation generally remain the same under IFRS 15.

The Group assessed contracts with customers that were not completed at 1 January 2018. Certain contracts contained significant financing component under IFRS 15 and goods or services promised in certain contracts previously recognised separately under IAS 18 or IAS 11 were not distinct and accounted for as a single performance obligation under IFRS 15. The impacts of initial application of IFRS 15 on these contacts were neither individually nor collectively material.

The net effects arising from the initial application of IFRS 15 resulted in a decrease in the opening balance of retained earnings at an amount of approximately RMB2 million.

The main adjustments made to the amounts recognised in the consolidated statement of financial position at 1 January 2018 were:

(i) At the date of initial application, unbilled revenues with net value of RMB7,550 million in respect of construction contracts previously included in unbilled revenues for contract work, and RMB4,137 million in respect of other service contracts previously included in accounts receivable were conditional on the Group's achieving specified milestone as stipulated in the contracts, and hence such balances were reclassified to contract assets.

(ii) As the date of initial application, advances from customers of RMB4,997 million in respect of construction contracts previously included in receipts in advances for contract work, and RMB3,293 million in respect of other service contracts previously included in accrued expenses and other payables, were reclassified to contract liabilities.

The impacts of applying IFRS 15 on the Group's consolidated statement of profit or loss and consolidated statement of profit or loss and other comprehensive income for the current year were not material.

The main impacts on the amounts recognised in the consolidated statement of financial position at 31 December 2018 were:

(i) At 31 December 2018, unbilled revenues with net value of RMB15,665 million were conditional on the Group's achieving specified milestone as stipulated in the contracts, and hence such balance was classified as contract assets under IFRS 15, in contrast to being classified as unbilled revenues for contract work or accounts receivable under IAS 11 or IAS 18.

(ii) At 31 December 2018, advances from customers of RMB8,648 million was classified as contract liabilities under IFRS 15. In contrast, RMB5,517 million in respect of construction contracts would have been classified as receipts in advances for contract work under IAS 11, and RMB3,131 million in respect of other service contracts would have been classified as accrued expenses and other payables under IAS 18.

For the year ended 31 December 2018

3. CHANGES IN ACCOUNTING POLICIES (continued)

3.2 IFRS 9 Financial Instruments

In the current year, the Group has applied IFRS 9 Financial Instruments and the related consequential amendments to other IFRSs. IFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) ECL for financial assets and other items (for example, contract assets and lease receivables) and 3) general hedge accounting.

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9. i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained earnings and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 39 Financial Instruments: Recognition and Measurement.

Accounting policies resulting from application of IFRS 9 are disclosed in note 2(m).

Summary of effects arising from initial application of IFRS 9

The classification and measurement (including impairment) of financial assets and other items subject to ECL under IFRS 9 and IAS 39 at the date of initial application, 1 January 2018, are as followings:

(a) From available-for-sale financial assets to FVTOCI

The Group elected to present in OCI for the fair value changes of all its equity investments previously classified as available-for-sale financial assets. These investments are not held for trading and not expected to be sold in the foreseeable future. At the date of initial application of IFRS 9, RMB852 million were reclassified from available-for-sale investments to equity instruments at FVTOCI, of which RMB795 million related to unlisted equity securities previously measured at cost less impairment under IAS 39. The fair value gain of RMB3,157 million relating to those unlisted equity instruments previously carried at cost less impairment were adjusted to equity instruments at FVTOCI and fair value reserve, and a corresponding deferred tax liabilities of RMB789 million have been recognised against fair value reserve as at 1 January 2018. The fair value gain of RMB35 million relating to those investments previously carried at fair value continued to accumulate in fair value reserve.

(b) Financial assets at FVTPL and/or designated at FVTPL

At the date of initial application, the Group no longer applied designation as measured at FVTPL for the portfolio of wealth management products and structured deposits and these financial assets are mandatorily measured at FVTPL under IFRS 9, because the contractual terms of these financial assets do not give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. As a result, the fair value of these investments of RMB1,262 million were reclassified from financial assets designated at FVTPL to financial assets at FVTPL.

For the year ended 31 December 2018

3. CHANGES IN ACCOUNTING POLICIES (continued)

3.2 IFRS 9 Financial Instruments (continued)

Summary of effects arising from initial application of IFRS 9 (continued)

(c) Impairment under ECL model

The Group applied the IFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all accounts receivable, contract assets and lease receivables. To measure the ECL, accounts receivable and contract assets have been grouped based on shared credit risk characteristics. The contract assets relate to unbilled revenues and have substantially the same risk characteristics as the accounts receivable for the same type of contracts. The Group has therefore concluded that the expected loss rates for the accounts receivable are a reasonable approximation of the loss rates for the contract assets.

Loss allowance for other financial assets at amortised cost mainly comprise of financial assets included in prepayments and other current assets, are measured on 12m ECL basis and there had been no significant increase in credit risk since initial recognition.

As at 1 January 2018, the additional credit loss allowance of RMB98 million related to accounts receivable and contract assets, and a corresponding deferred tax assets of RMB6 million have been recognised against retained earnings.

3.3 Impacts on opening consolidated statement of financial position arising from the application of all new standards

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

	31 December 2017 RMB'000 (audited)	IFRS 15 RMB'000	IFRS 9 RMB'000	1 January 2018 RMB'000 (restated)
Non-current assets				
Available-for-sale financial assets	851,560	–	(851,560)	–
Equity instruments at fair value through other comprehensive income	–	–	4,008,605	4,008,605
Deferred tax assets	542,672	–	5,818	548,490
Other non-current assets	240,523	3,493	–	244,016
Others with no adjustments	6,755,299	–	–	6,755,299
Total non-current asset	8,390,054	3,493	3,162,863	11,556,410
Current assets				
Inventories	2,275,735	10,314	–	2,286,049
Accounts and bills receivable, net	30,370,500	(11,703,674)	(47,257)	18,619,569
Contract assets, net	–	11,687,405	(50,473)	11,636,932
Others with no adjustments	29,698,562	–	–	29,698,562
Total current assets	62,344,797	(5,955)	(97,730)	62,241,112
Total assets	70,734,851	(2,462)	3,065,133	73,797,522

For the year ended 31 December 2018

3. CHANGES IN ACCOUNTING POLICIES (continued)

3.3 Impacts on opening consolidated statement of financial position arising from the application of all new standards (continued)

	31 December 2017 RMB'000 (audited)	IFRS 15 RMB'000	IFRS 9 RMB'000	1 January 2018 RMB'000 (restated)
Current liabilities				
Contract liabilities	–	8,289,875	–	8,289,875
Receipts in advance for contract work	4,997,284	(4,997,284)	–	–
Accrued expenses and other payables	11,320,729	(3,292,591)	–	8,028,138
Others with no adjustments	25,248,950	–	–	25,248,950
Total current liabilities	41,566,963	–	–	41,566,963
Net current assets	20,777,834	(5,955)	(97,730)	20,674,149
Total assets less current liabilities	29,167,888	(2,462)	3,065,133	32,230,559
Non-current liabilities				
Deferred tax liabilities	1,736	–	789,261	790,997
Others with no adjustments	346,501	–	–	346,501
Total non-current liabilities	348,237	–	789,261	1,137,498
Total liabilities	41,915,200	–	789,261	42,704,461
Equity				
Share capital	6,926,018	–	–	6,926,018
Reserves	21,403,080	(2,462)	2,276,259	23,676,877
Equity attributable to equity shareholders of the Company	28,329,098	(2,462)	2,276,259	30,602,895
Non-controlling interests	490,553	–	(387)	490,166
Total equity	28,819,651	(2,462)	2,275,872	31,093,061
Total liabilities and equity	70,734,851	(2,462)	3,065,133	73,797,522

Note: For the purposes of reporting cash flows from operating activities under indirect method for the year ended 31 December 2018, movements in working capital have been computed based on opening statement of financial position as at 1 January 2018 as disclosed above.

For the year ended 31 December 2018

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:

Disaggregation of revenue

	2018 RMB'000	2017 RMB'000
Revenue from telecommunications infrastructure services	57,359,436	50,510,988
Revenue from business process outsourcing services	35,102,822	32,763,685
Revenue from applications, content and other services	13,714,379	11,297,738
	106,176,637	94,572,411

The Group's major customers are telecommunications operators which include CTC and its subsidiaries (excluding the Group) ("CTC Group") and China Mobile Communications Group Co., Ltd. and its subsidiaries ("CM Group"), each contributing a revenue exceeding 10% of the Group's total revenues. Revenues from the provision of integrated telecommunications support services to CTC Group and CM Group for the year ended 31 December 2018 amounted to RMB41,279 million and RMB21,219 million, respectively (2017: RMB41,568 million and RMB15,825 million, respectively), being 38.9% and 20.0% of the Group's total revenues, respectively (2017: 43.9% and 16.7%, respectively). The revenues derived from areas outside Mainland China for the year ended 31 December 2018 amounted to RMB3,155 million (2017: RMB2,836 million).

For the year ended 31 December 2018, the Group's first three businesses that contributed to the overall revenues were construction, management of infrastructure for information technology and telecommunications infrastructure design, the revenues from which amounted to RMB42,863 million, RMB14,793 million and RMB10,605 million, respectively (2017: The Group's first three businesses that contributed to the overall revenues were construction, management of infrastructure for information technology and telecommunications infrastructure design, the revenues from which amounted to RMB36,668 million, RMB12,829 million and RMB10,239 million, respectively).

The Group's rental income for the year ended 31 December 2018 amounted to RMB691 million (2017: RMB646 million).

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

For the year ended 31 December 2018

4. REVENUES (continued)

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

	Telecommunications infrastructure services RMB'000	Business process outsourcing services RMB'000	Applications, content and other services RMB'000
Within one year	24,689,360	1,157,455	1,218,627
More than one year but not more than two years	7,121,432	190,762	317,312
More than two years	7,417,621	86,278	230,202
	39,228,413	1,434,495	1,766,141

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

5. COST OF REVENUES

	2018 RMB'000	2017 RMB'000
Depreciation and amortisation	466,096	472,621
Direct personnel costs	8,747,317	8,647,493
Operating lease charges	1,603,223	1,485,355
Materials costs	9,783,239	9,327,654
Direct costs of products distribution	4,629,177	6,594,772
Subcontracting charges	57,555,216	46,858,020
Others	10,507,403	8,974,136
	93,291,671	82,360,051

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6. OTHER OPERATING INCOME

	2018 RMB'000	2017 RMB'000
Interest income	**181,612**	202,679
Dividend income from equity instruments	**1,575**	77,732
Government grants	**279,285**	236,906
Gain on disposal of subsidiaries	**20,206**	11,759
Gain on disposal of property, plant and equipment, other intangible assets and lease prepayments	**78,641**	24,644
Penalty income	**3,929**	2,731
Management fee income	**329,335**	328,523
Write-back of non-payable liabilities	**37,184**	23,698
Investment income and fair value gains on wealth management products and structured deposits	**252,609**	47,875
Others	**60,513**	57,945
	1,244,889	1,014,492

7. OTHER OPERATING EXPENSES

	2018 RMB'000	2017 RMB'000
Loss on disposal of property, plant and equipment, construction in progress and other intangible assets	**30,053**	10,389
Donations	**1,264**	217
Penalty charge	**33,780**	28,017
Net foreign exchange loss	**23,899**	22,448
Others	**84,726**	65,207
	173,722	126,278

8. FINANCE COSTS

	2018 RMB'000	2017 RMB'000
Interest on bank and other borrowings	**25,179**	12,411
Interest for convertible preference shares and preference shares	**–**	34,708
	25,179	47,119

For the years ended 31 December 2018 and 2017, no borrowing costs were capitalised in relation to construction in progress.

For the year ended 31 December 2018

9. PROFIT BEFORE TAX

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

		2018 RMB'000	2017 RMB'000
(a)	Staff costs:		
	Salaries, wages and other benefits	**14,213,728**	13,797,277
	Contributions to defined contribution retirement schemes	**1,395,705**	1,283,625
		15,609,433	15,080,902
(b)	Other items:		
	Depreciation		
	– Property, plant and equipment (note 16)	**659,181**	669,760
	– Investment properties (note 17)	**44,355**	43,595
	Amortisation		
	– Lease prepayments (note 19)	**26,727**	26,416
	– Other intangible assets (note 21)	**107,874**	88,670
	Auditors' remuneration	**34,495**	34,500
	Materials costs (note 27)	**9,783,239**	9,327,654
	Direct costs of products distribution (note 27)	**4,629,177**	6,594,772
	Write-down of inventories (note 27)	**30,819**	41,442
	Reversal of write-down of inventories (note 27)	**(2,875)**	(7,181)
	Impairment losses on accounts receivable, other receivables and contract assets	**611,430**	453,963
	Reversal of impairment losses on accounts receivable, other receivables and contract assets	**(321,438)**	(286,998)
	Investment income and fair value gains of financial instruments at fair value through profit or loss	**(252,058)**	(17,362)
	Operating lease charges	**1,905,172**	1,775,369
	Research and development costs	**2,798,327**	2,554,834

The selling expenses, general and administrative expenses and other expenses of the Group are RMB2,071 million, RMB7,818 million and RMB722 million (2017: RMB1,689 million, RMB7,576 million and RMB620 million), respectively for the year ended 31 December 2018. Research and development costs include RMB2,290 million (2017: RMB2,041 million) relating to staff costs, amount of which is also included in the staff cost disclosed in note 9(a).

10. INCOME TAX

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

	2018 RMB'000	2017 RMB'000
Current tax		
PRC enterprise income tax	**521,154**	536,514
Overseas enterprise income tax	**34,782**	17,204
Deferred tax		
Origination and reversal of temporary differences (note 25)	**(58,531)**	(70,985)
Total income tax	**497,405**	482,733

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10. INCOME TAX (continued)

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

	2018 RMB'000	2017 RMB'000
Profit before tax	**3,425,304**	3,231,811
Expected income tax expense at a statutory tax rate of 25% (2017: 25%) (note (i))	**856,326**	807,953
Differential tax rates on subsidiaries' income (note (i))	**(214,189)**	(233,706)
Non-deductible expenses (note (ii))	**132,397**	140,874
Non-taxable income	**(58,741)**	(44,655)
Tax losses not recognised	**51,879**	52,450
Utilisation of previously unrecognised tax losses	**(4,719)**	(27,819)
Over provision in respect of prior years	**(28,737)**	(38,012)
Effect of tax exemptions	**–**	(1,454)
Others (note (iii))	**(236,811)**	(172,898)
Income tax	**497,405**	482,733

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 2018 and 2017, except for certain domestic subsidiaries of the Group, which are taxed at preferential rates of 15% and 10%, where applicable; and for certain overseas subsidiaries of the Group, which are taxed at respective statutory rates.

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

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

11. OTHER COMPREHENSIVE EXPENSE

Available-for-sale securities

	2018 RMB'000	2017 RMB'000
Changes in fair value recognised during the year	**–**	(14,826)
Net deferred tax charged to other comprehensive expense	**–**	2,223
Net movement in the fair value reserve during the year recognised in other comprehensive expense	**–**	(12,603)

Equity instruments at FVTOCI

	2018 RMB'000	2017 RMB'000
Changes in fair value recognised during the year	**(271,052)**	–
Net deferred tax charged to other comprehensive expense	**65,986**	–
Net movement in the fair value reserve during the year recognised in other comprehensive expense	**(205,066)**	–

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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 2018 are as follows:

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

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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 2017 are as follows:

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

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12. DIRECTORS' AND SUPERVISORS' EMOLUMENTS (continued)

Note:

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

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

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

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

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

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

(a) The five highest paid employees of the Group

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

	2018	2017
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:

	2018 RMB'000	2017 RMB'000
Salaries, allowances and other benefits in kind	2,420	2,642
Discretionary bonuses	4,420	3,439
Pension scheme contributions	504	428
	7,344	6,509

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

	2018	2017
RMB equivalent		
1,000,001 to 1,500,000	3	4
1,500,001 to 2,000,000	2	1

(b) Senior management's remuneration

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

	2018	2017
RMB equivalent		
Nil to 1,000,000	16	19
1,000,001 to 2,000,000	5	–

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14. DIVIDENDS

(a) Dividends attributable to the year

	2018 RMB'000	2017 RMB'000
Final dividend proposed after the end of reporting period of RMB0.1257 per share (2017: RMB0.1176 per share)	870,601	814,500
Special dividend proposed after the end of reporting period of RMB0.0251 per share (2017: RMB0.0235 per share)	173,843	162,761
	1,044,444	977,261

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

	2018 RMB'000	2017 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year, of RMB0.1176 per share (2017: RMB0.1098 per share)	814,500	760,477
Special dividend in respect of the previous financial year, approved and paid during the year, of RMB0.0235 per share (2017: RMB0.0220 per share)	162,761	152,372
	977,261	912,849

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 2018 of RMB2,901,324 thousand (2017: RMB2,714,213 thousand) and number of shares in issue during the year ended 31 December 2018 of 6,926,018 thousand shares (2017: 6,926,018 thousand shares).

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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 2018	3,425,185	629,049	1,608,769	3,944,527	9,607,530
Transfer to investment properties (note 17)	(57,855)	–	–	(225)	(58,080)
Transfer from investment properties (note 17)	20,340	–	–	–	20,340
Transfer from construction in progress (note 18)	378,072	3,944	6,102	28,003	416,121
Additions	41,904	76,935	129,435	295,085	543,359
Disposals	(52,987)	(12,827)	(146,937)	(301,194)	(513,945)
As at 31 December 2018	3,754,659	697,101	1,597,369	3,966,196	10,015,325
Accumulated depreciation and impairment losses					
As at 1 January 2018	1,294,001	481,318	1,035,009	2,606,827	5,417,155
Transfer to investment properties (note 17)	(24,080)	–	–	–	(24,080)
Transfer from investment properties (note 17)	8,059	–	–	–	8,059
Depreciation charge	140,855	61,029	147,545	309,752	659,181
Depreciation written back on disposals	(23,522)	(12,972)	(137,307)	(252,211)	(426,012)
Impairment loss eliminated on disposals	–	–	–	(3,678)	(3,678)
As at 31 December 2018	1,395,313	529,375	1,045,247	2,660,690	5,630,625
Net carrying value					
As at 31 December 2018	2,359,346	167,726	552,122	1,305,506	4,384,700
As at 1 January 2018	2,131,184	147,731	573,760	1,337,700	4,190,375

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

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 RMB218 million as at 31 December 2018 (2017: RMB306 million). The directors of the Company are of the opinion that the Group is entitled to lawfully and validly occupy or use the above mentioned properties.

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17. INVESTMENT PROPERTIES

	2018 RMB'000	2017 RMB'000
Cost		
As at 1 January	1,185,369	1,074,075
Additions	–	913
Transfer from property, plant and equipment (note 16)	58,080	131,767
Transfer to property, plant and equipment (note 16)	(20,340)	(5,453)
Disposals	(13,603)	(15,933)
As at 31 December	1,209,506	1,185,369
Accumulated depreciation		
As at 1 January	547,502	466,152
Transfer from property, plant and equipment (note 16)	24,080	48,580
Transfer to property, plant and equipment (note 16)	(8,059)	(4,877)
Depreciation charge	44,355	43,595
Depreciation written back on disposals	(4,437)	(5,948)
As at 31 December	603,441	547,502
Net carrying value		
As at 31 December	606,065	637,867
As at 1 January	637,867	607,923
Fair value	2,390,014	2,358,034

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

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

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

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17. INVESTMENT PROPERTIES (continued)

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

	2018 RMB'000	2017 RMB'000
Within 1 year	**109,734**	172,422
After 1 year but within 5 years	**289,064**	137,732
After 5 years	**74,880**	72,985
As at 31 December	**473,678**	383,139

During the year ended 31 December 2018, RMB143 million (2017: RMB132 million) has been recognised as rental income in the consolidated statement of profit or loss and RMB53 million (2017: RMB33 million) in respect of direct operating expenses relating to investment properties has been recognised as expenses in the consolidated statement of profit or loss.

Up to the date of issuance of these consolidated financial statements, the Group is still in the process of applying for or changing registration of the title certificates of certain of its properties with an aggregate carrying value of approximately RMB32 million as at 31 December 2018 (2017: RMB37 million). The directors of the Company are of the opinion that the Group is entitled to lawfully and validly occupy or use the above mentioned properties.

18. CONSTRUCTION IN PROGRESS

	2018 RMB'000	2017 RMB'000
Cost:		
As at 1 January	**539,359**	454,339
Additions	**286,700**	349,184
Disposals	**(1,424)**	(2,838)
Transfer to other intangible assets (note 21)	**(61,587)**	(97,396)
Transfer to property, plant and equipment (note 16)	**(416,121)**	(163,930)
Transfer to lease prepayments (note 19)	**(4,500)**	–
As at 31 December	**342,427**	539,359

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19. LEASE PREPAYMENTS

	2018 RMB'000	2017 RMB'000
Cost:		
As at 1 January	**1,016,044**	1,011,485
Additions	**20,409**	6,644
Transfer from construction in progress (note 18)	**4,500**	–
Disposals	**(18,694)**	(2,085)
As at 31 December	**1,022,259**	1,016,044
Released to profit or loss:		
As at 1 January	**277,158**	251,245
Amortisation charge	**26,727**	26,416
Disposals	**(4,298)**	(503)
As at 31 December	**299,587**	277,158
Net carrying value:		
As at 31 December	**722,672**	738,886
As at 1 January	**738,886**	760,240

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

20. GOODWILL

	2018 RMB'000	2017 RMB'000
Cost and carrying amount	**103,005**	103,005

	2018 RMB'000	2017 RMB'000
Impairment tests for cash-generating units containing goodwill		
China International Telecommunications Construction Corporation ("CITCC")	**103,005**	103,005

The recoverable amounts of cash-generating units containing goodwill arising from the acquisition of CITCC are determined based on value in use calculation. The calculation uses cash flow projection based on financial budget approved by management covering a five-year period and pre-tax discount rates is 10.44% (2017: 12.87%).

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20. GOODWILL (continued)

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

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

21. OTHER INTANGIBLE ASSETS

	2018 RMB'000	2017 RMB'000
Cost:		
As at 1 January	864,157	744,846
Additions	76,707	54,150
Transfer from construction in progress (note 18)	61,587	97,396
Disposals	(24,335)	(32,235)
As at 31 December	978,116	864,157
Accumulated amortisation:		
As at 1 January	538,467	473,653
Amortisation charge	107,874	88,670
Written back on disposals	(23,564)	(23,856)
As at 31 December	622,777	538,467
Net carrying value:		
As at 31 December	355,339	325,690
As at 1 January	325,690	271,193

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

22. INTERESTS IN ASSOCIATES AND JOINT VENTURES

	2018 RMB'000	2017 RMB'000
Share of net assets	318,059	220,117

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

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23. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2017 RMB'000
Unlisted equity securities, at cost	795,223
Listed equity securities, at quoted market price	56,337
	851,560

24. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

The equity instruments mainly represent ordinary shares of entities listed in mainland China. These investments are not held for trading, instead, they are held for long-term strategic purposes. The directors of the Company have elected to designate these investments in equity instruments as at FVTOCI at initial application of IFRS 9 as they believe that recognising short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Group's strategy of holding these investments for long-term purposes and realizing their performance potential in the long run.

25. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net balance	
	31 December 2018 RMB'000	31 December 2017 RMB'000	**31 December 2018 RMB'000**	31 December 2017 RMB'000	**31 December 2018 RMB'000**	31 December 2017 RMB'000
Impairment losses, primarily for receivables and inventories	**308,864**	274,737	**–**	–	**308,864**	274,737
Revaluation of property, plant and equipment	**–**	–	**(68)**	(68)	**(68)**	(68)
Unused tax losses (note (i))	**30,343**	26,850	**–**	–	**30,343**	26,850
Changes in fair value	**–**	–	**(741,215)**	(6,878)	**(741,215)**	(6,878)
Unpaid expenses	**282,995**	241,085	**–**	–	**282,995**	241,085
Others	**–**	–	**1,091**	5,210	**1,091**	5,210
Deferred tax assets (liabilities)	**622,202**	542,672	**(740,192)**	(1,736)	**(117,990)**	540,936

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25. DEFERRED TAX ASSETS AND LIABILITIES (continued)

Movements in deferred tax assets and liabilities for the years ended 31 December 2018 and 2017 are as follows:

	As at 31 December 2017 RMB'000	Adjustments RMB'000 (note 3)	As at 1 January 2018 RMB'000 (restated)	Recognised in profit or loss RMB'000 (note 10(a))	Recognised in other comprehensive income RMB'000	As at 31 December 2018 RMB'000
Impairment losses, primarily for receivables and inventories	274,737	5,818	280,555	28,309	–	308,864
Revaluation of property, plant and equipment	(68)	–	(68)	–	–	(68)
Unused tax losses (note (i))	26,850	–	26,850	3,493	–	30,343
Changes in fair value	(6,878)	(789,261)	(796,139)	(11,062)	65,986	(741,215)
Unpaid expenses	241,085	–	241,085	41,910	–	282,995
Others	5,210	–	5,210	(4,119)	–	1,091
Deferred tax assets (liabilities)	540,936	(783,443)	(242,507)	58,531	65,986	(117,990)

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

Notes:

(i) Expiry of recognised tax losses

	2018 RMB'000	2017 RMB'000
Year of expiry		
2018	–	18,285
2019	17,092	33,230
2020	2,439	881
2021	43,719	43,851
2022	79,068	80,936
2023	56,856	–
	199,174	177,183

(ii) As at 31 December 2018, the Group has not recognised deferred tax assets in respect of tax losses of RMB840.6 million (2017: RMB977.7 million) as it is not probable that future taxable profits against which the losses can be utilised will be available. The tax losses can be carried forward for five years from the year incurred and hence will be expired from 2019 to 2023 (2017: 2018 to 2022).

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26. OTHER NON-CURRENT ASSETS

Other non-current assets mainly represent the capital paid (see note 51), the long-term receivables arising from provision of telecommunications infrastructure services and prepaid rent for buildings and equipment.

27. INVENTORIES

	2018 RMB'000	2017 RMB'000
Construction materials	**817,973**	523,132
Finished goods	**1,333,760**	1,524,912
Spare parts and consumables	**101,294**	227,691
	2,253,027	2,275,735

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

	2018 RMB'000	2017 RMB'000
Carrying amount of inventories consumed and sold		
– Materials costs	**9,783,239**	9,327,654
– Direct costs of products distribution	**4,629,177**	6,594,772
Reversal of write-down of inventories	**(2,875)**	(7,181)
Write-down of inventories	**30,819**	41,442
	14,440,360	15,956,687

28. ACCOUNTS AND BILLS RECEIVABLE, NET

	2018 RMB'000	2017 RMB'000
Bills receivable	**276,034**	119,314
Accounts receivable	**19,806,523**	23,979,276
Unbilled revenues for contract work	**–**	7,615,867
	20,082,557	31,714,457
Less: allowance for credit losses	**(1,414,533)**	(1,343,957)
	18,668,024	30,370,500

(a) Included in accounts and bills receivable are amounts due from CTC Group, associates of the Group and associates of CTC Group of RMB10,620 million (2017: RMB20,023 million) as at 31 December 2018. 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.

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28. ACCOUNTS AND BILLS RECEIVABLE, NET (continued)

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

	2018 RMB'000	2017 RMB'000
Current	**1,736,665**	12,865,705
Within 1 year	**14,839,588**	15,273,116
After 1 year but less than 2 years	**1,376,626**	1,529,211
After 2 years but less than 3 years	**435,583**	488,983
After 3 years	**279,562**	213,485
	18,668,024	30,370,500

(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(m)).

For the year ended 31 December 2017, the movement in allowance for doubtful debts, including both specific and collective loss components, is as follows:

	2017 RMB'000
At 1 January	1,326,998
Impairment loss recognised	291,828
Reversal of impairment loss previously recognised	(244,957)
Uncollectible amounts written off	(29,912)
At 31 December	1,343,957

At 31 December 2017, accounts and bills receivable of RMB1,448 million were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific impairment losses of RMB607 million were recognised for the year ended 31 December 2017.

Details of impairment assessment of accounts receivable for the year ended 31 December 2018 are set out in note 43(a).

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28. ACCOUNTS AND BILLS RECEIVABLE, NET (continued)

(d) Accounts and bills receivable that is not impaired

At 31 December 2017, the ageing analysis of accounts and bills receivable that are neither individually nor collectively considered to be impaired are as follows:

	2017 RMB'000
Neither past due nor impaired	12,865,705
Past due but not impaired	
Within 1 year	13,628,836
After 1 year but less than 2 years	820,597
After 2 years but less than 3 years	286,870
After 3 years	187,959
	27,789,967

At 31 December 2017, receivables that were neither past due nor impaired mainly relate to major telecommunications operators for whom there was no recent record of default.

At 31 December 2017, 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.

29. CONSTRUCTION CONTRACTS

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

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

30. CONTRACT ASSETS, NET

	As at 31 December 2018 RMB'000	As at 1 January 2018* RMB'000
Telecommunications infrastructure services	**13,219,615**	9,715,834
Business process outsourcing services	**647,111**	778,861
Applications, content and other services	**2,028,796**	1,258,425
	15,895,522	11,753,120
Less: allowance for credit losses	**(230,764)**	(116,188)
	15,664,758	11,636,932

* The amounts in this column are after the adjustments from the application of IFRS 9 and 15.

The contract assets relate to the Group's rights to consideration for work completed and not billed because the rights are conditional on the Group's future performance in achieving specified milestones at the reporting date on construction, design and other service contracts. The contract assets are transferred to accounts receivable when the rights become unconditional. The Group typically transfers the contract assets to accounts receivable within one year.

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

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31. PREPAYMENTS AND OTHER CURRENT ASSETS

	2018 RMB'000	2017 RMB'000
Advances to staff	**86,002**	111,689
Amounts due from CTC Group, associates of the Group and associates of CTC Group	**1,726,998**	1,825,722
Prepayments in connection with construction work and equipment purchases	**2,722,854**	2,582,519
Prepaid expenses and deposits	**1,397,136**	1,256,574
Wealth management products and structured deposits	**–**	3,750,000
Others	**2,713,133**	2,288,625
	8,646,123	11,815,129

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.

32. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

As at 31 December 2018 and 2017, the wealth management products and structured deposits were issued by banks in the PRC with variable returns linked to gold price, foreign exchange rates or floating interest rate.

	2018 RMB'000	2017 RMB'000
Wealth management products	**–**	557,579
Structured deposits	**5,046,898**	704,830
Foreign currency forward contract	**–**	105
	5,046,898	1,262,514

As at 31 December 2018 and 2017, the Group has the rights to redeem the wealth management products and structured deposits at expected maturity dates within 12 months after the end of reporting period.

33. RESTRICTED DEPOSITS

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

34. CASH AND CASH EQUIVALENTS

	2018 RMB'000	2017 RMB'000
Cash at bank and in hand	**16,011,556**	12,557,327
Deposits at bank with original maturity less than three months	**94,690**	709,304
Cash and cash equivalents	**16,106,246**	13,266,631

Bank balances carry interest at prevailing market interest rates.

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

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35. INTEREST-BEARING BORROWINGS

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

	2018 RMB'000	2017 RMB'000
RMB denominated		
Loan from CTC Group		
– unsecured	**13,280**	13,280
USD denominated		
Borrowings from banks		
– unsecured	**393,947**	284,218
Other denominated		
Borrowings from banks		
– unsecured	**54,776**	11,378
	462,003	308,876

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

	2018	2017
RMB denominated		
Loan from CTC Group		
– unsecured	**2.39%**	2.39%
USD denominated		
Borrowings from banks		
– unsecured (fixed interest rate)	**3.43%-4.90%**	3.43%-4.08%
– unsecured (floating interest rate)	**London Interbank Offered Rate ("Libor") +1.00%-1.35%**	Libor +2.81%-3.31%
Other denominated		
Borrowings from banks		
– unsecured	**2.45%-9.24%**	7.95%-9.20%

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

	2018 RMB'000	2017 RMB'000
USD denominated		
Borrowings from banks		
– unsecured	**8,922**	17,642

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

	2018	2017
USD denominated		
Borrowings from banks		
– unsecured	**3.43%-3.83%**	3.43%-3.83%

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35. INTEREST-BEARING BORROWINGS (continued)

The Group's borrowings were repayable as follows:

	2018 RMB'000	2017 RMB'000
Within 1 year	462,003	308,876
After 1 year but within 2 years	8,922	9,148
After 2 years but within 5 years	–	8,494
	470,925	326,518

As at 31 December 2018 and 2017, no borrowings from bank were subject to financial covenants.

36. ACCOUNTS AND BILLS PAYABLE

Accounts and bills payable comprise:

	2018 RMB'000	2017 RMB'000
Accounts payable	27,067,452	23,723,340
Bills payable	1,212,081	877,341
	28,279,533	24,600,681

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

	2018 RMB'000	2017 RMB'000
Within 1 year	25,945,423	22,989,350
After 1 year but less than 2 years	1,651,120	1,029,424
After 2 years but less than 3 years	364,176	308,399
After 3 years	318,814	273,508
	28,279,533	24,600,681

Included in accounts and bills payable are amounts due to CTC Group, associates of the Group and associates of CTC Group of RMB1,118 million (2017: RMB1,146 million) as at 31 December 2018. 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.

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37. CONTRACT LIABILITIES

	As at 31 December 2018 RMB'000	As at 1 January 2018* RMB'000
Telecommunications infrastructure services	6,865,112	6,823,157
Other services	1,782,948	1,466,718
	8,648,060	8,289,875

* The amounts in this column are after the adjustments from the application of IFRS 15.

When the Group receives an advance payment before the performance obligation is satisfied, this will give rise to contract liabilities, until the operating revenues recognised on the relevant contract exceed the amount of the advance payment.

The following table shows how much of the revenue recognised in the current year relates to carried-forward contract liabilities.

	Telecommunications infrastructure services RMB'000	Other services RMB'000
Revenue recognised that was included in the contract liability balance at the beginning of the year	6,792,991	1,441,206

38. ACCRUED EXPENSES AND OTHER PAYABLES

	2018 RMB'000	2017 RMB'000
Wages and welfare payable	1,587,977	1,639,626
Amounts due to CTC Group, associates of the Group and associates of CTC Group (note (i))	443,187	1,430,565
Advance lease payments received	29,364	–
Receipts in advance from third parties	–	2,303,211
Other taxes payable	650,481	690,908
Special dividend and profit distribution payable to CTC Group (note (ii))	29,300	34,514
Dividend payable	22,832	24,299
Payables for construction and purchase of property, plant and equipment	33,758	40,218
Others (note (iii))	6,220,528	5,157,388
	9,017,427	11,320,729

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38. ACCRUED EXPENSES AND OTHER PAYABLES (continued)

Notes:

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

(ii) Special dividend and profit distribution payable to CTC Group

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

Pursuant to a resolution passed at directors' meeting on 17 April 2007, the directors resolved to pay the 2006 special dividend to CTC and its subsidiaries amounting to RMB535 million in total, out of which RMB117 million was directly distributed at the subsidiary level. The Group has paid RMB533 million special dividend to CTC and its subsidiaries by 31 December 2018.

As disclosed in the Circular of the Company dated 20 June 2007, in line with the principles set out in the "Notice of the Forwarding the Implementation Opinions of the state-owned Assets Supervision and Administration Commission about Further Standardisation of the Work Relating to the Reconstruction of State-owned Enterprise" issued by the General Office of the State Council of the PRC, the changes in net assets between the period from 1 February 2007 to 31 August 2007 of the Target Business should be distributed in form of cash to CTC and its subsidiaries amounting to RMB197 million in total, of which RMB170 million has been paid to CTC and its subsidiaries by 31 December 2018.

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

39. OTHER NON-CURRENT LIABILITIES

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

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40. SHARE CAPITAL

	2018 RMB'000	2017 RMB'000
Registered, issued and fully paid:		
4,534,598,160 (31 December 2017: 4,534,598,160) domestic shares of RMB1.00 each	**4,534,598**	4,534,598
2,391,420,240 (31 December 2017: 2,391,420,240) H shares of RMB1.00 each	**2,391,420**	2,391,420
	6,926,018	6,926,018

	2018 Thousand shares	2017 Thousand shares
At 1 January and 31 December	**6,926,018**	6,926,018

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

(a) Capital management

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

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

The Group monitors its capital using a gearing ratio which is total debts divided by the sum of total debts and equity attributable to equity shareholders of the Company. For this purpose, the Group defines total debt as the sum of short-term interest bearing borrowings and long-term interest bearing. The Group aims to maintain the gearing ratio at a reasonable level. The Group's ratio as at 31 December 2018 was 1.4% (2017: 1.1%). In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt.

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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 13% to 27% (2017: 18% to 22%) of the salaries, bonuses and certain allowances of the employees.

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

42. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Capital commitments

As at 31 December 2018, the Group had capital commitments for acquisition and construction of property, plant and equipment and other non-current assets as follows:

	2018 RMB'000	2017 RMB'000
Contracted for but not provided	**500,340**	421,950

(b) Operating lease commitments

As at 31 December 2018, the Group's total future minimum lease payments under non-cancellable operating leases were payable as follows:

	2018 RMB'000	2017 RMB'000
Within 1 year	**508,960**	430,716
After 1 year but within 5 years	**630,437**	438,698
After 5 years	**162,405**	93,711
	1,301,802	963,125

The Group leases a number of properties under operating leases. The leases typically run for period of 1 year to 20 years, with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

(c) Contingent liabilities

As at 31 December 2018, the Group had no material contingent liabilities and no material financial guarantees issued.

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43. FINANCIAL RISK MANAGEMENT AND FAIR VALUES

Exposure to credit, interest rate, liquidity and currency risks arises in the normal course of the Group's business. The Group is also exposed to equity price risk arising from its equity investments in other entities and movements in its own equity share price.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk and impairment assessment

The Group's credit risk is primarily attributable to accounts receivable and contract assets arising from contracts with customers and other receivables. Management has a credit policy in place and the exposure to credit risks is monitored on an ongoing basis. Normally, the Group does not obtain collateral from customers.

The Group's major customers are CTC Group and CM Group. The Group has a certain concentration of credit risk as the Group's major customers accounted for 67% of the total accounts and bills receivable as at 31 December 2018 (2017: 74%). The Group has no significant credit risk with any of these customers since they are large state-owned companies in the telecommunications industry.

The credit risk on cash at banks and restricted bank deposits is limited because the counterparties are banks with high credit rankings, mainly the four large state-owned banks.

The credit risk on wealth management products and structured deposits is limited because the counterparties are reputable financial institutions.

The amounts of cash and cash equivalents, restricted deposits, accounts and bills receivable, contract assets, other receivables, available-for-sale financial assets and long-term receivables in the consolidated statement of financial position after deducting impairment allowance represent the Group's maximum exposure to the credit risk in relation to financial assets.

The Group recognises a loss allowance for ECL upon application of IFRS 9 (2017: incurred loss model) on financial assets and contract assets. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

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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

The Group applied the IFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all accounts receivable and contract assets. To measure the ECL, accounts receivable and contract assets have been grouped based on shared credit risk characteristics.

The contract assets relate to unbilled revenues and have substantially the same risk characteristics as the accounts receivable for the same type of contracts. The Group has therefore concluded that the expected loss rates for the accounts receivable are a reasonable approximation of the loss rates for the contract assets. As at 31 December 2018, the credit loss allowance of contract assets was not material.

The following table provides information about the exposure to credit risk for accounts receivable which are assessed based on provision matrix as at 31 December 2018 within lifetime ECL. Debtors with significant outstanding balances or credit-impaired with gross carrying amounts of RMB1,984 million as at 31 December 2018 were assessed individually. In addition, 100% loss allowance provision has been made regarding balances due from telecommunications operators aged over 4 years of RMB243 million and balances due from non-telecom operator aged over 3 years of RMB261 million as at 31 December 2018.

	Expected loss rate	Gross Carrying amount RMB'000	Loss Allowance provision RMB'000
Telecommunications operators			
Within 1 year	0.3%	11,367,532	(34,103)
After 1 year but within 2 years	2%	984,086	(19,682)
After 2 years but within 3 years	20%	309,931	(61,986)
After 3 years but within 4 years	50%	76,110	(38,055)
		12,737,659	(153,826)
Non-telecom operator			
Within 1 year	1%	4,008,595	(40,086)
After 1 year but within 2 years	10%	400,721	(40,072)
After 2 years but within 3 years	20%	171,995	(34,399)
		4,581,311	(114,557)

Expected loss rates are based on actual loss experience over the past 1 to 4 years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the group's view of economic conditions over the expected lives of the receivables.

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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 following table shows the movement in lifetime ECL that has been recognised for accounts receivable under the simplified approach.

	RMB'000
As at 31 December 2017 – under IAS 39	1,343,957
Adjustment upon application of IFRS 15	(65,715)
Adjustment upon application of IFRS 9	47,257
As at 1 January 2018 – As restated	1,325,499
Changes due to financial assets recognised as at 1 January:	
– Impairment loss recognised	246,561
– Impairment loss reversed	(255,339)
– Uncollectible amounts written off	(44,305)
New financial assets originated	142,117
As at 31 December 2018	**1,414,533**

The Group writes off an accounts receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings.

(b) Interest rate risk

The Group is exposed to fair value interest rate risk primarily from its short-term and long-term debts carrying interests at fixed rates. The Group manages its exposure to fair value interest rate risk by maintaining high proportion of fixed rate debts with maturity within one year. Details of the interest rates are disclosed in note 35.

The Group is also exposed to cash flow interest rate risk in relation to wealth management products and structured deposits, and short-term debts carrying interests at variable rates. The Group manages its exposure to interest rate risk by closely monitoring the change in the market interest rate.

The management of the Group considers the fluctuation in interest rates on wealth management products and structured deposits, and short-term debts carrying interests at variable rates is insignificant. Therefore, no sensitivity analysis is presented.

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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 term.

The following tables show the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on interest rates at the end of the reporting period) and the earliest date the Group can be required to pay:

	2018		2017	
	Contractual undiscounted cash outflow within 1 year or on demand RMB'000	**Carrying amount RMB'000**	Contractual undiscounted cash outflow within 1 year or on demand RMB'000	Carrying amount RMB'000
Short-term interest-bearing borrowings (note 35)	**467,332**	**462,003**	313,144	308,876
Accounts and bills payable (note 36)	**28,279,533**	**28,279,533**	24,600,681	24,600,681
Contract liabilities (note 37)	**8,648,060**	**8,648,060**	–	–
Receipt in advance for contract work	**–**	**–**	4,997,284	4,997,284
Accrued expenses and other payables (note 38)	**9,017,427**	**9,017,427**	11,320,729	11,320,729
	46,412,352	**46,407,023**	41,231,838	41,227,570

(d) Currency risk

Foreign currency exchange rate risk arises on financial instruments that are denominated in a currency other than the respective functional currencies of group entities. The Group's foreign currency risk exposure relates to the bank deposits and borrowings denominated primarily in United States dollars, Hong Kong dollars, Nigerian Naira, Saudi Arabian Riyal and Ethiopian Birr. 95.3% (2017: 94.7%) of the Group's cash and cash equivalents and 2.8% (2017: 4.1%) of the Group's short-term debt and long-term debt as at 31 December 2018 are denominated in RMB.

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they related. For presentation purposes, the amounts of the exposure are shown in RMB, translated using the spot rate at the year-end date.

For the year ended 31 December 2018

43. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(d) Currency risk (continued)

Exposure to currency risk

	Exposure to foreign currencies (expressed in RMB) 31 December 2018					
	United States dollars RMB'000	Hong Kong dollars RMB'000	Nigerian Naira RMB'000	Saudi Arabian Riyal RMB'000	Ethiopian Birr RMB'000	Others RMB'000
Cash and cash equivalents	313,705	83,530	96,929	91,751	4,058	163,371
Accounts receivable	319,950	82,539	4,848	133,615	4,424	234,293
Contract assets	90,031	32,777	–	61,374	45,887	210,747
Accounts payable	(61,963)	(315,046)	(24,878)	(44,009)	(32,893)	(159,448)
Short-term interest-bearing borrowings	(393,947)	–	–	–	–	(54,776)
Long-term interest-bearing borrowings	(8,922)	–	–	–	–	–
Overall net exposure	258,854	(116,200)	76,899	242,731	21,476	394,187

	Exposure to foreign currencies (expressed in RMB) 31 December 2017					
	United States dollars RMB'000	Hong Kong dollars RMB'000	Nigerian Naira RMB'000	Saudi Arabian Riyal RMB'000	Ethiopian Birr RMB'000	Others RMB'000
Cash and cash equivalents	378,339	57,190	77,734	27,380	7,867	155,708
Accounts receivable	247,197	107,280	24,096	134,835	28,729	412,053
Accounts payable	(55,904)	(192,188)	(22,583)	(36,152)	(27,902)	(67,640)
Short-term interest-bearing borrowings	(284,218)	–	–	–	–	(11,378)
Long-term interest-bearing borrowings	(17,642)	–	–	–	–	–
Overall net exposure	267,772	(27,718)	79,247	126,063	8,694	488,743

The following significant exchange rates applied during the year:

	Average rate		Spot rate	
	2018	2017	2018	2017
United States dollars	6.70	6.74	6.86	6.53
Hong Kong dollars	0.86	0.87	0.88	0.84
Nigerian Naira	0.02	0.02	0.02	0.02
Saudi Arabian Riyal	1.79	1.80	1.83	1.74
Ethiopian Birr	0.24	0.28	0.24	0.24

For the year ended 31 December 2018

43. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(d) Currency risk (continued)

Sensitivity analysis

The following table indicates the instantaneous change in the Group's profit after tax (and retained profits) and other components of consolidated equity that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant.

	2018			2017		
	Strengthen/ (weaken) in foreign exchange rate	Effect on profit after tax and retained profits RMB'000	Effect on other components of equity RMB'000	Strengthen/ (weaken) in foreign exchange rate	Effect on profit after tax and retained profits RMB'000	Effect on other components of equity RMB'000
United States dollars	5%	9,707	–	5%	10,041	–
	(5)%	(9,707)	–	(5)%	(10,041)	–
Hong Kong dollars	5%	(4,358)	–	5%	(1,039)	–
	(5)%	4,358	–	(5)%	1,039	–
Nigerian Naira	5%	2,884	–	5%	2,972	–
	(5)%	(2,884)	–	(5)%	(2,972)	–
Saudi Arabian Riyal	5%	9,102	–	5%	4,727	–
	(5)%	(9,102)	–	(5)%	(4,727)	–
Ethiopian Birr	5%	805	–	5%	326	–
	(5)%	(805)	–	(5)%	(326)	–

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group's entities' profit after tax measured in the respective functional currencies, translated into RMB at the exchange rate ruling at the end of the reporting period for presentation purpose.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to remeasure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis is performed on the same basis for 2017.

(e) Price risk

The Group is exposed to equity price changes arising from listed equity investments designated as at FVTOCI (2017: available-for-sale securities). Other than certain unquoted equity securities held for long term strategic purposes, all of these investments are listed.

The Group's listed investments are listed on the Shanghai Stock Exchange and Shenzhen Stock Exchange. Listed investments held in the investment portfolio have been chosen based on their longer term growth potential and are monitored regularly for performance against expectations.

The price risk on wealth management products and structured deposits is limited because maturity period of these investments is short.

For the year ended 31 December 2018

43. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(e) Price risk (continued)

At 31 December 2018, it is estimated that an increase/(decrease) of 5% (2017: 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:

	2018		2017	
	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%	139,843	5%	2,394
Decrease	(5%)	(139,843)	(5%)	(2,394)

The sensitivity analysis indicates the instantaneous change in the Group's other components of consolidated equity that would arise assuming that the changes in the share price had occurred at the end of the reporting period and had been applied to remeasure those financial instruments held by the Group which expose the Group to equity price risk at the end of the reporting period.

(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.

	2018			
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Financial Assets				
Equity instruments at fair value through other comprehensive income (note (i))	42,684	–	3,694,869	3,737,553
Financial assets at fair value through profit or loss				
– Wealth management products and structured deposits (note (ii))	–	–	5,046,898	5,046,898

For the year ended 31 December 2018

43. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(f) Fair value (continued)

(i) Financial instruments carried at fair value on a recurring basis (continued)

	2018			
	Level 1 RMB'000	**Level 2 RMB'000**	**Level 3 RMB'000**	**Total RMB'000**
Financial Liabilities				
Financial liabilities at fair value through profit or loss				
– Trading financial liabilities				
– Foreign currency forward contract	**–**	**192**	**–**	**192**

	2017			
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Financial Assets				
Available-for-sale securities				
– Listed equity securities	56,337	–	–	56,337
Financial assets at fair value through profit or loss				
– Wealth management products and structured deposits (note (ii))	–	–	1,262,409	1,262,409
– Trading financial assets				
– Foreign currency forward contract	–	105	–	105
Financial Liabilities				
Financial liabilities at fair value through profit or loss				
– Trading financial liabilities				
– Foreign currency forward contract	–	702	–	702

Notes:

(i) One of the invested entities was listed on Shanghai Stock Exchange in 2018 and the Group is contractually prevented from selling the shares immediately following the initial public offering. At 31 December 2018, the Group involves external valuer to determine the fair value of the listed equity security that is within the restricted period, based on the quoted price of the identical unrestricted shares traded in stock exchange and adjusted to reflect the effect of restriction. An increase in the discount rate of lack of marketability used in isolation would result in a decrease in the fair value measurement of this equity instrument and vice versa. A 5% increase in the discount rate holding all other variables constant would decrease the carrying amount of this equity instrument by RMB30 million.

(ii) At the end of each reporting period, the Group determines the fair value of the wealth management products and structured deposits by estimating the discounted cash flow upon them. The future cash flows are estimated based on expected recoverable amounts, and discounted at a rate that reflects the credit risk of various counterparties.

For the year ended 31 December 2018

43. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(f) Fair value (continued)

(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
As at 1 January 2018	3,952,268	1,262,409
Purchase	–	10,650,000
Settlements	–	(6,900,000)
Total gains (losses)		
– in profit or loss	–	34,489
– in other comprehensive income	(257,399)	–
As at 31 December 2018	3,694,869	5,046,898

	Wealth management products and structured deposits RMB'000
As at 1 January 2017	–
Purchase	1,250,000
Total gains	
– in profit or loss	12,409
As at 31 December 2017	1,262,409

(iii) Fair values of financial instruments carried at other than fair value

The fair values of financial assets and financial liabilities recorded at amortised cost are not materially different from their carrying amounts, which are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

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44. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

In determining the carrying amounts of certain assets and liabilities, the Group makes assumptions of the effects of uncertain future events on those assets and liabilities at the end of the reporting period. These estimates involve assumptions about such items as risk adjustment to cash flows or discount rates used, future changes in salaries and future changes in prices affecting other costs. The Group's estimates and assumptions are based on historical experience and expectations of future events and are reviewed periodically. In addition to assumptions and estimations of future events, judgements are also made during the process of applying the Group's accounting policies. In addition to those disclosed in note 20, other significant accounting estimates and judgements are summarised as follows:

(a) Revenue recognition of construction service

As explained in note 2(r), revenue from construction service are recognised over time. Revenue recognition of construction service on an uncompleted project is dependent on estimating the progress towards complete satisfaction of the performance obligation, which is based on output method. Actual outputs may be higher or lower than that estimated at the end of the reporting period, which would affect the revenue recognised in future years as an adjustment to the amounts recorded to date.

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

The Group uses provision matrix to calculate ECL for the accounts receivable and contract assets. The provision rates are based on nature of debtors as groupings of various debtors that have similar loss patterns. The provision matrix is based on the Group's historical default rates taking into consideration reasonable and supportable forward-looking information that is available without undue cost or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. In addition, accounts receivable and contract assets with significant balances and credit impaired are assessed for ECL individually. The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's accounts receivable and contract assets are disclosed in notes 43(a), 28 and 30 respectively.

(c) Impairment of long-lived assets other than goodwill

If circumstances indicate that the carrying amount of a long-lived asset may not be recoverable, the asset may be considered "impaired", and an impairment loss may be recognised in accordance with accounting policy for impairment of long-lived assets as described in note 2(k). The carrying amounts of long-lived assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the fair value less costs of disposal and the value in use. In determining the value in use, expected future cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of revenue and amount of operating costs. Changes in these estimates could have a significant impact on the carrying amount of the assets and could result in additional impairment charge or reversal of impairment in future periods.

(d) Depreciation and amortisation

Property, plant and equipment and intangible assets with finite useful lives are depreciated/amortised on a straight-line basis over the estimated useful lives of the assets, after taking into account their estimated residual value. The Group reviews the estimated useful lives and residual values of the assets annually in order to determine the amount of depreciation/amortisation expense to be recorded during any reporting period. The useful lives and residual values are based on the Group's historical experience with similar assets, and taking into account anticipated technological changes. The depreciation and amortisation expense for future periods is adjusted if there are significant changes from previous estimates.

For the year ended 31 December 2018

44. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(e) Deferred tax assets

The recognition of deferred tax assets requires assessment of the temporary differences which arise as a consequence of different accounting and tax treatments. These temporary differences result in deferred tax assets are included within the consolidated statement of financial position. Deferred tax assets are measured using substantially enacted tax rates expected to apply when the temporary differences reverse. Deferred tax assets are not recognised where it is more likely than not that the asset will not be realised in the future. This evaluation requires judgements to be made including the forecast of future taxable income. Recognition therefore, involves the management's judgement regarding the future financial performance of the particular legal entity in which the deferred tax asset has been recognised and interpretation of country specific tax law and the likelihood of settlement. However, the actual tax assets could differ from the provision and in such event the Group would be required to make an adjustment in a subsequent period which could have a material impact on the Group's profit or loss.

(f) Fair value measurement of financial instruments

Certain of the Group's equity investments are measured at fair values with fair values being determined based on unobserved inputs using valuation techniques. Judgement and estimation are required in establishing the relevant valuation techniques and the relevant inputs thereof. Changes in assumptions relating to these factors could affect the reported fair values of these instruments. See note 43(f) for further disclosures.

45. RELATED PARTIES

The Group is part of companies under CTC Group and has significant transactions and relationships with members of CTC Group. Apart from the transactions and balances disclosed in the consolidated financial statements set out above, there are the following related party transactions:

(a) Transactions with CTC Group

Because of the relationships between the Group and CTC Group, it is possible that the terms of those transactions are not the same as those that would result from transactions among unrelated parties.

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

	2018 RMB'000	2017 RMB'000
Income from related parties:		
Engineering related services (note (i))	**18,646,185**	21,155,069
IT application services (note (ii))	**2,386,995**	2,382,179
Provision of ancillary telecommunications services (note (iii))	**13,975,887**	11,041,170
Provision of operation support services (note (iv))	**3,092,211**	2,791,206
Supplies procurement services (note (v))	**3,079,803**	4,093,562
Property leasing services (note (vi))	**97,532**	104,823
Management fee (note (vii))	**329,335**	328,523
Expenses paid to related parties:		
Property leasing services (note (viii))	**237,519**	199,920
IT application services (note (ix))	**285,363**	267,508
Operation support services (note (x))	**703,993**	949,854
Supplies procurement services (note (xi))	**1,811,076**	2,121,726
Interest (note (xii))	**1,403**	3,477

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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 operating leases in respect of business premises paid and payable to CTC Group.

(ix) The amount represents the charge paid and payable to CTC Group for basic telecommunications service, value-added service and information application service.

(x) The amount represents the charge paid and payable to CTC Group for logistics, labor resources, cultural, educational, hygiene and other supporting services.

(xi) The amount represents the charge paid and payable to CTC Group for supplies procurement services, warehousing, transportation and installation services.

(xii) The amount represents the interest paid/payable to CTC Group in respect of the loans from CTC Group.

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

	2018 **RMB'000**	2017 RMB'000
Accounts and bills receivable, net	**10,279,477**	19,645,020
Contract assets, net	**9,086,987**	–
Prepayments and other current assets	**776,901**	1,028,318
Total amounts due from CTC Group	**20,143,365**	20,673,338
Interest-bearing borrowings	**13,280**	13,280
Accounts and bills payable	**449,365**	594,455
Contract liabilities	**650,723**	–
Receipts in advance for contract work	**–**	221,555
Accrued expenses and other payables	**392,438**	603,262
Total amounts due to CTC Group	**1,505,806**	1,432,552

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45. RELATED PARTIES (continued)

(a) Transactions with CTC Group (continued)

As at 31 December 2018, the Group has recognised credit losses of RMB243 million (2017: RMB221 million) in respect of amounts due from CTC Group.

As at 31 December 2018, the Group has capital commitments to CTC Group for acquisition and construction of property, plant and equipment and other assets as follows:

	2018 **RMB'000**	2017 RMB'000
Contracted for but not provided	**446,466**	346,003

As at 31 December 2018, the Group's total future minimum lease payments to CTC Group under non-cancellable operating leases were payable as follows:

	2018 **RMB'000**	2017 RMB'000
Within 1 year	**133,571**	114,948
After 1 year but within 5 years	**202,647**	169,098
After 5 years	**64,383**	38,546
	400,601	322,592

The directors of the Company are of the opinion that the above transactions with related parties were conducted on normal commercial terms in the ordinary course of business and the terms are reasonable so far as the shareholders of the Company are concerned.

In connection with the Restructuring, the Company and CTC entered into a number of agreements effective as at November 16, 2006 to take up the existing agreements signed between the Predecessor Operations and CTC as set out in items (i), (ii) and (iii) below, together with a new agreement governing the provision of headquarter management function by the Company as set out in item (iv). After the Company acquired the Target Business in 2007, these agreements were amended by way of the 2008 Supplemental Agreement, pursuant to which the terms of the Agreements were renewed to 31 December 2010. On 29 October 2009, the Company entered into the Supplies Procurement Services Framework Agreement as set out in item (v) below. On 9 November 2010, these agreements were amended by way of 2010 Supplement Agreement, pursuant to which the terms of the Agreements were renewed to 31 December 2012. On 14 November 2011, the Company announced to propose the increase of annual caps for service charges payable to CTC Group under the Supplies Procurement Services Framework Agreement to RMB2,100 million and RMB2,600 million respectively, for the two years ended 31 December 2011 and 2012. On 20 September 2012, the Company announced to propose the increase of annual caps for the service charges receivable by the Company from CTC Group and the service charges payable by the Company to CTC Group under Operation Support Services Framework Agreement for the year ended 31 December 2012 to RMB2,300 million and to RMB600 million, respectively, and the annual cap for the service charges receivable by the Company from CTC Group under the Supplies Procurement Services Framework Agreement for the year ended 31 December 2012 to RMB4,400 million, and signed Supplement Agreements which extended the expiry date of all agreements to 31 December 2016 and increased annual caps of several framework agreements. On 29 September 2015, the Company announced to propose the increase of annual caps for the service charges receivable by the Company from CTC Group under Engineering Framework Agreement for the year ended 31 December 2015 to RMB24,000 million, and the annual cap for the service charges payable by the Company to CTC Group under Operation Support Service Framework Agreement for the year ended 31 December 2015 ("2015 Agreements ") to RMB800 million, and signed agreements which extended the expiry date of all agreements to 31 December 2018 and increased annual caps of several framework agreements. On 28 September 2018, the Company entered into the 2018 Supplemental Agreements with CTC based on the 2015 Agreements to renew each of the 2015 Agreements for a further term of three years from 1 January 2019 to 31 December 2021.

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45. RELATED PARTIES (continued)

(a) Transactions with CTC Group (continued)

According to these Supplement Agreements for the year ended 31 December 2018, (i) the annual cap for the service charges receivable by the Company from CTC Group under the Engineering Related Services Framework Agreement was RMB24,000 million; (ii) the annual cap for the service charges receivable by the Company from CTC Group under the Ancillary Telecommunications Services Framework Agreement was RMB15,600 million; (iii) the annual caps for the service charges receivable by the Company from CTC Group and the service charges payable by the Company to CTC Group under the Operation Support Services Framework Agreement were RMB3,600 million and RMB1,100 million; respectively (iv) the annual caps for the service charges receivable by the Company from CTC Group and the service charges payable by the Company to CTC Group under the IT Application Services Framework Agreement were RMB2,900 million and RMB490 million respectively; (v) the annual cap for the service charges receivable by the Company from CTC Group under the Centralised Services Framework Agreement was RMB450 million; (vi) the annual caps for the service charges receivable by the Company from CTC Group and the service charges payable by the Company to CTC Group under the Property Leasing Services Framework Agreement were RMB220 million and RMB240 million respectively; (vii) the annual caps for the service charges receivable by the Company from CTC Group and the service charges payable by the Company to CTC Group under the Supplies Procurement Services Framework Agreement were RMB10,000 million and RMB7,000 million respectively. The terms of the principal agreements impacting the results of operations of the Group are summarised as follows:

(i) The Group has entered into agreements with CTC pursuant to which the Group provides CTC Group with construction, design and project supervision and management for telecommunications infrastructure projects. In addition, the Group has entered into information technology service agreements with CTC pursuant to which the Group provides CTC Group with telecommunications network support service, software and hardware development and other IT related services. The amounts charged for these services are determined by reference to market rates as reflected in prices obtained through a tender.

(ii) The Group has entered into facilities leasing agreements with CTC pursuant to which the Group leases certain premises and other facilities to CTC Group, and vice versa. The rental charges are based on market rate, with reference to amounts stipulated by local price bureau.

(iii) The Group has entered into operation support services agreements for facilities management, advertising, conferencing, logistics, cultural, educational, hygiene and other community services with CTC. In addition, the Group has entered into ancillary services agreements with CTC. The ancillary services provided to CTC Group include repairs and maintenance of telecommunications equipment and facilities and certain customer services. Pursuant to these agreements, the Group charges CTC Group, and vice versa, for these services in accordance with the following terms:

- market price. In determining the market price, the Group primarily considers the following factors: (i) cost of service; (ii) prices of the same or similar type of services provided to CTC Group by other service providers in the market; (iii) prices of the same or similar type of services provided to CTC Group and independent third parties previously by the Group.

- in the absence of market price or where the market price cannot be determined, the price shall be agreed between both parties, which shall be the aggregate amount of reasonable costs, the relevant taxes in sales and reasonable profits. “Reasonable costs” means the costs confirmed by both parties after negotiations, and “reasonable profit” means a profit ratio confirmed by both parties during the course of normal commercial negotiation, taking into account factors such as historical price, transaction size, average profit ratio within the relevant industry, supply and demand, labor cost, local commodity prices and economic development levels.

For the year ended 31 December 2018

45. RELATED PARTIES (continued)

(a) Transactions with CTC Group (continued)

(iv) The Group has entered into agreement with CTC pursuant to which the Group takes up the role as headquarter management function to manage assets of the telecommunications support business of provinces, municipalities and autonomous regions ("Centralised Services") including Ningxia, Tibet and any assets retained by CTC after the Restructuring and acquisition of Target Business. The aggregate administrative costs incurred by the Group for the provision of the Centralised Services are apportioned pro rata between the Group and CTC Group according to the net asset ratio of each of the relevant party.

(v) The Group has entered into Supplies Procurement Services Framework agreement for procurement of telecommunication and non-telecommunication supplies, agency services of supplies procurement, sales of telecommunication supplies and management of biddings, verification of technical specifications, warehousing transportation and installation service. Pursuant to the agreement, the Group charges CTC Group for these services in accordance with the following terms:

- maximum 1% of the contract value for procurement services on imported telecommunication supplies;

- maximum 3% of the contract value for procurement services on domestic telecommunication and non-telecommunication supplies and materials;

- market price. In determining the market price, the Group primarily considers the following factors: (i) cost of service; (ii) prices of the same or similar type of services provided to CTC Group or the Group by other service providers in the market; (iii) prices of the same or similar type of services provided to CTC Group and independent third parties by the Group, or prices of the same or similar type of services provided to the Group by CTC Group and independent third parties.

- in the absence of market price or where the market price cannot be determined, the price shall be agreed between both parties, which shall be the aggregate amount of reasonable costs, the taxes in sales and reasonable profits. "Reasonable costs" means the costs confirmed by both parties after negotiations, and "reasonable profit" means a profit ratio confirmed by both parties during the course of normal commercial negotiation, taking into account factors such as historical price, transaction size, average profit ratio within the relevant industry, supply and demand, labor cost, local commodity prices and economic development levels.

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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:

	2018 RMB'000	2017 RMB'000
Income from related parties:		
Engineering related services (note (i))	**3,217,170**	3,746,707
IT application services (note (ii))	**54,935**	86,977
Provision of ancillary telecommunications services (note (iii))	**1,565,142**	1,207,694
Provision of operation support services (note (iv))	**68,366**	69,312
Supplies procurement services (note (v))	**149,113**	245,476
Property leasing services (note (vi))	**2,543**	2,441
Expenses paid to related parties:		
Property leasing services (note (vii))	**6,200**	5,669
IT application services (note (viii))	**3,078**	44,920
Operation support services (note (ix))	**350,278**	69,138
Supplies procurement service (note (x))	**188**	–

Notes:

(i) The amount represents telecommunications infrastructure services such as design, construction and project management provided to associates of the Group and associates of CTC Group.

(ii) The amount represents the telecommunications network support services, software and hardware development and other IT related services provided to associates of CTC Group.

(iii) The amount represents ancillary telecommunications services such as maintenance of network facilities (including optical ducts and cables, exchange buildings and base stations); operation of distribution channels; fixed line and wireless value-added service; internet contents and information services provided to associates of the Group and associates of CTC Group.

(iv) The amount represents the facilities management, advertising, conferencing services and certain repair and leasing of equipment services provided to associates of the Group and associates of CTC Group.

(v) The amount represents supplies procurement service such as warehousing, transportation and installation and other related services provided to associates of CTC Group.

(vi) The amount represents rentals from operating leases in respect of business premises leased to associates of CTC Group.

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

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

(ix) The amount represents the charge paid and payable to associates of the Group and associates of CTC Group for logistics, labour resources, cultural, educational, hygiene and other supporting services.

(x) The amount represents the charge paid and payable to associates of the Group for supplies procurement services, warehousing, transportation and installation services.

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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 balances are summarised as follows:

	2018 RMB'000	2017 RMB'000
Accounts and bills receivable, net	**340,641**	378,224
Contract assets, net	**173,010**	–
Prepayments and other current assets	**950,097**	797,404
Total amounts due from associates of the Group and associates of CTC Group	**1,463,748**	1,175,628
Accounts and bills payable	**668,839**	551,232
Contract liabilities	**761,110**	–
Receipts in advance for contract work	**–**	235,263
Accrued expenses and other payables	**80,049**	861,817
Total amounts due to associates of the Group and associates of CTC Group	**1,509,998**	1,648,312

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

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

The Company is a state-controlled enterprise and operates in an economic regime currently dominated by entities directly or indirectly controlled by the PRC through government authorities, agencies, affiliations and other organisations (collectively referred to as "government-related entities").

Apart from transactions with parent company and its affiliates (note 45(a)), the Group has collectively, but not individually significant transactions with other government-related entities, which include but are not limited to the following:

– Rendering and receiving services, including but not limited to telecommunications services

– Sales and purchases of goods, properties and other assets

– Lease of assets

– Depositing and borrowing money

– Use of public utilities

These transactions are conducted in the ordinary course of the Group's business on terms comparable to the terms of transactions with other entities that are not government-related. The Group prices its telecommunications services and products based on government-regulated tariff rates, where applicable, or based on commercial negotiations. The Group has also established its procurement policies and approval processes for purchases of products and services, which do not depend on whether the counterparties are government-related entities or not.

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

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45. RELATED PARTIES (continued)

(d) Transactions with key management personnel

Remuneration for key management personnel, including amounts paid to the Company's directors and supervisors as disclosed in note 12 and certain of the highest paid employees as disclosed in note 13, is as follows:

	2018 RMB'000	2017 RMB'000
Salaries and other emoluments	6,737	6,679
Retirement benefits	2,069	1,715
Discretionary bonuses	17,148	14,415
	25,954	22,809

(e) Contributions to defined contribution retirement plans

In accordance with the labour regulations of the PRC, the Group participates in various defined contribution retirement schemes organised by the municipal and provincial governments for its employees. The Group is required to make contributions to the retirement schemes at rates ranging from 13% to 27% of the salaries, bonuses and certain allowances of the employees. A member of the scheme is entitled to a pension equal to a fixed proportion of the salary prevailing at his or her retirement date. The Group has no other material obligation for the payment of pension benefits associated with these schemes beyond the annual contributions described above.

As at 31 December 2018 and 2017, there was no material outstanding contribution to post-employment benefit plans.

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

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

The related party transactions with CTC Group disclosed in note 45(a) above constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules. The applicable disclosures required by Chapter 14A of the Listing Rules are provided in the "Continuing Connected Transactions" section to the annual report.

46. SEGMENT REPORTING

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

For the year ended 31 December 2018

47. SUBSIDIARIES

The following list contains only the particulars of subsidiaries at 31 December 2018 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 2018 Directly %	31 December 2017 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	RMB876 million	Provision of integrated telecommunications support services through its subsidiaries in Shanghai Municipality
Fujian Communications Services Company Limited	Limited Liability Company	The PRC	100	100	RMB281 million	Provision of integrated telecommunications support services through its subsidiaries in Fujian Province
Hubei Communications Services Company Limited	Limited Liability Company	The PRC	100	100	RMB297 million	Provision of integrated telecommunications support services through its subsidiaries in Hubei Province
Jiangsu Communications Services Company Limited	Limited Liability Company	The PRC	100	100	RMB578 million	Provision of integrated telecommunications support services through its subsidiaries in Jiangsu Province
Anhui Communications Services Company Limited	Limited Liability Company	The PRC	100	100	RMB420 million	Provision of integrated telecommunications support services through its subsidiaries in Anhui Province
Jiangxi Communications Services Company Limited	Limited Liability Company	The PRC	100	100	RMB200 million	Provision of integrated telecommunications support services through its subsidiaries in Jiangxi Province
Hunan Communications Services Company Limited	Limited Liability Company	The PRC	100	100	RMB886 million	Provision of integrated telecommunications support services through its subsidiaries in Hunan Province
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

For the year ended 31 December 2018

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		Issued and paid up capital	Principal activities
			31 December 2018 Directly %	31 December 2017 Directly %		
Chongqing Communications Services Company Limited	Limited Liability Company	The PRC	**100**	100	RMB209 million	Provision of integrated telecommunications support services through its subsidiaries in Chongqing Municipality
Sichuan Communications Services Company Limited	Limited Liability Company	The PRC	**100**	100	RMB798 million	Provision of integrated telecommunications support services through its subsidiaries in Sichuan Province
Guizhou Communications Services Company Limited	Limited Liability Company	The PRC	**100**	100	RMB131 million	Provision of integrated telecommunications support services through its subsidiaries in Guizhou Province
Yunnan Communications Services Company Limited	Limited Liability Company	The PRC	**100**	100	RMB238 million	Provision of integrated telecommunications support services through its subsidiaries in Yunnan Province
Shaanxi Communications Services Company Limited	Limited Liability Company	The PRC	**100**	100	RMB145 million	Provision of integrated telecommunications support services through its subsidiaries in Shaanxi Province
Gansu Communications Services Company Limited	Limited Liability Company	The PRC	**100**	100	RMB129 million	Provision of integrated telecommunications support services through its subsidiaries in Gansu Province
Qinghai Communications Services Company Limited	Limited Liability Company	The PRC	**100**	100	RMB68 million	Provision of integrated telecommunications support services through its subsidiaries in Qinghai Province
Xinjiang Communications Services Company Limited	Limited Liability Company	The PRC	**100**	100	RMB195 million	Provision of integrated telecommunications support services through its subsidiaries in Xinjiang Uygur Autonomous Region
China International Telecommunication Construction Corporation	Limited Liability Company	The PRC	**100**	100	RMB550 million	Provision of integrated telecommunications support services through its subsidiaries in Northern China Provinces
China Communications Services International Limited	Limited Liability Company	Hong Kong	**100**	100	HKD846.87 million	Provision of integrated telecommunications support services through its subsidiaries in Hong Kong

For the year ended 31 December 2018

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 2018 Directly %	31 December 2017 Directly %	Issued and paid up capital	Principal activities
Zhongshutong Information Co., Ltd.	Limited Liability Company	The PRC	**60.38**	60.38	RMB120 million	Provision of integrated telecommunications support services
China Comservice Software Tech. Co., Ltd	Limited Liability Company	The PRC	**60**	60	USD25 million	Provision of integrated telecommunications support services
Ningxia Hui Autonomous Region Communications Industrial Services Company Limited	Limited Liability Company	The PRC	**100**	100	RMB106 million	Provision of integrated telecommunications support services through its subsidiaries in Ningxia Hui Autonomous Region
Shandong Communications Services Company Limited	Limited Liability Company	The PRC	**100**	100	RMB100 million	Provision of integrated telecommunications support services in Shandong Province
Sino-British Submarine System Co., Ltd.	Limited Liability Company	The PRC	**51**	51	RMB327 million	Provision of submarine cable installation and other related services
Hainan Communications Services Company Limited	Limited Liability Company	The PRC	**100**	100	RMB141 million	Provision of integrated telecommunications support services through its subsidiaries in Hainan Province
China Comservice Supply Chain Management Company Ltd.	Limited Liability Company	The PRC	**100**	100	RMB929 million	Provision of integrated telecommunications support services
Inner Mongolia Autonomous Region Communications Services Company Limited	Limited Liability Company	The PRC	**100**	100	RMB5 million	Provision of integrated telecommunications support services in Inner Mongolia Autonomous Region
Comservice Capital Holding Company Limited	Limited Liability Company	The PRC	**100**	100	RMB500 million	Management of Group capital

Sino-British Submarine System Co., Ltd., China Comservice Software Tech. Co., Ltd., and Zhongshutong Information Co., Ltd. are non-wholly owned subsidiaries of the Group. The Group's cumulative non-controlling interest is RMB498 million as at 31 December 2018 (2017: RMB491 million). The non-controlling interests are individually and in aggregate not material to the Group's financial condition or results of operation for both years.

For the year ended 31 December 2018

48. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	31 December 2018 RMB'000	31 December 2017 RMB'000
Non-current assets		
Property, plant and equipment, net	17,230	20,316
Construction in progress	36,028	23,951
Other intangible assets	96,909	108,359
Investments in subsidiaries	13,572,534	12,772,534
Interests in associates and joint ventures	28,284	24,600
Other non-current assets	750,000	–
Total non-current assets	14,500,985	12,949,760
Current assets		
Inventories	329	333
Prepayments and other current assets	2,304,791	2,861,360
Cash and cash equivalents	228,791	505,624
Total current assets	2,533,911	3,367,317
Total assets	17,034,896	16,317,077
Current liabilities		
Accrued expenses and other payables	83,320	74,414
Income tax payable	3,572	1,942
Total current liabilities	86,892	76,356
Net current assets	2,447,019	3,290,961
Total assets less current liabilities	16,948,004	16,240,721
Total liabilities	86,892	76,356
Equity		
Share capital	6,926,018	6,926,018
Reserves	10,021,986	9,314,703
Total equity	16,948,004	16,240,721
Total liabilities and equity	17,034,896	16,317,077

For the year ended 31 December 2018

48. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (continued)

The movements of shareholders' equity of the Company are as follows:

	Share capital RMB'000 (note 40)	Share premium RMB'000	Capital reserve RMB'000	Statutory surplus reserve RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2017	6,926,018	4,529,310	1,966,293	951,760	1,785,234	16,158,615
Profit for the year	–	–	–	–	994,955	994,955
Distribution of dividend (see note 14(b))	–	–	–	–	(912,849)	(912,849)
Appropriation	–	–	–	99,496	(99,496)	–
At 31 December 2017	6,926,018	4,529,310	1,966,293	1,051,256	1,767,844	16,240,721
Profit for the year	**–**	**–**	**–**	**–**	**1,684,544**	**1,684,544**
Distribution of dividend (see note 14(b))	**–**	**–**	**–**	**–**	**(977,261)**	**(977,261)**
Appropriation	**–**	**–**	**–**	**168,454**	**(168,454)**	**–**
At 31 December 2018	**6,926,018**	**4,529,310**	**1,966,293**	**1,219,710**	**2,306,673**	**16,948,004**

According to the Company's Articles of Association, the amount of retained earnings available for distribution to equity shareholders of the Company is the lower of the amount determined in accordance with the PRC Accounting Rules and Regulations and the amount determined in accordance with IFRSs after the appropriation to statutory surplus reserve as detailed in notes to the consolidated statement of changes in equity.

For the year ended 31 December 2018

49. POSSIBLE IMPACT OF AMENDMENTS TO STANDARDS, NEW STANDARDS AND INTERPRETATION ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING YEAR ENDED 31 DECEMBER 2018

Up to the date of issue of these consolidated financial statements, the IASB has issued the following amendments to standards, new standards and interpretation which are not yet effective for the year ended 31 December 2018 and which have not been adopted in these consolidated financial statements.

IFRS 16	Leases[1]
IFRS 17	Insurance Contracts[2]
IFRIC 23	Uncertainty over Income Tax Treatments[1]
Amendments to IFRS 3	Definition of a Business[4]
Amendments to IFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to IAS 1 and IAS 8	Definition of Material[5]
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to IFRSs	Annual Improvements to IFRS Standards 2015-2017 Cycle[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after 1 January 2021
3 Effective for annual periods beginning on or after a date to be determined
4 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020
5 Effective for annual periods beginning on or after 1 January 2020

The Group is in the process of making an assessment of the impact that will result from adopting the amendments to standards, new standards and interpretation issued by the IASB which are not yet effective for the accounting period ended on 31 December 2018. Except for those described below, so far the Group believes that the adoption of these amendments to standards, new standards and interpretation is unlikely to have a significant impact on its financial position and the results of operations.

For the year ended 31 December 2018

49. POSSIBLE IMPACT OF AMENDMENTS TO STANDARDS, NEW STANDARDS AND INTERPRETATION ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING YEAR ENDED 31 DECEMBER 2018 (continued)

IFRS 16 Leases

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede IAS 17 Leases and the related interpretation when it becomes effective.

IFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, IFRS 16 requires sales and leaseback transactions to be determined based on the requirements of IFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. IFRS 16 also includes requirements relating to subleases and lease modifications.

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents lease prepayments as investing cash flows in relation to leasehold lands for owned use while other operating lease payments are presented as operating cash flows. Under the IFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows and operating cash flows, respectively, upfront prepaid lease payments will continue to be presented as investing or operating cash flows in accordance to the nature, as appropriate.

Under IAS 17, the Group has already recognised lease prepayments for leasehold lands where the Group is a lessee. The application of IFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

Other than certain requirements which are also applicable to lessor, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of RMB1,302 million as disclosed in note 42. A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of IFRS 16.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group intends to elect the modified retrospective approach for the application of IFRS 16 as lessee and will recognise the cumulative effect of initial application to opening reserves without restating comparative information.

For the year ended 31 December 2018

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 2018 RMB'000	Accruals RMB'000	Financing cash flows RMB'000	Foreign exchange translation RMB'000	As at 31 December 2018 RMB'000
Borrowings (note 35)	326,518	–	132,963	11,444	470,925
Dividends payable	58,813	990,850	(1,013,058)	15,527	52,132
Others	–	5,615	(5,615)	–	–
	385,331	996,465	(885,710)	26,971	523,057

	As at 1 January 2017 RMB'000	Accruals RMB'000	Financing cash flows RMB'000	Foreign exchange translation RMB'000	As at 31 December 2017 RMB'000
Borrowings (note 35)	64,040	–	267,058	(4,580)	326,518
Convertible preference shares and preference shares	693,700	–	(659,658)	(34,042)	–
Dividends payable	83,967	924,615	(938,242)	(11,527)	58,813
Others	–	(28,958)	28,958	–	–
	841,707	895,657	(1,301,884)	(50,149)	385,331

51. EVENT AFTER THE REPORTING PERIOD

The Company, CTC and China Telecom Corporation Limited entered into an agreement on 22 June 2018, to jointly establish China Telecom Group Finance Co., Ltd., a non-banking financial institution, which is approved by China Banking and Insurance Regulatory Commission. The Company paid the capital subscribed of RMB750 million in 2018 and China Telecom Group Finance Co., Ltd. was legally established on 8 January 2019.

52. IMMEDIATE AND ULTIMATE HOLDING COMPANY

At 31 December 2018, the directors of the Company consider the immediate and ultimate holding company of the Group to be CTC, a state-owned enterprise established in the PRC. CTC does not produce financial statements available for public use.

FINANCIAL SUMMARY

(Amounts in thousands, except per share data)

	For the year ended 31 December				
	2018 RMB	2017 RMB	2016 RMB	2015 RMB	2014 RMB
Results					
Revenue from telecommunications infrastructure services	**57,359,436**	50,510,988	45,886,950	39,209,267	34,008,077
Revenue from business process outsourcing services	**35,102,822**	32,763,685	32,533,602	33,014,030	31,215,423
Revenue from applications, content and other services	**13,714,379**	11,297,738	10,028,804	8,736,649	7,952,752
Total Revenues	**106,176,637**	94,572,411	88,449,356	80,959,946	73,176,252
Depreciation and amortization	**(466,096)**	(472,621)	(455,215)	(447,031)	(450,741)
Direct personnel costs	**(8,747,317)**	(8,647,493)	(8,316,693)	(8,731,020)	(8,892,965)
Materials costs	**(9,783,239)**	(9,327,654)	(8,281,024)	(7,799,871)	(6,662,691)
Direct costs of products distribution	**(4,629,177)**	(6,594,772)	(9,764,598)	(12,652,927)	(13,528,230)
Subcontracting charges	**(57,555,216)**	(46,858,020)	(41,016,647)	(31,811,771)	(25,763,190)
Operating lease charges and others	**(12,110,626)**	(10,459,491)	(8,925,014)	(8,129,685)	(7,196,732)
Cost of revenues	**(93,291,671)**	(82,360,051)	(76,759,191)	(69,572,305)	(62,494,549)
Gross profit	**12,884,966**	12,212,360	11,690,165	11,387,641	10,681,703
Other operating income	**1,244,889**	1,014,492	943,021	854,051	805,579
Selling, general and administrative expenses	**(10,611,071)**	(9,885,426)	(9,501,481)	(9,306,152)	(8,777,028)
Other operating expenses	**(173,722)**	(126,278)	(95,232)	(109,170)	(84,638)
Finance costs	**(25,179)**	(47,119)	(46,667)	(51,392)	(20,430)
Share of profits of associates and joint ventures	**105,421**	63,782	66,095	49,985	25,700
Profit before tax	**3,425,304**	3,231,811	3,055,901	2,824,963	2,630,886
Income tax	**(497,405)**	(482,733)	(502,706)	(487,446)	(463,088)
Profit for the year	**2,927,899**	2,749,078	2,553,195	2,337,517	2,167,798
Attributable to:					
Equity shareholders of the Company	**2,901,324**	2,714,213	2,536,249	2,334,412	2,150,258
Non-controlling interests	**26,575**	34,865	16,946	3,105	17,540
Profit for the year	**2,927,899**	2,749,078	2,553,195	2,337,517	2,167,798
Basic earnings per share (RMB)	**0.419**	0.392	0.366	0.337	0.310

(Amounts in thousands, except per share data)

	At 31 December				
	2018 RMB	2017 RMB	2016 RMB	2015 RMB	2014 RMB
Financial position					
Property, plant and equipment, net	**4,384,700**	4,190,375	4,215,616	4,331,796	4,538,844
Other non-current assets	**8,027,467**	4,199,679	3,837,012	4,212,497	4,014,077
Inventories	**2,253,027**	2,275,735	2,221,334	2,883,989	2,420,898
Accounts and bills receivable, net	**18,668,024**	30,370,500	29,362,985	27,520,829	27,441,198
Contract assets, net	**15,664,758**	–	–	–	–
Prepayments and other current assets	**8,646,123**	11,815,129	6,740,547	6,873,074	5,833,187
Financial assets at fair value through profit or loss	**5,046,898**	1,262,514	–	–	–
Cash and cash equivalents	**16,106,246**	13,266,631	13,324,079	9,535,851	7,313,515
Restricted deposits	**2,128,757**	3,354,288	2,892,408	2,555,290	1,199,411
Total assets	**80,926,000**	70,734,851	62,593,981	57,913,326	52,761,130
Interest-bearing borrowings	**462,003**	308,876	46,697	177,005	246,818
Accounts and bills payable	**28,279,533**	24,600,681	20,399,409	19,699,385	18,815,568
Contract liabilities	**8,648,060**	–	–	–	–
Receipts in advance for contract work	**–**	4,997,284	4,046,097	2,911,542	1,578,088
Accrued expenses and other payables	**9,017,427**	11,320,729	9,730,662	8,691,602	7,424,966
Income tax payable	**323,514**	339,393	351,647	309,261	312,796
Non-current liabilities	**1,366,602**	348,237	971,687	914,922	839,707
Total liabilities	**48,097,139**	41,915,200	35,546,199	32,703,717	29,217,943
Equity attributable to equity shareholders of the Company	**32,331,323**	28,329,098	26,573,429	24,760,813	23,029,873
Non-controlling interests	**497,538**	490,553	474,353	448,796	513,314
Total equity	**32,828,861**	28,819,651	27,047,782	25,209,609	23,543,187
Total liabilities and equity	**80,926,000**	70,734,851	62,593,981	57,913,326	52,761,130

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