中国通信服务
CHINA COMSERVICE

ANNUAL REPORT 2020

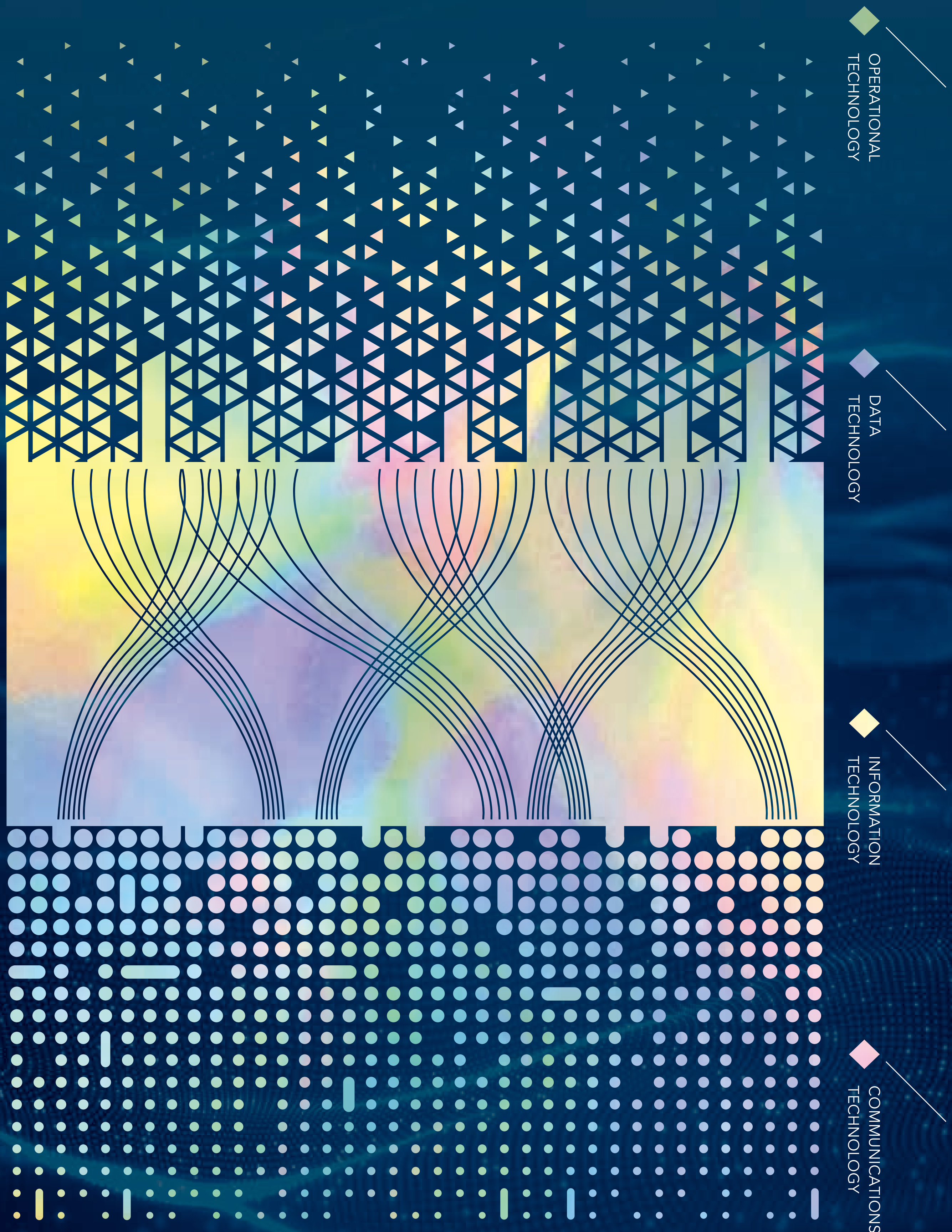
China Communications Services Corporation Limited

Stock code: 552

NEW GENERATION

INTEGRATED SMART SERVICE PROVIDER

DEVELOPMENT OF SOCIAL DIGITALIZATION, CYBERIZATION, AND INTELLIGENTIZATION IS EXPEDITING



COVER STORY

The development and popularization of the new generation information technology have promoted the deep integration of the digital economy and the real economy, and the acceleration of the digital transformation of society has brought important development opportunities. The Company adheres to the strategic position as a "New Generation Integrated Smart Service Provider", plays the part in "4 Roles", and provides integrated comprehensive smart solutions to our customers, thus creating greater value for the country, society, industries, and customers.

As the largest telecommunications infrastructure service provider in China with over 60 years of service experience and comprehensive service capabilities, we are committed to building world-class network and we provide high-quality services of digital infrastructure construction for society, government and industries to meet the higher demand of the customers in the new technology era featuring informatization, digitalization and intelligentization.

BUILDER OF DIGITAL INFRASTRUCTURE

COMMUNICATIONS TECHNOLOGY

LEADING POSITION

- WORLD-CLASS
- THE LARGEST IN CHINA
- MORE THAN 60 YEARS

TELECOMMUNICATIONS INFRASTRUCTURE SERVICES

- DESIGN
- CONSTRUCTION
- SUPERVISION

INFORMATION INFRASTRUCTURE

- 4G/5G NETWORK
- BROADBAND NETWORK
- DATA CENTER
- CLOUD
- IoT

NETWORK SECURITY

- SECURITY SERVICES
- SECURITY PRODUCTS
- SECURITY SYSTEM INTEGRATION

PROVIDER OF SMART PRODUCTS AND PLATFORMS

INFORMATION TECHNOLOGY

SERVICE PROVIDER OF DATA PRODUCTION

DATA TECHNOLOGY

INNOVATIVE CAPABILITIES

PLATFORMS

CCS INNOVATION MIDDLE PLATFORM

CCS IoT PLATFORM

NETWORK SECURITY PLATFORM

SMART CITY

SMART PARK

SMART GOVERNMENT SERVICES

SMART TOWN

SMART HIGHWAY

SMART AIRPORT

SMART EMERGENCY MANAGEMENT

SMART PROCURATORIAL SERVICES

SMART JUSTICE

SMART SPORT

SMART CAMPUS

SMART WATER CONSERVANCY

SMART EDUCATION

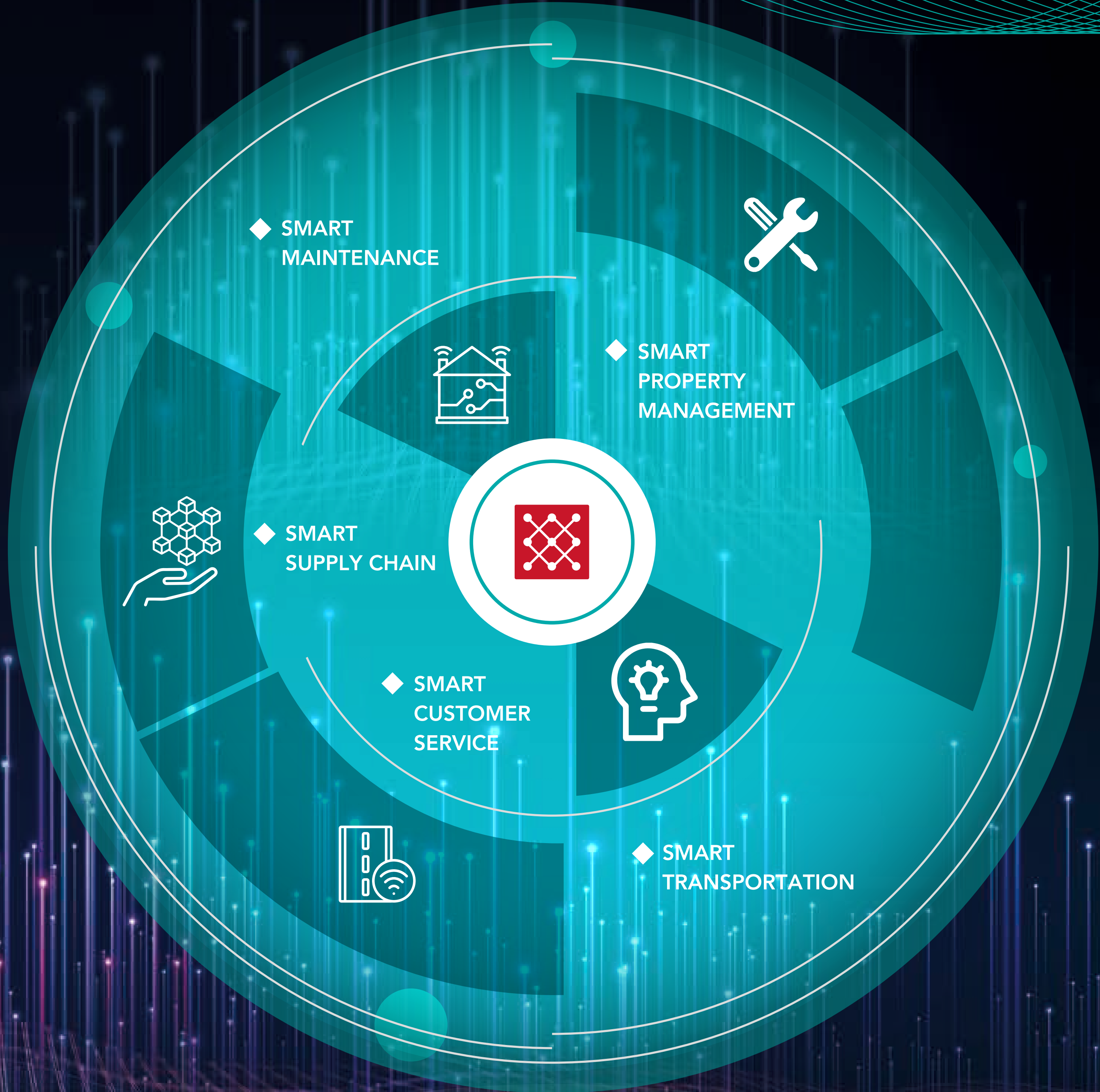
SMART CUSTOMER SERVICE

Based on its innovative capabilities platforms centered on cloud, IoT, and network security service, the Group elevates the information technology and software service capabilities and continues the iterative upgrade of its industrial smart solutions by leveraging its "Synergistic + Dispersed" research and development mechanism and strengthening of ecosystem alliances, which enhances its internal coordination of resources and the cooperation with its strategic partners.

GUARD OF SMART OPERATION

OPERATIONAL TECHNOLOGY

In light of the strong growth in demand for network operation and maintenance, and network security services in the era of Internet of Everything, we have the capabilities and resources to provide smart operation and emergency management support services to customers nationwide at provincial, city and county levels.



NEW OPPORTUNITIES

The development of the digital economy and smart society promotes the opportunities in digital transformation of industries, and the rapid development of New Infrastructure will also spark the new impetus for the continuous economic development. Leveraging the opportunities of its state-owned enterprises reform, the Group will continue to invest into research and development to enhance its service capabilities and quality, and emphasize on both its organic and external development, with a view to driving its sustainable development in future.

DIGITAL TRANSFORMATION

- DIGITAL UPGRADE OF TRADITIONAL INFRASTRUCTURE
- INTEGRATION OF NEW AND TRADITIONAL INFRASTRUCTURE
- DIGITAL TRANSFORMATION OF ENTERPRISES

NEW INFRASTRUCTURE

- 5G
- BIG DATA CENTERS
- INDUSTRIAL INTERNET

STATE-OWNED ENTERPRISE REFORM

- INTRODUCE STRATEGIC INVESTORS WITH SYNERGY AND COMPLEMENTARITY
- OPTIMIZE INCENTIVE MECHANISM AND GOVERNANCE STRUCTURE
- ACCELERATE TECHNOLOGICAL INNOVATION

The development of 5G promotes the deep integration of the communications industry with traditional industries, social governance and public services, and brings the new demands for infrastructure and service model upgrade. Customer needs have evolved from a single product and service to the need for integrated and customized full-cycle solutions.

The Group is positioned as a "New Generation Integrated Smart Service Provider", and as "Builder of Digital Infrastructure", "Provider of Smart Products and Plat-forms", "Service Provider of Data Production" and "Guard of Smart Operation", its "4T" integrated capabilities will fully meet the requirements from customers on informatization and digitalization construction in the new era.

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

CONTENTS

MILESTONES

2006

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

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

2007

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

2008

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

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

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

2009

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

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

NOVEMBER
The Company and Accenture International SARL established a joint venture, China Comservice Software Tech. Co., Ltd.

2010

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

2011

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

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

MILESTONES

2012

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

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

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

2013

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

2014

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

2015

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

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

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

MILESTONES

2016

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

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

2017

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

2018

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

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

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

2019

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

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

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

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

MILESTONES

2020

JANUARY TO FEBRUARY

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

JULY

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

SEPTEMBER

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

NOVEMBER

The Company ranked 5th in the "100 Most Competitive Software & IT Service Enterprises 2020" coordinated by China Information Technology Industry Federation for two consecutive years.

DECEMBER

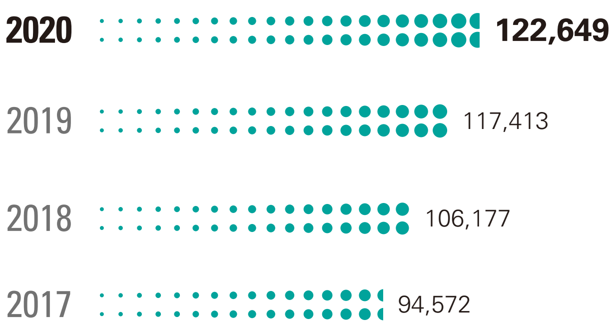
The Company was awarded the title of "Advanced Group in Fighting against COVID-19 in the Industry and Information Technology System" by the Ministry of Industry and Information Technology.

The Company established the China Comservice General Research Institute.

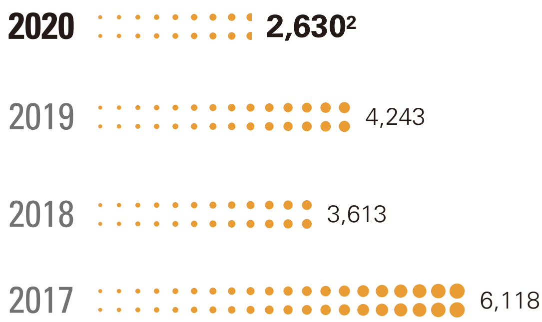
FINANCIAL HIGHLIGHTS

	2020	2019	Change
Revenues (RMB million)	**122,649**	117,413	4.5%
Profit attributable to equity shareholders of the Company (RMB million)	**3,081**	3,049	1.1%
Free cash flow[1] (RMB million)	**2,630**	4,243	-38.0%[2]
Basic earnings per share (RMB)	**0.445**	0.440	1.1%
Total dividend per share (RMB)	**0.1602**	0.1585	1.1%
of which: Final dividend per share (RMB)	**0.1335**	0.1321	–
Special dividend per share (RMB)	**0.0267**	0.0264	–

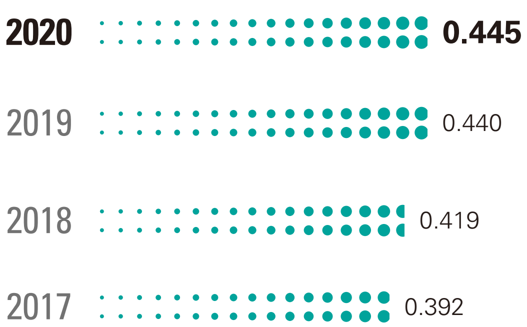
REVENUES
(RMB million)



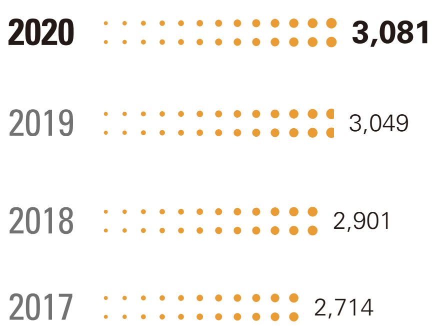
FREE CASH FLOW
(RMB million)



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 amortization – Changes in working capital – Capital expenditure

2 The Company paid an amount of RMB2,527 million in 2020 for the property acquisition which serves as the bases for the smart production, operation and research and development of the Group. Excluding such factor, free cash flow in 2020 was RMB5,157 million, increased by 21.5% year-on-year.

COMPANY PROFILE AND CORPORATE INFORMATION

China Communications Services Corporation Limited (the "Company") is a leading service provider in the informatization sector in the PRC that adheres to the position as a "New Generation Integrated Smart Service Provider", plays the part in "4 Roles"[1] and commits to "Building Smart Society, Boosting Digital Economy, Serving a Good Life". The Group provides integrated comprehensive smart solutions for the informatization and digitalization sectors, including telecommunications infrastructure services, business process outsourcing services as well as applications, content and other services. Our shareholders include China Telecommunications Corporation, China Mobile Communications Group Co., Ltd., China United Network Communications Group Company Limited and China National Postal and Telecommunications Appliances Co., Ltd. Meanwhile, all the three telecommunications operators in the PRC and China Tower Corporation Limited are our customers. Domestic non-telecom operator represented by the customers from government, transportation, electricity, park, Internet & IT, is currently the largest customer group of the Company. At the same time, the Company provides services to overseas customers. Our service coverage is spread across the nation and we have also extended our business to dozens of countries and regions globally.

On 8 December 2006, the H shares issued by the Company were successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited. As at 31 December 2020, 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 2020, the Company won various awards, including: in the "10th Asian Excellence Recognition Awards" held by *Corporate Governance Asia*, a journal on corporate governance in Asia, the Company was awarded "Best CEO", "Best CFO" and "Best Investor Relations". In "The Asset ESG Corporate Awards 2020" held by *The Asset*, a financial magazine in Asia, the Company was honored with "Titanium Award". In *Institutional Investor's* 2020 "All-Asia Executive Team" Rankings, the Company was named as "Honored Companies in Asia" for the first time; in the telecommunications sector, the Company also ranked third in the "Best CEO" in the overall ranking, and the third in "Best CFO", "Best IR Program", "Best IR Team" and "Best ESG" in the sell-side ranking in the sector. In the 5th "Golden Hong Kong Equities Awards Ceremony", the Company was awarded the "The Best TMT Company". The Company also won the award of "The Best Investment Value Listed Company" in the 10th "China Securities Golden Bauhinia Awards" organized by Hong Kong Ta Kung Wen Wei Media Group Limited. In 2020, the Company ranked 86th in the "2020 FORTUNE China 500" published by *FORTUNE China* and ranked 1,488th in the "2020 Forbes Global 2000 – The World's Largest Public Companies" by *Forbes*.

The Company's industry influence remarkably improved in recent years. The Company ranked 5th in "100 Most Competitive Software & IT Service Enterprises 2020" for two consecutive years. In 2020, CCS IoT Platform won the honor of "2020 Best Digitalization Product in PRC" granted by China International Fair for Trade in Services and "OFweek 2020 Most Popular Development Platform in China IoT Industry" jointly granted by Industry and Information Technology Bureau of Shenzhen Municipality and OFweek.

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

HONORARY CHAIRMAN
Mr. Wang Xiaochu

BOARD OF DIRECTORS
Executive directors
Mr. Zhang Zhiyong (Chairman)
Mr. Huang Xiaoqing
Ms. Zhang Xu

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

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

BOARD COMMITTEES
Strategy Committee
Mr. Zhang Zhiyong (Committee Chairman)
Mr. Huang Xiaoqing
Mr. Gao Tongqing
Mr. Mai Yanzhou
Mr. Lv Tingjie

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

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

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

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

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

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

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

REGISTERED NAME (IN ENGLISH)
China Communications Services Corporation Limited

LEGAL REPRESENTATIVE
Mr. Huang Xiaoqing

COMPANY SECRETARY
Mr. Chung Wai Cheung, Terence

INTERNATIONAL AUDITORS
Deloitte Touche Tohmatsu
Registered Public Interest Entity Auditors

LEGAL ADVISORS
Freshfields Bruckhaus Deringer
King & Wood Mallesons

H SHARE REGISTRAR
Computershare Hong Kong Investor Services Limited
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Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

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STOCK CODE
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CHAIRMAN'S STATEMENT

In 2020, facing the serious challenges from the novel coronavirus pandemic, the Group adhered to the strategic position as a "New Generation Integrated Smart Service Provider" and played the strengths as the "Builder of Digital Infrastructure", "Provider of Smart Products and Platforms", "Service Provider of Data Production" and "Guard of Smart Operation", capturing the important opportunities from social digitalization, thus achieving stable operating results.

Zhang Zhiyong
Chairman

Dear Shareholders,

In 2020, the novel coronavirus (the "COVID-19") pandemic had a significant impact on the overall social economic development, and the Group encountered the greatest pressure and challenges since its listing. Facing the adverse impact of the pandemic, the Group coordinated resources of every level and devoted itself to the battle against the pandemic. When the pandemic situation was effectively controlled in China, the Group actively promoted the resumption of work and production in an orderly manner, seized the opportunities of 5G, New Infrastructure and social digitalization, and accelerated market expansion, innovation and transformation, thus realizing a positive growth in total revenues and net profit for the full year and overcoming the severe impact of the pandemic to achieve favourable operating results.

OPERATING PERFORMANCE

In 2020, the pandemic expedited the development of social digitalization, cyberization, and intelligentization. Riding on the social development trend and the change of market demand, the Group provided customers with integrated comprehensive smart services and realized favourable operating results. Total revenues of the year reached RMB122,649 million, representing a year-on-year growth of 4.5%. Profit attributable to equity shareholders of the Company amounted to RMB3,081 million, representing a year-on-year growth of 1.1%, and free cash flow[1] reached RMB2,630 million.

During the "13th Five-Year Plan" period, the Group adhered to the overall roadmap of "value-driven, seeking steady yet progressive growth and high-quality development" and achieved good development results. In 2020, the Group's total revenues and profit attributable to equity shareholders grew by 51.5% and 32.0%, respectively, as compared with those in 2015. The Group resolutely advanced on innovation and transformation, enhanced the smart service capabilities, strengthened the development of new customers and new businesses, and continuously optimized the revenue structure by customer and business. Among them, the revenue contribution from domestic non-telecom operator (the "domestic non-operator") customers to the total revenues reached 40.4%, which increased by 12.1 percentage points from the level in 2015 and became the Group's largest customer group[2]; the revenue contribution from applications, content and other ("ACO") services to the total revenues was 14.8%, which increased by 4.0 percentage points from the level in 2015, demonstrating a notable achievement of innovation and transformation.

DIVIDEND

The Board has proposed to distribute a final dividend of RMB0.1335 per share for the financial year ended 31 December 2020, representing a dividend payout ratio of 30%. Besides, in view of the Group's solid operating results and favourable cash flow level for the full year, the Board has proposed to distribute a special dividend of RMB0.0267 per share for 2020. Taking into consideration of the above factors, the Company's total dividend for 2020 is RMB0.1602 per share, representing a total dividend payout ratio of 36%.

1 Free cash flow = Profit for the year + Depreciation and amortization – Changes in working capital – Capital expenditure
2 Customers here are classified into four categories, including the domestic non-operator customers, China Telecom, other domestic telecommunications operator customers and overseas customers.

MARKET DEVELOPMENT

In 2020, the Group captured the accelerated demand for digital transformation from the society and industries as driven by the pandemic, built up its core capabilities, and continuously focused on the market development of industrial customers. Revenue from the domestic non-operator market of the year recorded a year-on-year growth of 18.8%, maintaining a growth of over 18% for three consecutive years; its contribution to the total revenues rose to 40.4%, which increased by 4.9 percentage points from last year and remained as the largest contributor to revenue growth among the customer groups. Benefiting from the Group's forward-looking market research and judgment and consistent strategy execution during the "13th Five-Year Plan" period, the domestic non-operator market sustained a thriving development and effectively helped the Group to overcome difficulties amid the pandemic and realize positive results growth.

In 2020, the Group endeavoured to support the 5G network construction of domestic telecommunications operators. Due to the pandemic in the first half of the year, the commencement, implementation and delivery and revenue recognition of relevant projects were affected to a larger extent. Revenue from the domestic telecommunications operator market recorded a year-on-year decrease of 3.4%, and the contribution to the total revenues was 57.1%, representing a decline of 4.6 percentage points as compared with the same period of the last year. Persisting in the strategy of "CAPEX and OPEX + Smart Applications"[3] and leveraging the edges on its services, the Group explored market demand to provide differentiated smart application products and solutions and fully supported the transformation and upgrade of domestic telecommunications operators. Both the Group's revenue from Core Business Process Outsourcing ("BPO") services[4] and revenue from ACO services of domestic telecommunications operator market recorded relatively good development and supported the overall performance of such market.

In 2020, the pandemic outbreak around the world had a serious impact on the contract signing and commencement of the Group's overseas projects. Revenue from the overseas market of the year recorded a year-on-year decrease of 5.2%, and the contribution to the total revenues was 2.5%. While strengthening the pandemic prevention and control in the overseas market, the Group proactively utilized digital measures such as "remote" and "online" to promote the resumption of work and production as well as market expansion, thus achieving breakthroughs of overseas businesses in electricity and telecommunications operator OPEX, etc.

BUSINESS DEVELOPMENT

In 2020, the Group offered strong support to the construction demand for telecommunications network from domestic and overseas telecommunications operators as well as the demand for intelligentization construction from non-operator customers in other industries, and achieved breakthroughs in the aspects such as the construction of 5G network and data centers. Revenue from the telecommunications infrastructure ("TIS") services of the year recorded a year-on-year growth of 3.8%.

3 "CAPEX and OPEX + Smart Applications": CAPEX refers to the capital expenditure of domestic telecommunications operators while OPEX refers to the operating expenditure of domestic telecommunications operators.

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

In 2020, the Group continued to enhance the professional and integrated service capabilities of BPO services, established the synergistic and efficient, full-process collaborative operation system for supply chain services, and leveraged the advantages of its full life cycle service. The above measures conduced to the notable achievement in new customer development and drove the Group's revenue from the BPO services to grow by 1.7% year-on-year, and revenue from the Core BPO services to grow by 2.2% year-on-year.

In 2020, as the pandemic sparked the booming demand of upgrading social digitalization, the Group endeavoured to develop smart businesses represented by emergency management, smart city and industrial smart solutions by seizing the opportunities of New Infrastructure and digital transformation in the society, strengthening its self-developed capabilities in research and development, and expanding ecological cooperation. Revenue from the ACO services recorded a year-on-year growth of 13.2%, and the contribution to the total revenues was 14.8%. The contribution from ACO services to the overall revenue growth was 40.5%, which increased significantly by 19.4 percentage points as compared with the same period of the last year.

REFORM AND INNOVATION

The development and popularization of new generation information technology greatly promotes the deep integration of digital economy and real economy, and customer demands and industry development are also going through profound changes. In 2020, in view of the mega trend and the new requirements of digital transformation and upgrade of the society, the Group conformed to the trend, identified and adapted to changes, made early deployments and continuously promoted its reform and innovation with a view to enhancing its high-quality development capability.

Focusing on the opportunities of New Infrastructure represented by 5G, the Group undertook the 5G construction projects with the general contracting model from domestic telecommunications operator customers, and elevated the capabilities and optimized the ecosystem of general contracting, thus satisfying the general contracting demand for digital infrastructure from industrial customers and creating greater customer value.

The Group optimized its organizational structure in the headquarters by flattening the layers to improve the efficiency in strategy execution and communications. The Group strengthened the research and development and resource allocation by establishing China Comservice General Research Institute in order to build an integrated technology research and development mechanism which is vertically coordinated and horizontally connected, enabling it to respond rapidly to market changes and improve the capabilities on market research and judgment and project delivery. The Group also acquired a property as its integrated bases for the production and operation of smart services to support technological research and development and smart product showcase, improve the operation synergy and efficiency, as well as building up the brand image of "New Generation Integrated Smart Service Provider".

The Group actively promoted the deepened reform and sought to introduce strategic investors with strategic synergy and complementarity in order to acquire new capabilities, develop new markets, and cultivate more diversified sources of income. During the year, the Board approved the mixed-ownership reform of China Comservice Supply Chain Management Company Ltd., a subsidiary of the Company, to boost the business development through capital measures. Meanwhile, the Group pursued the integration of finance solutions with industry development, and acquired stakes in new and high-technology enterprises in the fields of Internet of Things ("IoT") and network information security, with a view to further expanding the boundary of ecological cooperation.

SOCIAL RESPONSIBILITIES

In 2020, facing the COVID-19 pandemic, the Group proactively assumed social responsibilities, leveraged its capabilities and strengths to bolster the fight against the pandemic and resumption of work and production in the society with smart and technological measures. The Group rapidly completed the planning and construction of the 4G/5G wireless network for Huoshenshan Hospital and Leishenshan Hospital in Wuhan in three days, and provided module hospitals in Wuhan, Beijing Xiaotangshan Hospital, government departments and enterprises of various sectors with emergency communication construction for pandemic control. The Group undertook the construction of the Big Data platform of the Ministry of Industry and Information Technology of the PRC ("MIIT") and developed multiple smart applications for pandemic prevention. The Group's professional teams in the maintenance, property management and supply chain businesses devoted every effort to secure effective pandemic prevention in key places such as airports, schools and high-speed railway. Given the proactive contribution to pandemic prevention, the Group was honored the title of "Advanced Group in Fighting against COVID-19 in the Industry and Information Technology System" by MIIT.

The Group also fulfilled the social responsibilities by actively participating in charitable activities. It participated in the country's poverty alleviation through providing training, creating job opportunities and promoting industry development, and helped counties in poverty such as Jiuzhi County in Qinghai province to achieve entire poverty elimination.

CORPORATE GOVERNANCE

The Group attaches great importance to corporate governance, and the Board plays the role of carrying out market research and making judgments, steering strategies, deepening reform, making scientific decisions and preventing risks, and supports the management to continuously promote the Group's high-quality development. The Board and its committees, and the Supervisory Committee also give full play to their strengths and expertise to provide professional advice and decision support to the Company's affairs, including the strategic planning, major decisions, mechanism construction and compliance safeguard, so as to further reinforce the development quality and competitiveness of the Group.

The Group was widely recognized by the capital market for its high standard of corporate governance, and won multiple honors in 2020. The Group ranked 86th in *FORTUNE China's* "2020 FORTUNE China 500" and 1,488th in *Forbes'* "2020 Forbes Global 2000 – The World's Largest Public Companies". The Group was named as "Honored Companies in Asia" in *Institutional Investor's* 2020 "All-Asia Executive Team" Rankings for the first time. It was honored with "Titanium Award" in "The Asset ESG Corporate Awards 2020" held by *The Asset*, a financial magazine in Asia; "Best CEO" and "Best CFO" in the "10th Asian Excellence Recognition Awards" held by *Corporate Governance Asia*, and "The Best TMT Company" in the 5th "Golden Hong Kong Equities Awards Ceremony" organized by PRC leading financial media. In the 10th "China Securities Golden Bauhinia Awards" organized by *Ta Kung Wen Wei*, the Group won the award of "The Best Investment Value Listed Company".

OUTLOOK

In the past year, confronted with the unexpected COVID-19 pandemic, the Chinese Government united all the people across the country to fight through all difficulties and made significant achievements in pandemic prevention and control that China was the world's only major economy to achieve growth. During the "14th Five-Year Plan" period, China will enter a new stage of development characterized by long-term positive trend of macro-economy, acceleration of digital economy in the social development, expedition in the construction pace of New Infrastructure represented by 5G, data centers and the Industrial Internet, and quickening in the process of social governance upgrade.

Adhering to the strategic position as a "New Generation Integrated Smart Service Provider" and upholding the mission and vision of "Building Smart Society, Boosting Digital Economy, Serving a Good Life", the Group will start the new development stage, practise the new development philosophy, and formulate the new development landscape. The Group will seize the important opportunities of digital transformation arising from Cyberpower, Digital China and Smart Society, focus on key industries, regions and customers, and fully leverage its advantages of "Builder of Digital Infrastructure", "Provider of Smart Products and Platforms", "Service Provider of Data Production" and "Guard of Smart Operation", so as to continuously promote the high-quality development of the Group.

In the domestic non-operator market, the Group will target on the new infrastructure facilities, new urbanization constructions and national major construction, as well as seizing the important market opportunities such as Industrial Internet and network security, and focus on key industries and economically active areas, and continuously optimize and promote its key products including Smart City, Smart Government Services and Smart Game. The domestic non-operator market will become the primary driving force of the sustainable and healthy development of the Group.

In the domestic telecommunications operator market, while adhering to the "CAPEX and OPEX + Smart Applications" strategy and penetrating into the traditionally advantageous fields, the Group will actively develop new businesses such as 5G, data centers, cloud-network integration and network information security, accelerate its integration into the ecosystem of operator customers' transformation and upgrade, continuously improve its service capabilities and quality, thereby maintaining the leading position in the domestic telecommunications operator market and securing the fundamentals of its operation.

In the overseas market, on the premise of strict prevention of pandemic risk, the Group will seize the opportunities from the "Belt and Road" and the facilitation in trade and investment, leverage its "EPC+F+I+O+S"[5] model, focus on key regions such as Southeast Asia, the Middle East and Africa, further advance on the development of major projects and the breakthrough of industrial customer development, and continuously explore areas for new business development in the overseas market.

The Group will attach equal importance to its organic growth and external development. The Group will seek partners for strategic collaboration, industrial collaboration and business collaboration, and strengthen the cooperation with telecommunications operators and key industrial customers to explore and establish the collaborative and symbiotic ecosystem. Through investing in strategic businesses, the Group will build the link of business ecosystem. The Group will work with partners to jointly develop the social digitalization market on a market-oriented and win-win basis.

Last but not least, on behalf of the Board, I would like to express my sincere gratitude to our shareholders, customers and all sectors of society for their long-term attention and support, and deeply thank all of our employees for their continued dedication and hard work. I would also like to express my sincere gratitude to Mr. Si Furong, who resigned as an executive director during the year, for his outstanding contribution to the development of the Group during his tenure; and my sincere welcome to Mr. Huang Xiaoqing, Mr. Gao Tongqing and Mr. Mai Yanzhou who have joined the Board.

Zhang Zhiyong
Chairman

Beijing, PRC
29 March 2021

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

PRESIDENT'S STATEMENT

In 2020, the Group strived to build a baseline for pandemic prevention and promoted the resumption of work and production in an active and orderly manner; in the meantime, we accelerated the reform and innovation and improved service capabilities and quality, thus strengthening value creation to lay a solid foundation for the high-quality development of the Company in the future.

Huang Xiaoqing
President

Dear Shareholders,

I am very pleased to present the operating results of the Group in 2020.

FINANCIAL PERFORMANCE

In 2020, the COVID-19 pandemic had a severe impact on the overall social economic development and brought unprecedented pressure and challenges to the Group's operation. After the pandemic outbreak, the Group encountered great difficulty in the overall operation as most of the businesses could not be carried out normally in the first quarter while anti-pandemic expenses increased and rigid costs persisted. Facing the challenges of the pandemic, the Group united all the employees to overcome the adversity, put the lives of employees as the first priority, comprehensively and actively coordinated resources, exerted effort to build the baseline for pandemic prevention, and actively fulfilled the social responsibilities by participating in and supporting the pandemic prevention and control in the society. In the meantime, the Group captured the accelerated construction demand for New Infrastructure such as 5G, digital government, upgrade of smart city and emergency management system as driven by the pandemic, and leveraged its capabilities and advantages to actively promote the resumption of work and production, therefore ensuring that the operating results of the full year realized a positive growth.

In 2020, the Group's total revenues amounted to RMB122,649 million, representing a year-on-year increase of 4.5%. Gross profit amounted to RMB13,738 million, representing a year-on-year increase of 0.4%, and the gross profit margin was 11.2%, representing a year-on-year decrease of 0.5 percentage point. Having considered the needs for both the pandemic prevention and control and its business development, the Group applied multiple digital measures such as "online" and "remote" to control expenses and improve the operating and management efficiency. Selling, general and administrative expenses amounted to RMB11,826 million, representing a year-on-year increase of 2.9%, and accounting for 9.6% of total revenues, representing a year-on-year decrease of 0.2 percentage point. Profit attributable to equity shareholders of the Company amounted to RMB3,081 million, representing a year-on-year increase of 1.1%, with a net profit margin of 2.5%. Basic earnings per share amounted to RMB0.445. Free cash flow was RMB2,630 million.

BUSINESS DEVELOPMENT

In 2020, the Group's TIS services recorded a revenue of RMB67,165 million, representing a year-on-year increase of 3.8% and accounting for 54.8% of the total revenues. The Group seized the construction opportunities of New Infrastructure such as 5G, data centers and Industrial Internet, and dedicated itself to developing the domestic non-operator market. Revenue from TIS services of such market reached RMB25,759 million, representing a rapid year-on-year growth of 23.2% and being the largest driving force of revenue growth from TIS services. The pandemic affected the commencement and delivery of projects and revenue from TIS services of the domestic telecommunications operator market was RMB38,879 million, representing a year-on-year decrease of 5.5%.

In 2020, the Group's revenue from the BPO services amounted to RMB37,277 million, representing a year-on-year increase of 1.7% and accounting for 30.4% of the total revenues. With the Group's emphasis on value enhancement and further control of businesses with low gross profit, revenue from Core BPO services (excluding the products distribution business) recorded a year-on-year increase of 2.2%. As the Group has been strengthening the cultivation, consolidation and the synergistic operation of the supply chain businesses in recent years, the coverage of such business has not only covered telecommunications operator customers, but also expanded to the markets of government and equipment manufacturers. With the continuously enriching customer portfolio and enhancing business value, revenue from the supply chain business recorded a year-on-year growth of 5.3%. The Group continued to develop synergistic and efficient property management services, overcame the impact of the pandemic to promote the business and devoted resources to the frontline for pandemic control. Revenue from general facilities management (property management) of the year recorded a year-on-year increase of 3.1%.

In 2020, the Group's revenue from the ACO services amounted to RMB18,207 million, representing a rapid year-on-year increase of 13.2%, and the contribution to the total revenues was 14.8%, increased by 1.1 percentage points year-on-year. Among which, revenue from the system integration business recorded a year-on-year increase of 22.7%, and revenue from the software development and system support business recorded a year-on-year increase of 8.8%. The Group was further recognized by the industry for its software development service capabilities, and continued to rank 5th in the "100 Most Competitive Software & IT Service Enterprises 2020" coordinated by China Information Technology Industry Federation.

MARKET EXPANSION

In 2020, the Group's domestic non-operator market maintained a rapid growth momentum and recorded a revenue of RMB49,578 million, representing a year-on-year increase of 18.8%; the contribution to the total revenues was 40.4%, increased significantly by nearly 5 percentage points from the same period of the last year. With the "Consultant + Staff + Housekeeper"[6] unique service model and the "Platform + Software + Service"[7] advantageous capabilities, the Group further expanded the domestic non-operator market, and provided services to customers in the vertical industries with over 30 smart products in different fields, thus realizing mutual capabilities enabling among the traditionally advantageous TIS services and the technology-related ACO services in such market. In this market, revenue from TIS services and ACO services grew by 23.2% and 24.1% year-on-year respectively. In the project development, the Group seized the opportunity of data center construction and secured several data center general contracting projects with contract amount over RMB100 million each, achieving rapid business growth. Meanwhile, the Group focused on key sectors such as government, construction, Internet, electricity, transportation and sport game, and secured contracts for key projects represented by "Urban Power Supply and Distribution Upgrade Services in Guangzhou City", "Communications Pipeline and Facilities Relocation Project for Shanghai Rail Transit Airport Line", "Information Technology System Services for the Organizing Committee of the 6th Asian Beach Games", "Big Data Platform Phase II General Contracting Construction Project of Shanghai Lingang", "New Smart City General Contracting EPC Project of Lianjiang City in Guangdong Province" and "Weak Current Upgrade General Contracting EPC Project in the Road Construction of Yichun City Center". Leveraging its experience and advantages in communications support and network maintenance, the Group provided mobile communications support services to "Chang'e-5 probe" for lunar exploration, making contribution to the key national technology project. The healthy development of the domestic non-operator market supported the Group's favourable development momentum.

In 2020, owing to the pandemic outbreak at the beginning of the year, the Group's bidding and tendering process, construction and delivery and project settlement of relevant projects in the domestic telecommunications operator market were all behind schedule, which resulted in the volatile performance in such market. When the pandemic was largely under control and the situation became relatively stable in China, the Group actively seized the opportunities from network construction such as 5G, and utilized its advantageous capabilities in "CAPEX and OPEX + Smart Applications", with a view to minimizing the negative impact of the pandemic and maintaining the stable fundamentals of its operation. Revenue from the domestic telecommunications operator market reached RMB69,976 million, representing a year-on-year decrease of 3.4% and accounting for 57.1% of the total revenues. Among which, revenue from China Telecom amounted to RMB41,777 million, resuming a year-on-year growth of 2.8% for the full year, and the contribution to the total revenues was 34.1%. The aggregate revenue from domestic telecommunications operators other than China Telecom recorded a year-on-year decrease of 11.3%, and the contribution to the total revenues was 23.0%.

In 2020, the outbreak and persistence of the pandemic overseas had an impact on the development of the Group's overseas market. The Group's revenue from the overseas market amounted to RMB3,095 million, representing a year-on-year decrease of 5.2%, and the contribution to the total revenues was 2.5%. While implementing the effective overseas pandemic risk control, the Group proactively developed the business in a prudent manner, and made breakthroughs in the electricity industry in certain countries of the Middle East and Southeast Asia, and secured new contracts from operators of certain countries in Southeast Asia and Africa regarding communications tower maintenance business, thus expanding the source of revenue in the overseas market.

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

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

CAPABILITIES ENHANCEMENT

The Group closely followed new trends and new characteristics of the macro-economy and the industry development, continued to increase investment in research and development, developed smart products and enhanced service capabilities and quality to satisfy new demand of markets and customers.

In 2020, the Group began to undertake 5G construction projects of domestic telecommunications operators with the general contracting model, initiated the integration of multiple professional services and the business process re-engineering, improved the general contracting qualification and key capabilities, and built a team of over 1,900 project managers with general contracting capability. The Group gathered resources on developing the data center construction business and secured new contracts on data center construction totaling RMB11,500 million during the year.

The Group further increased its resources allocation to strengthen the research and development capabilities. In 2020, research and development expenses of the year amounted to RMB3,782 million, accounting for 3.1% of total revenues. Since 2018, the Group has cumulatively invested RMB9,856 million in research and development. In 2020, the Group established China Comservice General Research Institute and built the two-level research and development structure between the headquarters and the provincial companies, which coordinated the research and development management systems of core platforms such as Cloud and IoT. It continuously promoted and expanded the cloud application, and supported the construction of Chongqing Industrial Big Data Platform. CCS IoT Platform now connects to 1,500 products and 42 million terminals. Pilot programs of the maintenance cloud platform based on CCS IoT Platform have been launched in some provinces. In 2020, CCS IoT Platform won the honor of "2020 Best Digitalization Product in PRC" granted by China International Fair for Trade in Services and "OFweek 2020 Most Popular Development Platform in China IoT Industry" jointly granted by Industry and Information Technology Bureau of Shenzhen Municipality and OFweek.

The Group emphasized the construction of technology ecosystems, and has built relationships with more than 40 new and high-technology enterprises as ecological cooperation partners. Meanwhile, the Group cultivated the internal research and development power through organizing the innovation contest of "Incubating Future from the Cloud". By consolidating its internal scientific research resources, the Group endeavoured to develop the network information security business, and built a professional team of 1,600 network information security specialists.

PROSPECTS

In the future, the Group will start the new development stage, practise the new development philosophy and formulate the new development landscape. It will uphold the strategic position as a "New Generation Integrated Smart Service Provider", accelerate the reform and innovation, and strengthen the value creation to further promote the high-quality development.

In the domestic non-operator market, the Group will ride on the trend of digital upgrade in areas such as society, industries and governance, and focus on key sectors including government, construction, Internet, electricity and transportation as well as key regions including the Yangtze River Delta, the Guangdong-Hong Kong-Macao area, the Beijing-Tianjin-Hebei area and the Chengdu-Chongqing area, with a view to shaping the first-mover advantage by accelerating the business development of 5G, data centers and emergency management. The Group will deeply penetrate into the development in key industries, and promote its smart products and services including Smart City, Smart Government Services, Smart Park and Smart Highway, to satisfy customers' own demand for digital transformation and smart upgrade. The Group will continuously optimize the marketing system and enhance the synergy of marketing with its three-tier organizational structure. The Group will leverage the advantages of China Comservice General Research Institute in leading the planning, development and promotion for key industry products of strategic importance. We will strengthen the cooperation with domestic telecommunications operator customers to jointly develop the industrial customer market by complementing each other's strengths. The Group will also continuously enlarge the revenue scale from the domestic non-operator market by improving the service capabilities and development quality to consolidate the foundation of development.

PRESIDENT'S STATEMENT

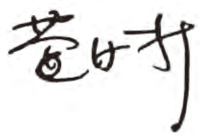
In the domestic telecommunications operator market, by adhering to its "CAPEX and OPEX + Smart Applications" development strategy, the Group will further integrate into the ecosystem of our customers and seize the opportunities of 5G, big data and cloud-network integration by undertaking 5G network construction with the general contracting model, vigorously developing the data center construction business, and providing customers with services related to "Cloud + 5G + DICT" to support their transformation and upgrade. Meanwhile, the Group will deepen the development of maintenance, property management and supply chain businesses to expand the revenue scale and its share from operators' OPEX business. With all these measures, the Group will endeavour to maintain stable fundamentals of the domestic telecommunications operator market.

In the overseas market, on the premise of effective pandemic prevention and control, the Group will seize the opportunities arising from the advancement of the "Belt and Road" and actively integrate into the "new development paradigm of dual-circulation with domestic and international development reinforcing each other", exporting the capabilities and experience gained from serving domestic customers overseas through capabilities enabling and leveraging the "EPC+F+I+O+S" model, with a view to achieving greater breakthroughs in industries including transportation, electricity and education. The Group will continue to enhance the collaboration with domestic telecommunications operators and "Go Abroad" Chinese enterprises to support their overseas IDC construction to further expand the source of revenue in the overseas market, improve the development quality and accelerate the breakthrough in transformation.

The Group will improve the efficiency of capital operation, and take the opportunities arising from the State-owned Enterprise Reform "Double-hundred Action" to bring in strategic investors with strategic synergy and complementarity and to promote diversification in ownership structure. The Group will further advance on the mixed-ownership reform of China Comservice Supply Chain Management Company Ltd. to boost the business development through capital measures. We will also explore the investment in high-technology enterprises primarily engaged in intelligent hardware and big data analysis so as to reinforce product and technological capabilities, and also explore the "F+EPC"[8] model to drive the development of sizable projects for the New Infrastructure, with an aim to expediting the development pace of the Group.

For capabilities enhancement, the Group will take the 5G general contracting as the standard, and continue to upgrade its capability and enlarge the business scope of the general contracting projects by extending such model to IDC general contracting, ICT general contracting, cross-industry general contracting and overseas general contracting. The Group will promote the research and development of its core platforms such as Cloud, CCS IoT and CCS Network Information Security and migrate its products to cloud so as to facilitate the sharing of general competence, iteration of industry solutions, and build the integrated and synergistic research and development capabilities. Through integration of its professionals, qualification enhancement and synergistic operation, the Group could improve the professional capabilities of its businesses. We will center on the market demand, strengthen the training and selection of our talent and build the expert team to further consolidate our strength for sustainable development.

2021 marks the first year of the "14th Five-Year Plan". As the "New Generation Integrated Smart Service Provider", the Group will take reform and innovation as the core impetus, follow the path of high-quality development to enhance value creation, integrate its own development with the development trend of the country, the society, industries and customers, and devote every effort to turn a new page of enterprise development in the new era.



Huang Xiaoqing
President

Beijing, PRC
29 March 2021

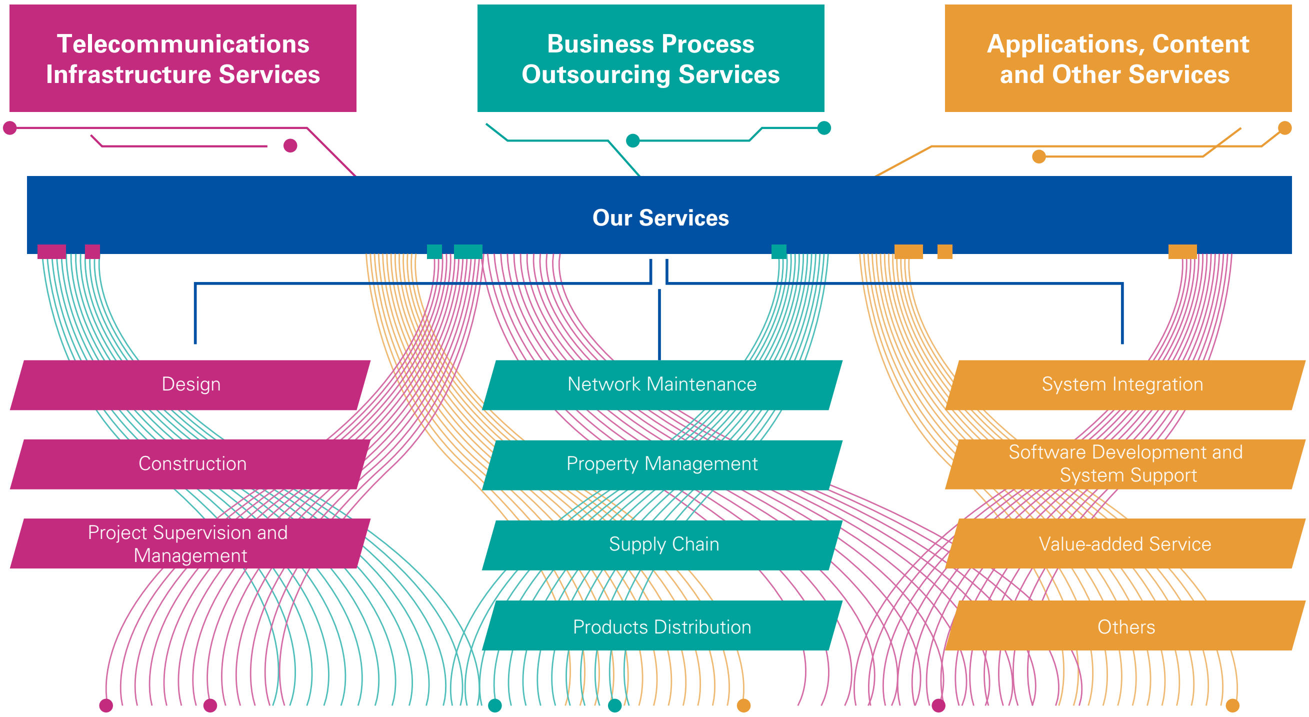
[8] "F+EPC": Finance + EPC (Engineering, Procurement, Construction)

BUSINESS OVERVIEW

The Group is a leading service provider in the informatization sector in the PRC. Adhering to the position as a "New Generation Integrated Smart Service Provider" and playing the part in "4 Roles"[1], the Group commits to "Building Smart Society, Boosting Digital Economy, Serving a Good Life" and provides integrated comprehensive smart solutions for the informatization and digitalization sectors. The Group provides integrated smart solutions including telecommunications infrastructure services, business process outsourcing services, as well as applications, content and other services for its customers including telecommunications operators, governments, industrial customers and SMEs.

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

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



(In RMB million, except percentages)	Revenue in 2020	Revenue in 2019	Change
Domestic telecommunications operator customers	**69,976**	72,420	–3.4%
Of which: China Telecom	**41,777**	40,633	2.8%
China Mobile, China Unicom, China Tower	**28,199**	31,787	–11.3%
Domestic non-telecom operator customers ("Domestic non-operator customers")	**49,578**	41,727	18.8%
Overseas customers	**3,095**	3,266	–5.2%
Total	**122,649**	117,413	4.5%

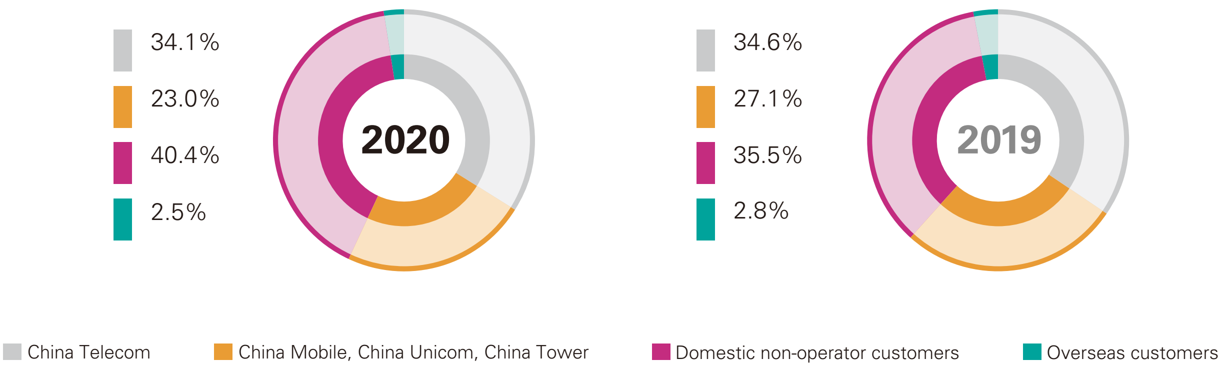
1 "4 Roles": "Builder of Digital Infrastructure", "Provider of Smart Products and Platforms", "Service Provider of Data Production" and "Guard of Smart Operation".

MARKET EXPANSION

In 2020, in face of the complicated situations including the severe impact by the novel coronavirus (the "COVID-19") pandemic, the Group adhered to the overall roadmap of "value-driven, seeking steady yet progressive growth and high-quality development" while accelerating the resumption of work and production as well as reform and innovation in an orderly manner. On the basis of building the baseline for pandemic prevention, the Group focused on key areas and markets and achieved a rapid growth in domestic non-operator market. By seizing the opportunities arising from New Infrastructure such as the 5G and data centers, penetrating into the traditional businesses of the domestic telecommunications operators, and proactively expanding into the transformation business of domestic telecommunications operators such as cloud-network integration, the Group succeeded in stabilizing its business fundamentals. By focusing on the key overseas projects, the impact of the pandemic on the overseas market was alleviated. In 2020, the total revenues of the Group increased 4.5% year-on-year to RMB122,649 million for the year.

In 2020, revenue from the domestic non-operator market amounted to RMB49,578 million, representing a year-on-year increase of 18.8%; revenue from domestic telecommunications operator market amounted to RMB69,976 million, representing a year-on-year decrease of 3.4%; and revenue from overseas customers amounted to RMB3,095 million, representing a year-on-year decrease of 5.2%.

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



DOMESTIC NON-OPERATOR MARKET

In recent years, the Group has kept abreast of the development trend of digital economy and industrial digitalization, and attained a rapid business growth in the domestic non-operator market through innovation and transformation, and thus achieved continuous optimization of overall revenue structure. In 2020, the Group focused on the development opportunities arising from New Infrastructure, smart society, network security and emergency management, continuously forged the core capabilities and platforms, strengthened the research and development of products and the internal and external collaboration. Leveraging the comprehensive strengths, positive and interactive development between the emerging businesses and traditional businesses was achieved. Revenue from the domestic non-operator market amounted to RMB49,578 million, representing a year-on-year increase of 18.8%.

The Group proactively promoted digital transformation projects

In 2020, the Group set up the China Comservice General Research Institute to coordinate the research and development efforts and has developed strategic core platforms in the fields of Cloud, Internet of Things ("IoT"), and network security while continuing to iterate and upgrade group-level products such as Smart City, Smart Park, Smart Highway, Smart Emergency Management, Cloud Computing services, and electronic authentication services, and forge more than 30 different smart product solutions. The Group could quickly respond to customer needs and provide the comprehensive smart product portfolio that could be disassembled or combined, as well as full-process service capabilities from top-level design to product R&D and operation. During the year, the Group's expansion on key projects also met with success, e.g. in the field of New Infrastructure, EPC general contracting projects such as the Yangtze River Upstream Big Data Center and Yibin City Big Data Industrial Park, Western Sichuan Industry Park, and in the field of Smart Society, key projects such as Digital Guangzhou, Guangdong Smart Emergency Management Integrated Application Platform, Hefei Central (Luogang) Smart Ecopark, World University Games (Chengdu) Smart Game and the Changsha Smart Huanghua International Airport.

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

The Group proactively undertook the construction of data center projects

BUSINESS OVERVIEW

The Group provided smart solutions to industrial customers

DOMESTIC TELECOMMUNICATIONS OPERATOR MARKET

In 2020, the Group adhered to the "CAPEX and OPEX + Smart Applications"[2] strategy in the domestic telecommunications operator market. For CAPEX, the Group accelerated business development by seizing the opportunities arising from New Infrastructure such as 5G and data centers. Through undertaking 5G network construction with the general contracting model, the Group has strengthened its qualification and general contracting capability and enhanced business value. The Group also captured the data center construction opportunities from cloud-network integration. For OPEX, the Group has deepened the development of traditional businesses such as network maintenance, property management and supply chain, endeavouring to expand its market share. Meanwhile, the Group has proactively integrated into the ecosystem of operators' transformation. By cultivating the Group's service and product capabilities in "Cloud + 5G + DICT", the Group has explored new markets such as 5G industrial applications, To B business of operators, network information security and cloud-network integration. The impact of the pandemic on business development was thus alleviated and operation fundamentals of the domestic telecommunications operators remained stable. Revenue from such market amounted to RMB69,976 million, representing a year-on-year decrease of 3.4%, of which revenue from China Telecom amounted to RMB41,777 million, representing a year-on-year increase of 2.8%.

The Group proactively undertook 5G general contracting projects from operators

The Group supported the construction of 5G base stations for domestic telecommunications operators

[2] "CAPEX and OPEX + Smart Applications": CAPEX refers to the capital expenditure of domestic telecommunications operators while OPEX refers to the operating expenditure of domestic telecommunications operators.

OVERSEAS MARKET

In 2020, the Group continued to deepen its overseas collaboration to serve the "Belt and Road" and "Go Abroad" Chinese enterprises. On the premise of ensuring the safety and health of all of its overseas employees, the Group strengthened innovation, accelerated service upgrade and business expansion while vigorously building overseas product bases by promoting smart products overseas. Due to the impact of the pandemic, the overseas market experienced slight volatility. During the year, revenue from overseas customers amounted to RMB3,095 million, representing a year-on-year decrease of 5.2%. The Group continued to leverage the "EPC+F+I+O+S"[3] model with focus on the key countries, key markets and key projects, aiming to boost collaboration with the domestic telecommunications operators and cooperation with other Chinese enterprises, and proactively utilized the resources of the domestic financial institutions to jointly develop major projects. Both the number and quality of new projects and reserve projects secured in the overseas markets were continuously improved, with success in the project expansion regarding smart city and smart meter, as well as the maintenance and management business of telecommunications towers and base stations.

The Group undertook the first 4G snow mountain base station in Nepal for Nepal Telecom, which went through a smooth commissioning

The Group undertook the construction of the Ground Cable Session of Africa Optical Cable Backbone Network in the middle of Congo-Brazzaville

The Group undertook base station construction overseas

3 "EPC+F+I+O+S": EPC (Engineering, Procurement, Construction) + Finance + Investment + Operation + Solution

The Group stayed on duty during the pandemic

BUSINESS EXPANSION

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

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 2020, revenue from telecommunications infrastructure services amounted to RMB67,165 million, representing a year-on-year growth of 3.8%.

The Group has the capabilities to provide worldwide telecommunications operators with comprehensive telecommunications infrastructure services including planning, design, construction and project supervision for fixed-line, mobile, broadband networks and supporting systems. In 2020, the Group endeavoured to address the business needs of the domestic telecommunications operator customers as well as supporting the domestic 5G network construction and maintained a solid market leading position. However, factors such as the outbreak of the pandemic led to slight fluctuation of the results. The Group's revenue of telecommunications infrastructure services from domestic telecommunications operators amounted to RMB38,879 million, representing a year-on-year decrease of 5.5%.

The Group also provides various services, including construction services of ancillary communications networks, integrated solutions for informatization and intelligentization solutions of industries, to domestic non-operator customers such as government, finance, construction, transportation, emergency management, electricity, and medical care as well as overseas customers. During the year, the Group made constant new breakthroughs in the fields of smart city, building intelligentization, data centers and electricity engineering. In 2020, the Group's revenue of telecommunications infrastructure services from domestic non-operator customers amounted to RMB25,759 million, representing a year-on-year growth of 23.2%, maintaining a strong development momentum.

As domestic telecommunications operators continue to increase their investment in New Infrastructure such as 5G and data centers with a view to accelerating the transformation of cloud-network integration, the Group will continue to explore the market potential and enhance its product and service capabilities, so as to cater for the demand of domestic telecommunications operators for integrated network construction services, and maintain the stable business development of domestic telecommunication operators. Meanwhile, with the in-depth implementation of Cyberpower and other national strategies, the increasing demand for New Infrastructure construction such as smart city and digital transformation, as well as the further advancement of the "Belt and Road", the Group will also meet new growth opportunities in the domestic non-operator market and overseas market.

Business Process Outsourcing Services

The Group is the largest integrated provider of business process outsourcing services in the communications industry in China. We keep extending our business scope from core networks to access networks along the communications business value chain, and provide services including management of infrastructure for information technology (Network Maintenance), general facilities management (Property Management), supply chain and products distribution. The target customers of our services include domestic and overseas telecommunications operator customers, government agencies and enterprises customers. The revenue from the business process outsourcing services amounted to RMB37,277 million, representing a year-on-year increase of 1.7%.

The Group provides Network Maintenance and network optimization services for telecommunications operators covering fiber optic cables, electric cables, mobile base stations, network equipment and terminals. In 2020, on the basis of stabilizing the Network Maintenance business for domestic telecommunications operators, the Group actively expanded the business of domestic non-operator customers, leading to a largely stable Network Maintenance business with a revenue of RMB15,794 million.

The Group undertook network maintenance business

BUSINESS OVERVIEW

During the year, the Group penetrated into operators' supply chain business, while continuing the expansion on customers from other sectors. In 2020, the Group's revenue from supply chain services amounted to RMB10,871 million, representing a year-on-year growth of 5.3%. Amid the pandemic, the Group focused on the upstream and downstream customers, continuously leveraged its advantage in full-process and network-wide synergistic operation in supply chain to provide value-added, integrated and full life cycle supply chain services including logistics and transportation, warehousing and distribution, inspection service and tender agent, digital procurement, repair and disposition to domestic telecommunications operators, government and enterprises customers. During the year, the mixed-ownership reform of China Comservice Supply Chain Management Company Ltd. has made great progress and contributed to high-quality development by optimizing system and mechanism.

The Group undertook supply chain business

The Group provides Property Management services to domestic and overseas customers for their data centers, cloud computing bases, commercial buildings, high-end residential buildings, high-speed railway stations and airports, etc. During the year, the Group continued to advance on the building for property services in respect of brand, IT platform, talent team etc. to further enhance the synergistic operational capabilities of Property Management services. In 2020, the Group's Property Management services overcame the impact of the pandemic and achieved a revenue of RMB6,357 million, representing a year-on-year growth of 3.1%.

The Group provides terminals sales and device distribution services to domestic telecommunications operator customers and provides distribution and procurement services of IT devices, auxiliary machinery and equipment to domestic non-operator customers. In 2020, the Group proactively contained the products distribution business with lower efficiency and realized revenue of RMB4,255 million, representing a year-on-year decrease of 1.6%.

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

Applications, Content and Other Services

The Group provides system integration, software development and system support as well as value-added services to customers including domestic and overseas telecommunications operators, government agencies and enterprises customers. In 2020, the relevant revenue amounted to RMB18,207 million, representing a year-on-year increase of 13.2%. The domestic non-operator customers are the major customer group of our applications, content and other services, which accounted for 60.5% of the overall revenue from such services; revenue from such customers increased by 24.1% year-on-year in 2020, being the major growth driver for applications, content and other services.

In 2020, the Group leveraged the strength of its integrated service and capabilities on system integration and software development to keep expanding ecological cooperation scale, seized the opportunities such as New Infrastructure and digital transformation in China. The Group vigorously expanded the markets including 5G, data centers, smart city, transportation, electricity, safety and emergency management, which in turn effectively satisfied the digital transformation demand of government and enterprise customers. Meanwhile, the Group further increased research and development investment, optimized "Synergistic + Dispersed" research and development mechanism, accelerated iteration and development of smart products and solutions, established smart society product portfolio and strengthened synergistic delivery of smart products. With all these measures, the Group satisfied the social and industrial digitalization demand, thus supporting the Group's digital transformation. The Group gained increasing industry recognition and brand influence that it continued to rank 5th in "100 Most Competitive Software & IT Service Enterprises 2020". CCS IoT Platform won the honor of "2020 Best Digitalization Product in PRC" granted by China International Fair for Trade in Services and "OFweek 2020 Most Popular Development Platform in China IoT Industry" jointly granted by Industry and Information Technology Bureau of Shenzhen Municipality and OFweek.

The Group will capture the opportunities arising from the rapid development of digital economy, keep upgrading its key products and continue to enhance the R&D and platform construction in key sectors such as IoT, big data and information security, so as to continuously meet the informatization construction demand from customers.

The Group provided smart solutions to customers

CCS IoT Platform of the Group won the honor of "OFweek 2020 Most Popular Development Platform in China IoT Industry" jointly granted by Industry and Information Technology Bureau of Shenzhen Municipality and OFweek

CCS IoT Platform of the Group won the honor of "2020 Best Digitalization Product in PRC" granted by China International Fair for Trade in Services

CONTENTS OF CERTAIN GROUP-LEVEL PRODUCTS OF THE GROUP

1	CCS Innovation Middle Platform	The Group forges a unified and standardized R&D and innovation platform, provides consistent underlying cloud-based resources and standardized operation support, provides improvement of R&D innovation capability, and standardized output of talent pool, knowledge and product marketization for relevant enterprises, as well as integrated solutions which enables monitoring, management and analysis throughout the whole R&D process, thus supporting enterprises to realize business innovation and digital transformation.
2	CCS IoT (IoT Full-stack Service Platform)	CCS IoT builds a one-stop full-stack IoT professional service platform to provide customers with full life cycle services covering IoT design, software and hardware development, equipment installation and maintenance and equipment operation services as well as professional support tools. Through providing customers with offline IoT professional services by the digital service support network of the Group, CCS IoT comprehensively accelerates the implementation of IoT applications and facilitates the digital transformation of industries.
3	CCS Network Information Security (Security Operation Center Product Portfolio)	CCS Network Information Security works to materialize a high-quality security product portfolio for use with independent intellectual property rights, including but not limited to cyberspace asset mapping platform, network traffic analysis platform, security situation perception platform, CA electronic authentication, harmful information content automatic testing platform etc. Cooperating with high-quality ecological partners in the industry, it provides the comprehensive solutions of security operation center and integrated security services, offers data security and business security solutions for smart social services, supports the major projects and essential security activities, and serves the security construction and maintenance of national key infrastructure.
4	CCS Emergency Management (CCS Emergency Management Product Portfolio)	CCS Emergency Management has built a product portfolio of "1 (1 capability middle platform) + 6 (6 major business applications) + N (N emergency equipment)" with completely independent intellectual property rights. Regarding the key technologies of the industrial IoT security and safe production emergency management system, it possesses the core technologies with independent intellectual property rights and the products include, but are not limited to, emergency management comprehensive application platform, hazardous chemicals monitoring, early alert and precaution platform, Internet+Safety law enforcement platform, emergency management smart dispatch platform, etc. It also works jointly with high-quality partners in the industry to provide integrated application solutions in the fields such as communication security, production safety, industrial safety, emergency management, park safety, urban public safety for the government, emergency-related industries and large enterprises. It provides integrated comprehensive services such as consultation and planning, platform construction and system operation for the modernization of national emergency management capability, and strives to become the national team that protects national public safety and safeguards a better life for the people.
5	Industrial Internet	Leveraging the Group's unique capabilities matrix, including 4T (i.e. CT (Communications Technology, with over 60 years' experience in network design, construction and maintenance), IT (Information Technology, including Cloud Construction, Cloud Management, Cloud Migration and innovative development), DT (Data Technology, with experience in massive data management and mining), and OT (Operational Technology, with nationwide entities at provincial, city and county level)), 4P (CCS IoT Platform, CCS Innovation Middle Platform, data middle platform and network information security platform) and 4S (design and consultation, software development, project implementation and project supervision), the Industrial Internet provides integrated Industrial Internet service system to customers from government and industrial enterprises to address the four difficulties, namely the "connection, platform, data and security".

BUSINESS OVERVIEW

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

BUSINESS OVERVIEW

13	Smart Court	By integrating advanced technologies such as Big Data, AI and IoT, the Group provides court system with full-service and full-cycle integrated ICT solutions.
14	Smart Campus	Based on various application service systems, the Group makes improvement in education with big data by fully integrating teaching, scientific research, management and campus life, provides precise management, education and studying and creates an intelligentized campus for studying, living and environment, thus achieving smart campus management, campus and life integration, campus facilities digitalization, dynamic classroom teaching and seamless home-school communication.
15	Smart Highway	By integrating frontier technologies, the Group develops the new generation Smart Highway operation and management platform which possesses full capabilities in three major highway informatization areas — surveillance, toll, as well as maintenance and operation. Meanwhile, through massive real-time data collection and intelligent analysis, the Group assists the highway operators to enhance the capabilities of emergency command and dispatch, operation surveillance management and public travel services.
16	Smart Airport	The Group consolidates the research and development capabilities of each key product centers to establish an integrated smart airport service system and assist each airline group in the civil aviation industry of China to establish a "safe, green, smart and humanistic" airport and realizing the goal to be a world-class airport with "high technologies, high standards and high quality".
17	Smart Sport	Based on informatization platforms, such as the game results platform, stadium operation platform, game management platform and game command platform, the Group provides full-process and integrated services to various sport games from preparation, construction to operation.
18	Smart Finance	Adopting a B To B To C model, the Smart Finance provides full-process, modularized integrated fintech solutions, including financial information system, financial products operation and financial data services, to enterprise customers and financial institutions.
19	Smart Water Conservancy	Targeting at government departments and related enterprises that are relevant with water conservation, marine protection and environmental protection, the Group constructs a comprehensive water conservancy information platform that provides analysis of data collected from water level measurement, hydraulic engineering, video recognition and automatic control. The platform provides effective support for the enforcement and monitoring of water law, water resources management, flood-alarming and river/lake management.

BUSINESS OVERVIEW

20	Smart Agriculture	The Smart Agriculture is a comprehensive production management platform giving a full view of information about agricultural production, providing smart management of agricultural production based on expertise and realizing a new agricultural production management concept of "precise perception, all-around control, interactive farming and smart decision". It provides professional assistance to refined management of agriculture in large scale.
21	Smart Exhibition	The Smart Exhibition provides an integrated exhibition showcase service from design and planning to professional implementation for exhibition halls, expos and enterprises of various scale.
22	Smart Customer Service	Based on traditional call centers, the Group provides customized one touch access and number recognition customer service platform with all channels by integrating different functions such as multimedia CS centers, sales service centers and customer management centers, thus enhancing enterprise efficiency, service quality and assisting customers to develop market.
23	Smart Enterprise	The Smart Enterprise provides multiple leading public cloud (SaaS) products to enterprises, helping them to realize integrated digital transformation in respect of human resources, events and devices, including talent management, enterprise resource management, full-channel marketing management, cloud procurement management, expense management, business intelligent analysis and other functions.
24	Smart Education	The Group changes the traditional learning mode by utilizing informatization technologies to realize the integration of online learning and offline training for the adoption of mixed learning mode. Leveraging on mobile internet, cloud computing, live broadcast, AR/VR and other technologies, the Group provides enterprises with one-stop training solutions to help them build learning organizations.
25	Cloud Computing Engineering	Cloud Computing Engineering provides full life cycle and professional cloud infrastructure (data centers) EPC project general contracting services, possesses 30 major specialties necessary for data center construction, and applies advanced concepts such as energy saving, BIM and modularization to the construction process which provides standardized, modularized and customized services according to customers' needs.
26	Smart Community	Driven by demand for precise and smart city management and standing on the technological base of deep integration between digital technology and physical facilities, the Group leveraged the three orientation capabilities, namely smart connection capability for space perception, smart service capability for scenarios and middle platform operating capability, as well as the strengths on integrated services to provide a full range of smart community services that is scenario driven, one-region-one-policy, operable, safe and caring for various operators.

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

OVERVIEW

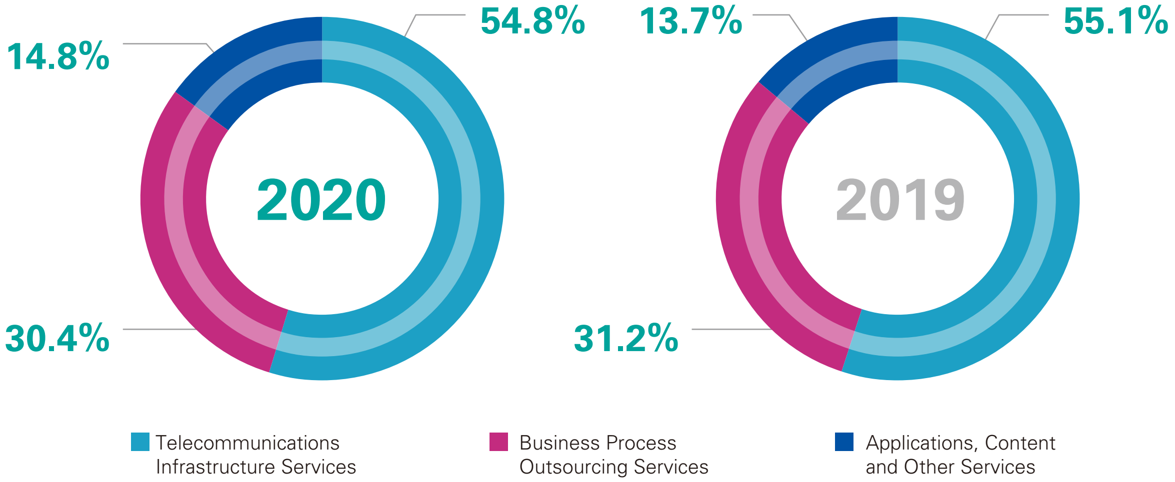
In 2020, by adhering to its overall roadmap of "value-driven, seeking steady yet progressive growth and high-quality development" and positioning itself as the "New Generation Integrated Smart Service Provider", the Group overcame the adverse effect brought by the pandemic and its overall results maintained positive growth. Total revenues for the year amounted to RMB122,649 million, representing an increase of 4.5% as compared to 2019; profit attributable to the equity shareholders of the Company was RMB3,081 million, representing an increase of 1.1% as compared to RMB3,049 million in 2019, with basic earnings per share amounted to RMB0.445. Free cash flow was RMB2,630 million with cash conversion ratio[4] being 177.0%, which continued to remain at a healthy and relatively high level.

TOTAL REVENUES

The Group's total revenues in 2020 amounted to RMB122,649 million, representing an increase of 4.5% as compared to 2019. From the business perspective, the revenue from telecommunications infrastructure ("TIS") services was RMB67,165 million, representing a year-on-year growth of 3.8%; the revenue from business process outsourcing ("BPO") services was RMB37,277 million, representing a year-on-year increase of 1.7%, of which the revenue from Core BPO services (excluding products distribution business) was RMB33,022 million, representing a year-on-year increase of 2.2%; and the revenue from applications, content and other ("ACO") services was RMB18,207 million, representing a year-on-year growth of 13.2%. In 2020, in order to overcome the impact of the pandemic, the Group adopted measures of focusing "key companies, key projects, major customers, tender volume, new contracts, and production volume since work resumption", seized the opportunities arising from 5G, New Infrastructure and social digitalization, improved integrated comprehensive smart service capabilities, thus maintaining the continuous and steady growth of the TIS services. The Group is committed to technological innovation through stepping up its own research and development efforts continuously, which in turn stimulated the growth of its businesses such as system integration and software development, making the ACO services continue to be the fastest-growing business segment.

From the market perspective, the revenue from the domestic non-operator market was the main driver for business growth in 2020, and the revenue from such market amounted to RMB49,578 million, representing a year-on-year increase of 18.8%. Revenue from the domestic telecommunications operator market amounted to RMB69,976 million, representing a year-on-year decrease of 3.4%; and revenue from the overseas market amounted to RMB3,095 million, representing a year-on-year decrease of 5.2%. By focusing on the opportunities arising from the digital upgrade of the society, the Group optimized its internal mechanism construction such as research and development, accelerated its market deployment and continued to penetrate into key industries and fields, thus the businesses from the domestic non-operator market sustained a rapid growth and continued to be the largest contributor to revenue growth of the Group. Meanwhile, the Group effectively implemented the "CAPEX and OPEX + Smart Applications" development strategy in the domestic telecommunications operator market to seize the new opportunities arising from cloud-network integration, 5G and data center construction. The Group focused on cultivating its "Cloud + 5G + DICT" service capabilities to capture the potential market in areas such as the industrial applications of 5G, operators' transformation business and network information security. All of the above measures enabled the Group's revenue from the domestic telecommunications operator market to remain relatively stable despite the impact of the pandemic.

BUSINESS REVENUE MIX



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

The following table sets forth a breakdown of our total revenues for 2019 and 2020, together with their respective changes:

	2020 RMB'000	2019 RMB'000	Change
Telecommunications Infrastructure Services			
Design services	**10,372,327**	10,239,043	1.3%
Construction services	**52,952,530**	50,734,438	4.4%
Project supervision and management services	**3,839,714**	3,715,334	3.3%
	67,164,571	64,688,815	3.8%
Business Process Outsourcing Services			
Management of infrastructure for information technology (Network Maintenance)	**15,794,043**	15,826,644	–0.2%
General facilities management (Property Management)	**6,357,245**	6,168,074	3.1%
Supply chain	**10,870,747**	10,320,178	5.3%
Sub-total of Core BPO Services	**33,022,035**	32,314,896	2.2%
Products distribution	**4,254,844**	4,322,284	–1.6%
	37,276,879	36,637,180	1.7%
Applications, Content and Other Services			
System integration	**11,179,619**	9,108,195	22.7%
Software development and system support	**3,107,772**	2,856,311	8.8%
Value added services	**1,963,321**	2,035,012	–3.5%
Others	**1,956,782**	2,087,576	–6.3%
	18,207,494	16,087,094	13.2%
Total	**122,648,944**	117,413,089	4.5%

Telecommunications Infrastructure Services

In 2020, the Group's revenue from TIS services amounted to RMB67,165 million, representing an increase of 3.8% as compared to RMB64,689 million in 2019. Of which, the construction services recorded revenue of RMB52,953 million, representing an increase of 4.4% as compared to 2019, being the largest contributor to the growth of total revenues. TIS services was the primary source of revenue of the Group and accounted for 54.8% of our total revenues, representing a decrease of 0.3 percentage point from 55.1% in 2019. As to the customer structure of the TIS services, the Group's TIS revenue from domestic telecommunications operators amounted to RMB38,879 million and accounted for 57.9% of the total TIS revenues, representing a decrease of 5.7 percentage points from last year. The aggregate TIS revenues from domestic non-operator customers and overseas customers amounted to RMB28,286 million and accounted for 42.1% of the total TIS revenues, representing an increase of 5.7 percentage points from last year, whereas the increase in proportion was driven by domestic non-operator customers.

In 2020, the aggregate TIS revenues from domestic non-operator customers and overseas customers increased by 20.2% over 2019, in which the TIS revenue from domestic non-operator customers recorded a significant year-on-year growth of 23.2%, which was the main growth driver of the TIS business. With the Group's expansion into key fields and improvement of the development mechanism for domestic non-operator market, the business development in such market has played an increasingly prominent role in driving the TIS business. The Group's TIS revenue from domestic telecommunications operators decreased by 5.5% over 2019 mainly due to the factors such as the impact from the pandemic. During the year, the Group seized the opportunities arising from 5G and New Infrastructure, and explored the demand of operators. The Group undertook 5G construction projects using the general contracting model, improved its business value and accelerated its market expansion, thus mitigating the impact of the pandemic and other factors.

Business Process Outsourcing Services

In 2020, the Group's revenue from BPO services amounted to RMB37,277 million, representing an increase of 1.7% as compared to RMB36,637 million in 2019, accounting for 30.4% of our total revenues, a decrease of 0.8 percentage point as compared to 31.2% in 2019. Excluding the products distribution business, revenue from the Core BPO services amounted to RMB33,022 million, representing a year-on-year growth of 2.2%. In terms of customer structure of the BPO services, the BPO revenue from domestic telecommunications operators amounted to RMB24,237 million, representing a decrease of 0.9% over 2019, and accounting for 65.0% of the total revenues from the BPO services, representing a decrease of 1.7 percentage points over 2019. The aggregate BPO revenues from the domestic non-operator customers and overseas customers amounted to RMB13,040 million, representing an increase of 7.0% over 2019, accounted for 35.0% of the total revenues from the BPO services, representing an increase of 1.7 percentage points over 2019.

In 2020, among each of the businesses under the Group's BPO services, revenue from the Network Maintenance business amounted to RMB15,794 million, representing a decline of 0.2% as compared to 2019, mainly due to the market competition and the impact of the pandemic. Revenue from the Property Management business amounted to RMB6,357 million, representing an increase of 3.1% as compared to 2019. Revenue from the supply chain business amounted to RMB10,871 million, representing an increase of 5.3% as compared to 2019 (a year-on-year increase of 1.7% was recorded in 2019). The accelerated growth of the supply chain business was mainly due to the increase in retail sales of terminals driven by 5G. Besides, revenue from the products distribution business amounted to RMB4,255 million, representing a decrease of 1.6% as compared to 2019, mainly due to the fact that the Group adhered to the principle of efficient development and continued to proactively contain products distribution business with relatively low efficiency.

Applications, Content and Other Services

In 2020, the Group's revenue from ACO services amounted to RMB18,207 million, representing an increase of 13.2% as compared to RMB16,087 million in 2019, making it the fastest-growing business segment for the year. Of which, the system integration business recorded revenue of RMB11,180 million, representing an increase of 22.7% as compared to 2019, being the second largest contributor to the growth of the overall revenues. The revenue from ACO services accounted for 14.8% of the Group's total revenues, representing an increase of 1.1 percentage points from 13.7% in 2019, and such proportion has been growing in the past five years. In terms of the customer structure of ACO services, the Group's ACO revenue from domestic telecommunications operators amounted to RMB6,860 million and accounted for 37.7% of the total ACO revenues, representing a decrease of 4.7 percentage points from the corresponding period of last year. Aggregate ACO revenues from domestic non-operator customers and overseas customers amounted to RMB11,347 million, accounting for 62.3% of the total ACO revenues, representing an increase of 4.7 percentage points from the corresponding period of last year, which was driven by the domestic non-operator customers.

The pandemic in 2020 further accelerated the progress of digital transformation across the whole society, the Group paid close attention to the business opportunities arising from informatization construction such as digital government, smart emergency management and smart city upgrade, and the ACO revenue from the domestic non-operator customers maintained a rapid growth of 24.1% over 2019. Domestic non-operator market is the key development focus of the Group, and both the revenue size and contribution to revenue growth of ACO services from such market have surpassed those of the domestic telecommunications operators market.

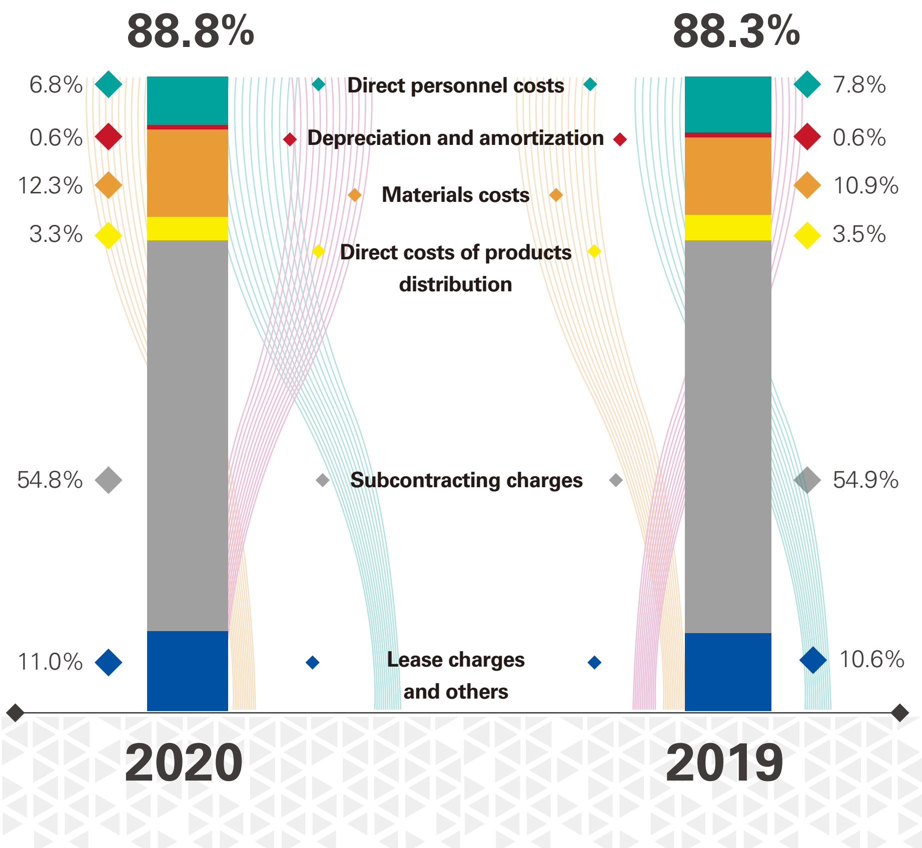
COST OF REVENUES

The Group's cost of revenues in 2020 amounted to RMB108,911 million, representing an increase of 5.0% from 2019 and accounting for 88.8% of the total revenues.

The following table sets out a breakdown of the Group's cost of revenues in 2019 and 2020 and their respective changes:

	2020 RMB'000	2019 RMB'000	Change
Direct personnel costs	**8,300,338**	9,111,016	–8.9%
Depreciation and amortization	**827,413**	756,976	9.3%
Materials costs	**15,057,234**	12,838,003	17.3%
Direct costs of products distribution	**4,067,599**	4,167,579	–2.4%
Subcontracting charges	**67,166,028**	64,462,508	4.2%
Lease charges and others	**13,492,696**	12,390,048	8.9%
Total cost of revenues	**108,911,308**	103,726,130	5.0%

COST OF REVENUES AS A % OF TOTAL REVENUES



Direct Personnel Costs

In 2020, direct personnel costs amounted to RMB8,300 million, representing a decrease of 8.9% from RMB9,111 million in 2019. Direct personnel costs accounted for 6.8% of our total revenues, representing a decrease of 1.0 percentage point from 2019. In order to help enterprises overcome the impact of the pandemic, the government launched certain relief policies, which resulted in a decrease in the Group's direct personnel costs during the reporting period. Meanwhile, the Group kept a reasonable control over its total headcount, continued to optimize the employee structure and flexibly utilized the subcontracting model to strictly control staff costs.

Depreciation and Amortisation

In 2020, depreciation and amortisation amounted to RMB827 million, representing an increase of 9.3% from RMB757 million in 2019. Depreciation and amortisation cost accounted for 0.6% of our total revenues.

Materials Costs

In 2020, materials costs amounted to RMB15,057 million, representing an increase of 17.3% as compared to RMB12,838 million in 2019. Materials costs accounted for 12.3% of our total revenues, representing an increase of 1.4 percentage points from 2019. The main reason for the increase was the rapid growth of our construction and system integration businesses which took a relatively high proportion in our materials costs.

Direct Costs of Products Distribution

In 2020, the direct costs of products distribution amounted to RMB4,068 million, representing a decrease of 2.4% as compared to RMB4,168 million in 2019. Direct costs of products distribution accounted for 3.3% of our total revenues, representing a decrease of 0.2 percentage point over 2019. The decrease in the direct costs of products distribution was mainly because the Group proactively contained certain relatively low efficiency products distribution business.

Subcontracting Charges

In 2020, subcontracting charges were RMB67,166 million, representing an increase of 4.2% as compared to RMB64,462 million in 2019. Subcontracting charges accounted for 54.8% of our total revenues, representing a decrease of 0.1 percentage point over 2019. As compared to 2019, the growth of subcontracting charges in 2020 was basically in line with the growth of total revenues. The Group continued to transform to technology-intensive operation model and focus on high-end businesses, and promoted subcontracting of low-end businesses. The Group will continue to strengthen and regulate the management over subcontracting, with a view to maintaining the growth of subcontracting charges at a relatively reasonable level.

Lease Charges and Others

In 2020, lease charges and others were RMB13,493 million, representing an increase of 8.9% over RMB12,390 million in 2019. Lease charges and others accounted for 11.0% of our total revenues, representing an increase of 0.4 percentage point over 2019.

GROSS PROFIT

In 2020, the Group recorded gross profit of RMB13,738 million, representing an increase of 0.4% over RMB13,687 million in 2019. The Group's gross profit margin in 2020 was 11.2%, representing a decrease of 0.5 percentage point from 11.7% in 2019. In 2020, the Group saw a decrease in gross profit margin under the influence of the pandemic which hampered our business development and due to a combination of factors including the increased anti-pandemic expenses and sustained rigid costs, as well as the decrease in unit prices of businesses from domestic telecommunications operators. During the year, the Group strove to improve its gross profit margin through strengthening project management and enhancing the value of its services. In addition, the domestic non-operator market is still in an introductory phase, which would impair its gross profit margin to some extent. However, with the Group's deployment in digital economy, smart society and new infrastructure areas phasing in, the Group expects that the proportion of high-value businesses will gradually increase and the gross profit margin of the domestic non-operator market could stabilize and even improve in the future, thereby driving the Group's overall gross profit margin in the long run eventually. In fact, the domestic non-operator market has already become the largest contributor to the increase in gross profit of the Group.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

In 2020, the selling, general and administrative expenses of the Group were RMB11,826 million, representing an increase of 2.9% as compared to RMB11,494 million in 2019. The selling, general and administrative expenses accounted for 9.6% of our total revenues, representing a decrease of 0.2 percentage point from 2019. Of which, the research and development costs were RMB3,782 million, representing an increase of 15.4% as compared to RMB3,276 million in 2019, and accounted for 3.1% of our total revenues, representing an increase of 0.3 percentage point from 2019. The main reasons for the slowdown of increase in selling, general and administrative expenses in 2020 as compared with that of 2019 (a year-on-year increase of 8.3% was recorded in 2019) were mainly due to the pandemic which hampered our business development and the effective management measures undertaken by the Group to overcome the impact of the pandemic by controlling costs and enhancing efficiency.

FINANCE COSTS

In 2020, the finance costs of the Group were RMB63 million, representing a decrease of 7.8% as compared to RMB69 million in 2019.

INCOME TAX

In 2020, the income tax of the Group was RMB398 million and its effective tax rate was 11.4%, representing a decrease of 1.9 percentage points from 13.3% in 2019. The decrease in the Group's effective tax rate and the difference between such effective tax rate and the statutory tax rate was mainly due to the increased investment in research and development by the Group. In accordance with the relevant national policies, the Group enjoyed more preferential income tax rate treatments as a new and high-technology enterprise and the preferential policy of tax deduction before income tax for research and development expenses. In 2020, certain subsidiaries of the Group that fall under the scope of new and high-technology enterprises were entitled to a preferential income tax rate of 15%. Certain enterprises in Western China benefited from the preferential policies for Western Development Program. Apart from these subsidiaries, the Company and other domestic subsidiaries of the Group were mainly subject to an income tax rate of 25%. The overseas subsidiaries of the Group were subject to different tax rates in various countries.

PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

In 2020, profit attributable to equity shareholders of the Company was RMB3,081 million, representing an increase of 1.1% over RMB3,049 million in 2019. Profit attributable to equity shareholders of the Company accounted for 2.5% of our total revenues, which slightly decreased as compared to 2019. Basic earnings per share of the Company were RMB0.445 (2019: RMB0.440).

CAPITAL EXPENDITURE

The Group implemented stringent budget management over capital expenditure, and made adjustments according to changes in market condition. In 2020, capital expenditure amounted to RMB3,962 million, representing a considerable increase of 318.6% over RMB946 million in 2019. The capital expenditure in 2020 accounted for 3.2% of the total revenues, representing an increase of 2.4 percentage points over 2019. The considerable increase in capital expenditure was mainly due to the acquisition of a property during the reporting period for the Group's bases for the smart production, operation as well as research and development. Other than the above, 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 RMB1,856 million in 2020, representing a decrease of RMB1,259 million from RMB3,115 million in 2019. Such change was mainly due to the increase of cash used in investing activities during the reporting period. As at the end of 2020, the balance of cash and cash equivalents of the Group amounted to RMB21,008 million, of which 96.1% was denominated in Renminbi.

The following table sets out our cash flow positions in 2019 and 2020, respectively:

	2020 RMB'000	2019 RMB'000
Net cash generated from operating activities	**5,453,485**	4,811,651
Net cash used in investing activities	**(2,243,695)**	(311,316)
Net cash used in financing activities	**(1,353,860)**	(1,385,133)
Net increase in cash and cash equivalents	**1,855,930**	3,115,202

In 2020, net cash generated from operating activities of the Group was RMB5,453 million, representing an increase of RMB642 million from RMB4,811 million in 2019. The increase in operating cash flow was mainly due to the fact that the Group persisted in value-driven principle with effective clearing and settlement of accounts receivable while expanding business, and put more efforts on management of accounts payable in the meantime.

In 2020, net cash used in investing activities of the Group was RMB2,243 million, representing an increase of RMB1,932 million from RMB311 million in 2019. The increase was mainly attributable to the acquisition of a property for the Group's bases for the smart production, operation as well as research and development during the reporting period.

In 2020, net cash used in financing activities of the Group was RMB1,354 million, representing a decrease of RMB31 million from RMB1,385 million in 2019.

WORKING CAPITAL

As at the end of 2020, the Group's working capital (i.e. current assets net of current liabilities) was RMB21,034 million, representing a decrease of RMB1,535 million from RMB22,569 million at the end of 2019. The decrease in working capital was mainly due to the acquisition of a property for the Group's bases for the smart production, operation as well as research and development during the reporting period.

ASSETS AND LIABILITIES

The Group continued to maintain its solid financial position. As at the end of 2020, the Group's total assets was RMB94,489 million, representing an increase of RMB6,948 million from RMB87,541 million in 2019. Total liabilities was RMB57,302 million, representing an increase of RMB4,799 million from RMB52,503 million in 2019. The liabilities-to-assets ratio was 60.6%, which was slightly higher than 60.0% at the end of 2019.

INDEBTEDNESS

As at the end of 2020, total indebtedness of the Group was RMB704 million, representing an increase of RMB193 million from RMB511 million as at the end of 2019. Indebtedness of the Group was mainly denominated in US dollar, of which Renminbi loan accounted for 3.3% and US dollar loan accounted for 77.6%; and of which 22.4% was the loans with a fixed interest rate and 77.6% was those with a floating interest rate.

As at the end of 2020, our gearing ratio[5] was 1.9%, which was slightly higher than 1.5% as at the end of 2019.

5 Gearing ratio = total interest-bearing debts at the end of the financial year/(equity attributable to equity shareholders of the Company + interest-bearing debts)

CONTRACTUAL OBLIGATIONS

The following table sets out our contractual commitments as at 31 December 2020:

	Total	**2021**	**2022**	**2023**	**2024**	**2025 and after**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Short-term debt	704,401	704,401	–	–	–	–
Long-term debt	–	–	–	–	–	–
Lease commitments	655,425	227,466	143,939	102,032	78,412	103,576
Contracted for but not provided capital commitments	41,270	41,270	–	–	–	–
Total of contractual obligations	1,401,096	973,137	143,939	102,032	78,412	103,576

EXCHANGE RATE

Most of the Group's revenues and expenses are denominated in Renminbi. As at the end of 2020, the balance of the Group's cash and cash equivalents in foreign currencies accounted for 3.9% of the balance of its total cash and cash equivalents, of which 2.1% and 0.4% were denominated in US dollars and Hong Kong dollars, respectively.

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

HONORARY CHAIRMAN

Mr. WANG Xiaochu

age 62, 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.

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

EXECUTIVE DIRECTORS

Mr. ZHANG Zhiyong

age 55, 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.

Mr. HUANG Xiaoqing

age 56, is the President and an Executive Director of our Company, responsible for our daily operations and management. Mr. Huang is a senior engineer and received a bachelor degree in telecommunications engineering from Nanjing Institute of Posts and Telecommunications in 1985, and an MBA degree from Macau University of Science and Technology in 2003. Prior to joining the Company, Mr. Huang was the General Manager of Jiangxi Branch of China Telecom. Prior to that, Mr. Huang previously served as the Deputy Director of Jiujiang Telecommunications Bureau in Jiangxi Province, the Director of Xinyu Telecommunications Bureau in Jiangxi Province, the General Manager of Xinyu Branch of China Telecom in Jiangxi Province and the Deputy General Manager of Jiangxi Branch of China Telecom. Mr. Huang has over 30 years of operational and management experience in the telecommunications industry in China.

Ms. ZHANG Xu

age 51, 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. GAO Tongqing

age 57, is a Non-Executive Director of our Company. Mr.Gao is currently a Vice President of China Mobile Communications Group Co., Ltd., a Vice President of the China Mobile Limited, a Director and Vice President of China Mobile Communication Co., Ltd., and principally in charge of legal and regulatory matters, technology R&D, international business, investment and others. Mr. Gao is also a Non-Executive Director of China Tower Corporation Limited. Mr. Gao graduated from the Changchun Institute of Posts and Telecommunications with a major in telecommunications engineering and received a doctorate degree in business administration from the Hong Kong Polytechnic University. Mr. Gao previously served as Deputy Director General of Xinjiang Uygur Autonomous Region Posts and Telecommunications Administration, Deputy General Manager and General Manager of Xinjiang Uygur Autonomous Region Telecom Company, General Manager of China Telecom Jiangsu branch, Vice President of China Telecommunications Corporation, and Executive Director and Executive Vice President of China Telecom Corporation Limited. Mr. Gao has extensive experience in management and the telecommunications industry.

Mr. MAI Yanzhou

age 52, is a Non-Executive Director of our Company. Mr.Mai is currently a Vice General Manager of China United Network Communications Group Company Limited, Senior Vice President of China United Network Communications Limited, Senior Vice President of China Unicom (Hong Kong) Limited as well as Director and Senior Vice President of China United Network Communications Corporation Limited. Mr. Mai is also a Non-Executive Director of PCCW Limited and a Non-Executive Director of China Tower Corporation Limited. Mr. Mai is a professor-level senior engineer. He graduated from Zhengzhou University in 1991 and received a master's degree in Electronics and Information Engineering from Beijing University of Posts and Telecommunications in 2002. Mr. Mai previously served as Deputy General Manager of Guangdong Branch of China Network Communications Group Corporation, Deputy General Manager of Guangdong Branch, General Manager of Fujian Branch, as well as General Manager of Liaoning Branch of China United Network Communications Group Company Limited. Mr. Mai also served as a Delegate to the 12th National People's Congress. Mr. Mai has worked in the telecommunications industry for a long period of time and has extensive management experience.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. SIU Wai Keung, Francis

age 67, is an Independent Non-Executive Director of our Company. Mr. Siu is currently an Independent Non-Executive Director of the following listed companies, including CITIC Limited and China International Capital Corporation Limited. Mr. Siu is also an Independent Non-Executive Director of Beijing Gao Hua Securities Company Limited and BHG Retail Trust Management Pte. Ltd, and also the Non-Executive Director of the Financial Reporting Council. Mr. Siu graduated from the University of Sheffield, United Kingdom, with a Bachelor of Arts in Economics and Accounting and Financial Management in 1979. He is also a fellow member of the Institute of Chartered Accountants in England and Wales, and a fellow member of the Hong Kong Institute of Certified Public Accountants. He joined KPMG Manchester, UK in 1979, returned to Hong Kong in 1986 and became a partner of KPMG Hong Kong in 1993. Mr. Siu used to serve as an Independent Non-Executive Director of CGN Power Co., Limited and GuocoLand Limited. He was also previously a Senior Partner of KPMG Shanghai Office, a Senior Partner of KPMG Beijing Office as well as a Senior Partner of Northern Region, KPMG China. Mr. Siu has been in the accounting profession for over 30 years.

Mr. LV Tingjie

age 66, is an Independent Non-Executive Director of our Company. Mr. Lv graduated from Beijing University of Posts and Telecommunications with a master's degree, and obtained a doctorate degree from Kyoto University of Japan. Mr. Lv is currently an Independent Non-executive Director of Beijing Digital Telecom Co., Ltd., and also an Independent Director of China United Network Communications Limited, Shenzhen Aisidi Co., Ltd. and China Satellite Communications Co., Ltd. Mr. Lv is also a member of the Technology Committee and a member of Telecommunication Economics Expert Committee of the Ministry of Industry and Information Technology, a Deputy Director of the E-commerce Instruction Advisory Committee of the Ministry of Education, a member of the Technology Committee of China Post Group Corporation, a Standing Director of the International Telecommunications Society and a Standing Vice Chairman of China Information Economics Society. Mr. Lv used to serve as an Independent Non-executive Director of Global Link Communications Holdings Limited, an Independent Director of Gohigh Data Networks Technology Co., Ltd. and an Independent Director of BOE Technology Group Co., Ltd., 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 74, 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 64, 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 48, is the Chairperson of our Supervisory Committee. Ms. Han is the 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, a Divisional Director of the General Audit Division of China Telecommunications Corporation's Audit Department and the Vice President of the Audit Department of China Telecommunications Corporation. Ms. Han has over 20 years of finance and audit experience in the telecommunications industry.

Mr. HAI Liancheng

age 76, is an Independent Supervisor of our Company. Mr. Hai studied at the Civil Aviation College and Chinese Communist Party's (CPC) School, and obtained a college diploma. Mr. Hai served as Vice-Divisional Director and Divisional Director of the Financial Division of the Financial Department of Civil Aviation Administration of China ("CAAC"), Vice-Director and Director of the Financial Department of CAAC, General Manager of China Aviation Oil Supply Corporation and Vice General Manager of China Aviation Oil Holding Company. Mr. Hai served as the Chairman of South China BlueSky Aviation Oil Co., Ltd. and China Aviation Oil Corporation Ltd.. Since Mr. Han retired in January 2006, he served as the Director General of the CAAC Sub-association of the China Association of Chief Financial Officers and Chairman of the CAAC Training Centre for Accounting and Auditing.

Mr. SI Jianfei

age 58, is an Employee Representative Supervisor and senior manager of the Company. Prior to that, Mr. Si was the Director of the General Manager's Office and Office of Board of Directors of the Company and concurrently served as the General Manager of Beijing Hongxiang Hotel. Mr. Si graduated from University of International Business and Economics in 2002 with an MBA degree. Mr. Si joined the Sideline Industrial Management Department of China Telecommunications Corporation in 2003 and served as the Divisional Director of the General Management Division. Prior to that, Mr. Si was the Deputy Director of Corporate Affairs Department of China Telecom Corporation Limited Xinjiang Branch. Mr. Si has over 30 years working experiences in the telecommunications industry.

MANAGEMENT

Mr. ZHANG Zhiyong

(Please refer to the "Executive Directors" section)

Mr. HUANG Xiaoqing

(Please refer to the "Executive Directors" section)

Ms. ZHANG Xu

(Please refer to the "Executive Directors" section)

Mr. LIANG Hongzhi

age 45, is an Executive Vice President of our Company. Mr. Liang received a bachelor degree in computer communications from Beijing University of Posts and Telecommunications in 1998 and received a master degree in computer technology from Beijing University of Posts and Telecommunications in 2005. Prior to joining the Company, Mr. Liang was the Vice President of Government and Enterprise Customers Department of China Telecommunications Corporation. Mr. Liang previously also served as a Director of Government and Enterprise Customers Department of Liaoning Branch of China Telecom, the General Manager of Benxi Branch of China Telecom, and he also served as a Member of the Standing Committee in Liangshan Prefecture and a Deputy Head of the People's Government of Liangshan Prefecture (took a temporary post and received on-the-job training). Mr. Liang has over 20 years of management experience in the telecommunications industry.

Mr. XU Chuguo

age 57, 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 51, 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 49, is an Executive Vice President and Chief Risk Officer of our Company. Mr. Yan is also 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, the Deputy General Manager and Chief Financial Officer of China International Telecommunications Construction Corporation and the Deputy Managing Director of the Sideline Industrial Management Department of China Telecommunications Corporation. Mr. Yan graduated from Shandong University in 2002 with an MBA degree. Prior to joining the Company in 2006, Mr. Yan served as a Project Manager in Shandong International Trust and Investment Corporation, Office Director and Manager of the Investment Department of Shandong Luxin Investment Corporation, General Manager of Shandong Luxin Property Investment and Development Co., Ltd. and Divisional Director of Coordinated Development Division and Sideline Industrial Restructuring Division of the Sideline Industrial Management Department of China Telecommunications Corporation. Mr. Yan has extensive experience in financial management, business administration and operation of listed companies.

Mr. HU Jingyu

age 57, a member of the senior management of the Company. Mr. Hu is a senior engineer and received a master degree in computer application technology from Huazhong University of Science and Technology. Prior to joining the Company, Mr. Hu served as Deputy Director of Jingzhou Telecommunications Bureau in Hubei Province, Director of the Marketing Department of the Northern Telecom Company Limited of China Telecom Group, Divisional Director of the Customer Service Division of the Marketing Department of China Telecommunications Corporation, Divisional Director of the Service Management Division of the Customer Service Department of China Telecommunications Corporation, and the Secretary to the Discipline Inspection Committee of the Heilongjiang Branch of China Telecom Corporation Limited. Mr. Hu has over 30 years of operational and management experience in the telecommunications industry in China.

Mr. ZHAO Xu

age 46, is an Executive Vice President of our Company. Mr. Zhao joined the Company in September 2007 and used to serve as Divisional Director of the Business Innovation Division of the Company's Domestic Non-telecom Operator Business Department. Mr. Zhao received a master degree in Management Science and Engineering from the Beijing University of Posts and Telecommunications in 2000, and Mr. Zhao is also a CFA charterholder. Prior to joining the Company, Mr. Zhao served in the Finance Department and the Office of the Board of China Telecommunications Corporation. Mr. Zhao has over 20 years of experience in the telecommunications and IT industry.

COMPANY SECRETARY

Mr. CHUNG Wai Cheung, Terence

age 47, is the Company Secretary and Deputy Chief Financial Officer of our Company. Mr. Chung joined the Company in October 2006. Mr. Chung graduated from Melbourne University, Australia in 1996, with a bachelor of commerce degree and received a master's degree in business administration from the Australian Graduate School of Management in 2005. Mr. Chung is a member of the Hong Kong Institute of Certified Public Accountants and the CPA Australia. Mr. Chung previously worked in an international accounting firm, China Mobile Limited and China Telecom Corporation Limited, and has over 20 years of extensive experience in auditing, company secretary and financial management of listed companies.

REPORT OF THE DIRECTORS

The board of directors (the "Board") of China Communications Services Corporation Limited (the "Company") is pleased to present the Report of the Directors of the Company, together with the audited financial statements of the Company and its subsidiaries (the "Group") prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2020.

PRINCIPAL BUSINESSES

The Group is a leading service provider in the informatization sector in the PRC, positioned as "New Generation Integrated Smart Service Provider", which provides integrated comprehensive smart solutions in the field of informatization and digitalization. We offer telecommunications infrastructure services, including design, construction and project supervision and management; business process outsourcing services, including management of infrastructure for information technology (Network Maintenance), general facilities management (Property Management), supply chain and products distribution; and applications, content and other services, including system integration, software development and system support, and value-added services. The major customers of the Group include domestic telecommunications operator customers, domestic non-telecom operator customers such as government agencies, industrial customers and small and medium enterprises, and overseas customers.

RESULTS

Results of the Group for the year ended 31 December 2020 and the financial position of the Group as at that date are set out in the audited financial statements on page 125 to page 206 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 2020, if applicable, can also be found in the aforesaid sections.

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

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

DIVIDEND POLICY

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

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

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

3. daily working capital needs;

4. expectations of shareholders and investors; and

5. other factors that the Board deems appropriate.

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

DIVIDENDS

The Board proposes a final dividend of RMB0.1335 per share and a special dividend of RMB0.0267 per share, and the total dividend is RMB0.1602 per share (pre-tax) for the year ended 31 December 2020. The dividend proposal will be submitted for consideration at the annual general meeting to be held on 18 June 2021 (the "AGM").

Dividends will be denominated and declared in Renminbi. Dividends will be paid in Renminbi for domestic share shareholders and H share shareholders (including enterprises and individuals) who invest in the H shares of the Company listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") through the Shanghai Stock Exchange or Shenzhen Stock Exchange ("the Southbound Trading") (the "Southbound Shareholders"), and dividends for H share shareholders other than the Southbound Shareholders will be paid in Hong Kong dollars. The relevant exchange rate will be the average of the mid-point rates of Renminbi to Hong Kong dollars as announced by the People's Bank of China for the week prior to the date of approval of declaration of dividends by the AGM. The record date for entitlement to the shareholders' rights and the relevant arrangements of dividend distribution for Southbound Shareholders are the same as those for the Company's H share shareholders. The proposed dividends are expected to be paid on or about Friday, 13 August 2021 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 164 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 Southbound Shareholders, will receive all dividends distributed by the Company and will distribute the dividends to the Southbound Shareholders through its depositary and clearing system. According to the relevant provisions under the "Notice on Tax Policies for Shanghai-Hong Kong Stock Connect Pilot Programme (Cai Shui [2014] No. 81)" and "Notice on Tax Policies for Shenzhen-Hong Kong Stock Connect Pilot Programme (Cai Shui [2016] No. 127)", the Company shall withhold individual income tax at the rate of 20% with respect to dividends received by the Mainland individual investors for investing in the H shares of the Company listed on the Stock Exchange through the Southbound Trading. In respect of the dividends for the investment of Mainland securities investment funds investing in the H shares of the Company listed on Stock Exchange through the Southbound Trading, the tax levied on dividends derived from such investment shall be ascertained by reference to the rules applicable to the treatment of individual income tax. The Company is not required to withhold income tax on dividends derived by the Mainland enterprise investors under the Southbound Trading, and such enterprises shall report the income and make tax payment by themselves.

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

DIRECTORS OF THE COMPANY

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

Name	Position in the Company	Date of the first appointment
Wang Xiaochu	Honorary Chairman[1]	8 April 2008
Zhang Zhiyong	Chairman Executive Director	16 March 2018 16 March 2018[2]
Huang Xiaoqing	Executive Director President	21 October 2020 22 September 2020
Zhang Xu	Executive Director Chief Financial Officer Executive Vice President	13 December 2018 14 November 2018 14 November 2018
Gao Tongqing	Non-executive Director	15 June 2020
Mai Yanzhou	Non-executive Director	15 June 2020
Siu Wai Keung, Francis	Independent Non-executive Director	28 June 2012
Lv Tingjie	Independent Non-executive Director	26 June 2015
Wu Taishi	Independent Non-executive Director	26 June 2015
Liu Linfei	Independent Non-executive Director	24 June 2016

On 20 March 2020, Mr. Li Zhengmao and Mr. Shao Guanglu both resigned as a non-executive director of the Company. On 15 June 2020, Mr. Gao Tongqing and Mr. Mai Yanzhou were appointed as non-executive directors of the Company. Mr. Si Furong resigned as the President of the Company on 22 September 2020 and as an Executive Director of the Company on 21 October 2020. Mr. Huang Xiaoqing was appointed as the President of the Company on 22 September 2020 and as an Executive Director of the Company on 21 October 2020.

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

Note:

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

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

SUPERVISORS OF THE COMPANY

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

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

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

SHARE CAPITAL

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

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

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

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

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

As at 31 December 2020, 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 2020, 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 Company Limited	Domestic shares	Beneficial owner	236,300,000 (L)	5.21	3.41
Hermes Investment Management Ltd	H shares	Investment manager	332,571,989 (L)	13.91	4.80
BlackRock, Inc.	H shares	Interests of controlled corporations	143,461,033 (L)	5.99	2.07

Note: (L) – Long Position

Save as stated above, as at 31 December 2020, 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 2020, 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 2020, 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 2020 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 44 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 2020.

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 2020.

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 207 to 208 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 2020.

BANK LOANS AND OTHER BORROWINGS

Please refer to note 33 to the audited financial statements for details of bank loans and other borrowings of the Group as at 31 December 2020.

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 2020.

DISTRIBUTABLE RESERVES

Please refer to note 47 to the audited financial statements for details of the movements in the reserves of the Company for the year ended 31 December 2020.

DONATIONS

For the year ended 31 December 2020, the Group made charitable and other donations of a total amount of RMB2.19 million.

SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINT VENTURES

Please refer to note 46 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 2020.

CHANGES IN EQUITY

Please refer to the consolidated statement of changes in equity contained in the audited financial statements (pages 129 to 130 of this annual report).

PLAN OF EMPLOYEES' RETIREMENT BENEFITS

Please refer to note 40 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 57.5% of the total revenues of the Group; of which, the revenue from the largest customer of the Group represented 34.1% of the total revenues of the Group. The purchases from the five largest suppliers of the Group accounted for less than 3.0% 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. Gao Tongqing and Mr. Mai Yanzhou (positions of them setting out in the "Profiles of Directors, Supervisors and Senior Management" section of this annual report), none of the directors of the Company, their close associates, or any shareholder (holding more than 5% of the issued share capital of the Company) has any interests in such suppliers or customers.

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

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

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

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

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

CONTINUING CONNECTED TRANSACTIONS

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

CONTINUING CONNECTED TRANSACTIONS BETWEEN THE COMPANY AND CHINA TELECOM

The Company and China Telecom entered into seven continuing connected transactions agreements on 29 September 2015 to govern the continuing connected transactions between the Group and China Telecom Group. These agreements include the Engineering Framework Agreement, the Ancillary Telecommunications Services Framework Agreement, the Operation Support Services Framework Agreement, the IT Application Services Framework Agreement, the Centralized Services Agreement, the Property Leasing Framework Agreement and the Supplies Procurement Services Framework Agreement (the "2015 Agreements"). Each of the 2015 Agreements had an initial term expired on 31 December 2018 and, subject to approval from the shareholders (if applicable), the 2015 Agreements would be automatically renewed for a further period of no more than three years each time, unless terminated by either party by giving a written notice three months in advance. All of the 2015 Agreements (excluding the Centralized Services Agreement and the Property Leasing Framework Agreement that did not require independent shareholders' approval under the Listing Rules) were approved by the independent shareholders of the Company at the extraordinary general meeting held on 11 December 2015.

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

Subject to approval from the shareholders (if applicable), the aforementioned seven amended continuing connected transactions agreements will be automatically renewed for a further period of no more than three years each time, unless terminated by either party by giving a written notice three months in advance. In connection with the entering into the 2018 Supplemental Agreements, the Company also set new annual caps for the three years ending 31 December 2021 in respect of the transactions contemplated under the seven continuing connected transactions agreements. The 2018 Supplemental Agreements and the new annual caps (excluding the new annual caps for the 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.

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

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

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

FINANCIAL SERVICES FRAMEWORK AGREEMENT

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

(i) Deposit Services

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

(ii) Loan Services

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

(iii) Other Financial Services

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

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

The following table sets out the annual caps and actual amounts of the above-mentioned continuing connected transactions of the Group during the year ended 31 December 2020:

Unit: RMB million

	Year ended 31 December 2020 Annual Caps	Year ended 31 December 2020 Actual Amounts	Year ending 31 December 2021 Annual Caps
Transactions with China Telecom Group			
Engineering related services provided to China Telecom Group	33,000	17,668	35,000
Ancillary telecommunications services provided to China Telecom Group	24,000	14,888	27,000
Operations support service provided to/by China Telecom Group			
Revenue	4,000	3,422	4,200
Expenditure	2,000	878	2,400
IT application services provided to/by China Telecom Group			
Revenue	4,300	3,052	5,000
Expenditure	500	148	500
Centralized services provided to China Telecom Group	450	382	450
Property leasing provided to/by China Telecom Group			
Revenue	240	138	250
Expenditure	300	158	330
Supplies procurement services provided to/by China Telecom Group			
Revenue	6,500	2,609	7,000
Expenditure	5,200	1,027	5,400
Transactions with China Telecom Finance			
Maximum daily balance of deposits under the deposit services provided by China Telecom Finance (including the interest accrued thereon)	8,000	4,003	8,500

The independent non-executive directors of the Company have confirmed that all the continuing connected transactions for the year ended 31 December 2020 to which the Group was a party:

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

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

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

The independent non-executive directors have further confirmed that:

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

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

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

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

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

4. with respect to the actual amount of each of the continuing connected transactions, nothing has come to their attention that causes them to believe that those actual amounts have exceeded the annual caps.

Save as disclosed above, none of other related-party transactions set out in the note 44 of the consolidated financial statements constitute connected transactions or continuing connected transactions that are required to be disclosed under the Listing Rules.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

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

MATERIAL LEGAL PROCEEDINGS

Except for the disclosure in this annual report, as at 31 December 2020, so far as the directors are aware, the Company was not involved in any material litigation or arbitration and no material litigation or claims had been made against, or were pending or threatened against the Company.

RISK FACTORS

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

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

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

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

2. The business of the Group is closely related to the investment and operating conditions in the Chinese telecommunications sector

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

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

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

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

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

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

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

AUDITORS

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 2020. 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.

Pursuant to the relevant regulations issued by the Ministry of Finance of the People's Republic of China and the State-owned Assets Supervision and Administration Commission of the State Council in respect of the restrictions on the term of the years of audit services that an accounting firm can provide, the service terms of Deloitte Touche Tohmatsu and Deloitte Touche Tohmatsu Certified Public Accountants LLP will expire soon. They will retire as the international auditor and domestic auditor of the Company effective upon the conclusion of the forthcoming AGM and will not be re-appointed. The Board, as recommended by the Audit Committee of the Company, has resolved to propose to the shareholders of the Company at the AGM to approve the appointments of PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian LLP as the Company's international auditor and domestic auditor, respectively, for the year ending 31 December 2021 and to authorise the Board to fix the remuneration of the auditors.

By order of the Board
Zhang Zhiyong
Chairman

Beijing, PRC
29 March 2021

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 third meeting of the fifth session of the Supervisory Committee convened on 27 March 2020, we reviewed and approved proposals such as the Company's 2019 financial report, 2019 auditors' report issued by the external auditors, profit allocation and dividend distribution plan, the Company's work report on risk management and internal control for 2019 and work plan for 2020, the work report of the Supervisory Committee for 2019 and the work plan of the Supervisory Committee for 2020 and formed resolutions. At the fourth meeting of the fifth session of the Supervisory Committee convened on 21 August 2020, we reviewed and approved proposals such as the Unaudited Interim Financial Report for 2020, the Report on the Review of the Interim Financial Report for 2020 issued by the external auditors and the work report on risk management and internal control for the first half of 2020 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 2020 and general 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 faced the severe impact of the pandemic on its production and operation. The Company seized the opportunity of digital transformation and accelerated market expansion under the environment of normalization of pandemic prevention and control. In 2020, the Company's total revenues maintained a positive growth and amounted to RMB122,649 million and net profit amounted to RMB3,081 million. The Company's revenue structure was further optimized, its financial position remained stable and operating results continued to improve, resulting in a continuous increase in the corporate value.

The Supervisory Committee is of the opinion that, in 2020, 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 2020 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 2021, 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 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
25 March 2021

CORPORATE GOVERNANCE REPORT

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

CORPORATE GOVERNANCE PRACTICES

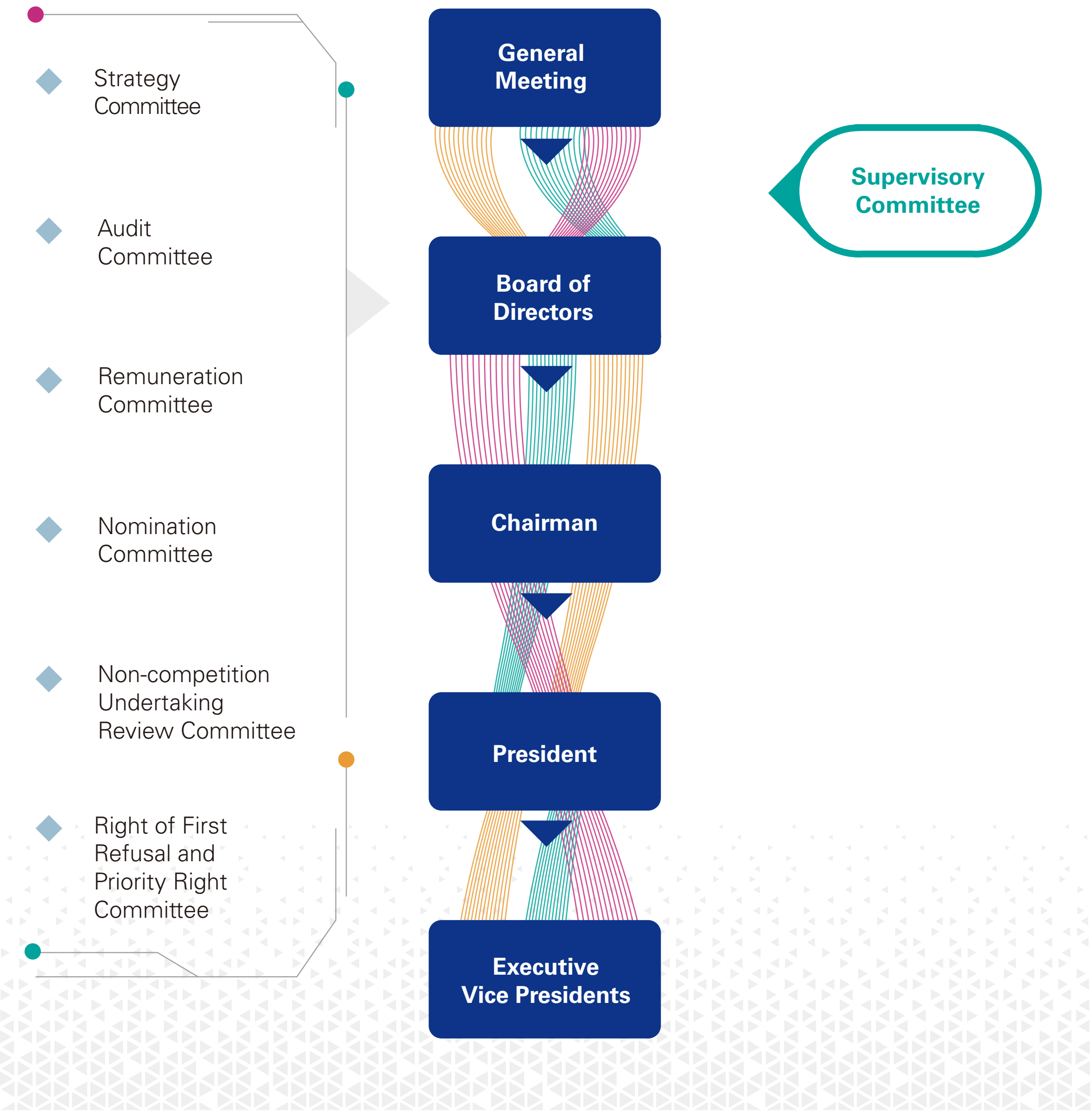
As a joint stock limited company incorporated in the PRC with limited liability and listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company has not only complied with the relevant provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong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

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

The Company has been recognized by the capital market for its sound corporate governance over the years. In 2020, the Company was continuously awarded the corporate management and Environmental, Social and Governance related awards by international institutions such as *The Asset* and *Corporate Governance Asia*.

Throughout the year ended 31 December 2020, 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 2020.

For the 2019 AGM, a physical meeting was held in Beijing on 15 June 2020, at which the resolutions, including the 2019 financial statements, profit distribution proposal and dividend declaration proposal, appointment of auditors, report of the directors, report of the supervisory committee, appointment of non-executive directors and the amendments to the Articles of Association, were considered and approved. Shareholders and authorized proxies representing 87.47% of the total voting shares of the Company were present at the AGM, and the percentage of votes cast in favour of each resolution was over 78%.

For the EGM of 2020, a physical meeting was held in Beijing on 21 October 2020, at which the resolution of the appointment of executive director was considered and approved by the shareholders. Shareholders and authorized proxies representing 87.69% of the total voting shares of the Company were present at the EGM, and the percentage of votes cast in favour of that resolution was 96.08%.

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

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

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

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

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

Pursuant to Article 8.6 of the Company's Articles of Association, when the Company convenes a general meeting, shareholder(s) holding 3% or more of the total voting shares of the Company shall have the right to submit new proposals in writing, and the Company shall place such proposals on the agenda for such general meeting if they are matters falling within the functions and powers of shareholders in general meetings.

SHAREHOLDERS' ENQUIRIES

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

COMMUNICATION WITH SHAREHOLDERS

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

BOARD OF DIRECTORS

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

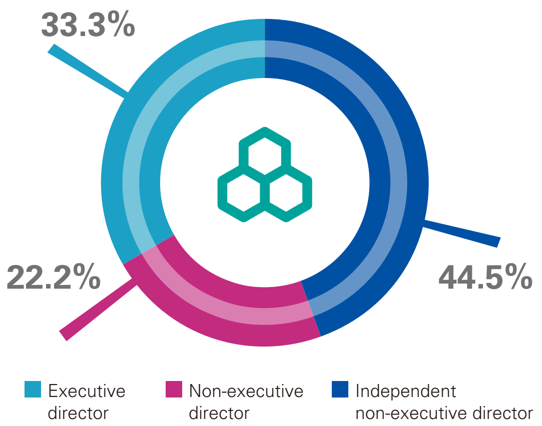
CHAIRMAN AND PRESIDENT

Mr. Zhang Zhiyong and Mr. Huang Xiaoqing 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. Huang Xiaoqing, our President, is responsible for the Company's daily operation and management.

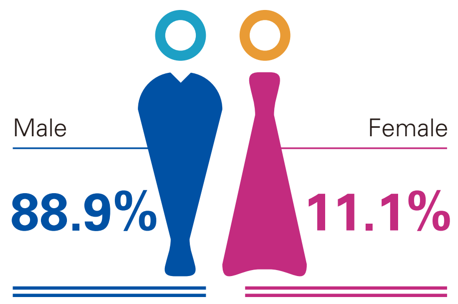
COMPOSITION OF THE BOARD AND DIVERSITY POLICY

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

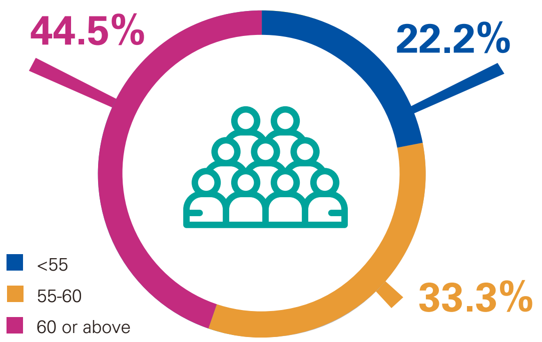
COMPOSITION



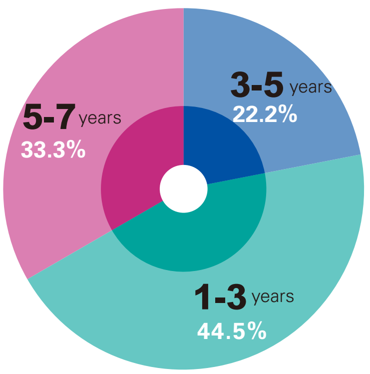
GENDER



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, which is in line with the Company's board diversity policy. The Nomination Committee of the Board will also review the Board structure at least annually. The Board has four independent non-executive directors, of which two independent non-executive directors (Mr. Siu Wai Keung, Francis and Mr. Wu Taishi) possess accounting professional qualification in compliance with Rules 3.10 and 3.10A of Chapter 3 of the Listing Rules. The profiles of the directors are set out in the "Profiles of Directors, Supervisors and Senior Management" section of this annual report and the Company's website.

As of the date of this report, to the best knowledge of the directors, the members of the Board did not have any financial, business, family or other material connection with each other, in particular between the Chairman and the President, and all of them are free to make independent judgments.

The Company has received the written annual confirmation of independence from each of the independent non-executive directors pursuant to Rule 3.13 of the Listing Rules, and considers all independent non-executive directors to be independent.

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

Directors devoted sufficient time and efforts to the business of the Company. The Company also requires the directors to disclose the number of positions they hold in public companies or organizations and provide the Company with the time they devoted to the relevant positions. In order to further strengthen the interactive communications with directors, supervisors and the management of the Company, the Company organized one physical exchange meeting in 2020. The meeting provided an opportunity to the directors, supervisors and all management to conduct a face-to-face and in-depth discussion on corporate strategy and other significant matters and jointly discuss the future development plans of the Company, which also deepened the understanding of directors and supervisors on the Company's business.

SECURITIES TRANSACTIONS BY DIRECTORS

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

NOMINATION AND APPOINTMENT OF DIRECTORS

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

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

MEETINGS OF THE BOARD

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

The Company Secretary assists the Chairman in preparing the agenda for Board meetings. Unless stipulated otherwise by the Board in advance, the time and place for any Board meeting shall be notified to all directors at least 14 days prior to the date of the meeting. The agenda and related documents of the Board meetings will be 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 2020, the Board held four meetings and passed four 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 other resolutions, including the appointment of directors, the appointment of executive vice presidents, the amendments to the articles of association of the Company, the "14th Five-Year Plan" for the Group, the optimization of China Comservice headquarters organizational structure, purchasing property as the bases for the smart production, operation and research and development of China Comservice as well as the proposal for the mixed-ownership reform and capital increase via the equity exchange of China Comservice Supply Chain Management Company Ltd.

In 2020, the Chairman of the Company had a meeting with the independent non-executive directors without the presence of other directors.

The attendance record of the Company's directors in Board meetings, board committee meetings and general meeting(s) in 2020 were as follows:

	Attendance in 2020/Meeting convened during period of appointment					
	Board of Directors	Strategy Committee	Audit Committee	Non-competition Undertaking Review Committee	AGM	EGM
Executive Directors						
Zhang Zhiyong	4/4	1/1	–	–	1/1	1/1
Huang Xiaoqing[(1)]	2/2	1/1	–	–	–	–
Zhang Xu	4/4	1/1	–	–	1/1	1/1
Non-executive Directors						
Gao Tongqing[(2)]	2/3[(3)]	1/1	–	–	–	0/1
Mai Yanzhou[(4)]	3/3[(5)]	1/1[(6)]	–	–	–	1/1
Independent Non-executive Directors						
Siu Wai Keung, Francis	4/4	–	2/2	2/2	1/1	1/1
Lv Tingjie	4/4	1/1	2/2	2/2	1/1	1/1
Wu Taishi	4/4	–	–	–	1/1	1/1
Liu Linfei	4/4	–	2/2	2/2	1/1	0/1
Resigned Directors						
Si Furong[(7)]	2/2	–	–	–	1/1	1/1
Li Zhengmao[(8)]	–	–	–	–	–	–
Shao Guanglu[(9)]	–	–	–	–	–	–

Notes:

1. Mr. Huang Xiaoqing was appointed as an executive director of the Company with effect from 21 October 2020.
2. Mr. Gao Tongqing was appointed as a non-executive director of the Company with effect from 15 June 2020.
3. Mr. Gao Tongqing appointed another director to attend one meeting.
4. Mr. Mai Yanzhou was appointed as a non-executive director of the Company with effect from 15 June 2020.
5. Mr. Mai Yanzhou appointed another director to attend two meetings.
6. Mr. Mai Yanzhou appointed another director to attend one meeting.
7. Mr. Si Furong resigned as an executive director of the Company on 21 October 2020.
8. Mr. Li Zhengmao resigned as a non-executive director of the Company on 20 March 2020.
9. Mr. Shao Guanglu resigned as a non-executive director of the Company on 20 March 2020.

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 2020, 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	✓	✓	✓
Huang Xiaoqing	✓	✓	✓
Zhang Xu	✓	✓	✓
Non-executive Directors			
Gao Tongqing	✓	✓	✓
Mai Yanzhou	✓	✓	✓
Independent Non-executive Directors			
Siu Wai Keung, Francis	✓	✓	✓
Lv Tingjie	✓	✓	✓
Wu Taishi	✓	✓	✓
Liu Linfei	✓	✓	✓

BOARD COMMITTEES

As an important part of a sound corporate governance practice, the Board has set up five board committees since the listing of the Company: the Audit Committee, the Remuneration Committee, the Nomination Committee, the Non-competition Undertaking Review Committee and the Right of First Refusal and Priority Right Committee, and all of which are responsible for the supervision of the overall affairs of the Company in various areas and assistance of discharging its responsibilities. All the five board committees comprise of independent non-executive directors to ensure full expression of independent and objective views and to fulfill each of its responsibilities of review and supervision. In August 2019, the Company newly set up a Strategy Committee to further enhance its corporate governance. The list of members of each committee is published on the websites of the Company and the Stock Exchange.

Strategy Committee

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

In 2020, the Strategy Committee held one meeting and reviewed the resolutions of implementation status of the high-quality development strategic plan and the "14th Five-Year Plan" for the Group.

Audit Committee

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

In 2020, the Audit Committee held two meetings, and mainly reviewed the resolutions of the audited financial report of the Company of 2019, interim report of 2020, 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 2020, the Remuneration Committee did not hold any meeting.

Nomination Committee

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

In 2020, the Nomination Committee passed two written resolutions, and mainly reviewed the resolutions regarding the recommendation for the appointment of executive director and non-executive directors, as well as reviewing the structure and composition of the Board.

Non-Competition Undertaking Review Committee

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

In 2020, 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 2020. 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 2020, 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. In 2020, the Independent Board Committee did not hold any meeting.

SUPERVISORY COMMITTEE

The Company established a Supervisory Committee pursuant to the PRC Company Law. The Supervisory Committee consists of three members: Ms. Han Fang (the chairperson), Mr. Hai Liancheng (the external independent supervisor) and Mr. Si Jianfei (the employee representative supervisor). 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 2020, the Supervisory Committee held two meetings, details of which are set out in the "Report of the Supervisory Committee" of this annual report.

AMENDMENTS TO THE ARTICLES OF ASSOCIATION

At the annual general meeting of 2019, the shareholders of the Company approved the amendments to the Articles of Association. Pursuant to the "Reply of the State Council on the Adjustment of the Notice Period of the General Meeting and Other Matters Applicable to the Overseas Listed Companies (Guo Han [2019] No. 97)", which amended the requirements with respect to notice period, shareholders' proposal rights and convening procedures for general meetings applicable to joint stock companies incorporated in the People's Republic of China and listed overseas, the Board amended the relevant provisions of the Articles of Association regarding the procedures convening general meetings accordingly. In addition, the Board also made certain other amendments in accordance with the Company Law of the PRC. The amended Articles of Association were published on the websites of the Company and "HKExnews" of the Stock Exchange.

COMPANY SECRETARY

The Company Secretary, Mr. Chung Wai Cheung, Terence, is an employee of the Company and has appropriate understanding of the Company's business. The Company Secretary is responsible for supporting the daily operation of the Board and ensuring the compliance with the policies and procedures of the Board. All of the directors can access to opinions of the Company Secretary to ensure that the procedures of the Board conform to the applicable laws and regulations. The profile of the Company Secretary is set out in the section of "Profiles of Directors, Supervisors and Senior Management" in this annual report. The Company Secretary met the requirement on professional training under the Rule 3.29 of the Listing Rules in 2020.

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 eight 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 and non-audit services provided to the Company during the year amounted to RMB35.1 million and RMB0.8 million respectively.

DIRECTORS' RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

The responsibility statement of Deloitte Touche Tohmatsu, our external auditors, regarding its Independent Auditor's Report on the financial statements of the Group is set out on pages 121 to 124 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 2020, 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 2021, 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 2020 and the assessment of material risks and the control plan for 2021.

Since its listing in 2006, the Company has formulated the internal control manual, internal control assessment rules and other systems based on the COSO internal control framework. Over the years, the Company has striven to improve the systems related to internal control and risk management in light of the changes in internal and external operating environments and business development requirements. In 2020, according to the internal and external regulatory requirements, as well as in response to the strategy of corporate transformation, the Company adapted to the changes in its operation management and policy environment and completed the revision of the internal control manual, and optimized and improved the internal control authority list. These revisions were on provisions on the contract management, capital management, business subcontracting management and other business processes, and strengthened the management and supervision, such as the general control of information system and product distribution business risk management practices, and also complemented the financial services transaction management practices, to ensure that the internal control manual to satisfy with the Company's management needs.

The Company has established an internal audit division, which is responsible for organizing the Company's daily risk management and internal control assessment, and reporting to the Audit Committee and the Board of Directors to ensure that the Board and management maintain and operate a sound risk management and internal control system in accordance with established procedures and standards. In 2020, the Company further strengthened audit supervision, and attached importance to the audit rectification and the utilization of the results of audit, so as to foster management improvement and to prevent loophole. The above work plays an important role in supporting the Board, the management and the risk management and internal control assessment.

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

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

Annual Risk Management and Internal Control Assessment

The Company continues to focus on strengthening internal control and risk management and has sound internal control and management systems in place. The main internal control and risk management measures of the Company in 2020 are summarized as below:

In 2020, the internal audit division of the Company took the lead in organizing self-assessment for internal control within the whole Group. During the year, the Company continued its risk-oriented internal control self-assessment, which was organized from top to bottom and under a unified manner. With the changes in the Company's internal and external environments as well as the continuous expansion of its business scale, the Company increased its attention to comprehensive risk management. On the basis of its risk-oriented internal control self-assessment system and a comprehensive assessment, the Company identified the key areas and processes to focus on according to the major risks that might be faced by the Company during the year, and effectively and adaptively prepare the list of contents to be addressed for the self-assessment in the year, so as to accomplish a comprehensive and well-targeted inspection and assessment, which covered all of its subsidiaries.

The internal control self-assessment was conducted under the supervision of the Company's working group on risk management and control processes, led by the audit division, and organized and coordinated by the relevant departments. With the business departments playing a leading role in dealing with the risk management issues at source, the Company further promoted the effective combination between the self-assessment and daily operation management and ensured the effectiveness of the self-assessment work. The business departments were to decide on the persons responsible, exert themselves as the first line of defense of risk management, and instill the risk prevention awareness into all areas of the Company's operations, so as to enhance the effectiveness of their self-assessment efforts and promote the improvement of their management.

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

In 2020, the Company further improved the internal audit system, and continued to promote the execution of audit project plan and conduct comprehensive internal audit. The Company made independent and objective supervision and assessment of the operation activities and the appropriateness, compliance and effectiveness of its internal control, with an aim to enhance its operation and create more value for the Company, improve the processes for risk management, control and corporate governance and contribute to the fulfillment of its strategic goals. In light of the requirement on annual key risk control and the characteristics of its operation and management, the internal audit in this year mainly included, among others, economic accountability audit, revenues audit and audit for construction work with focuses on relevant matters such as income and cost accounting, cash management, and product distribution business management. Upon the request of the management of the Company and in light of the needs of relevant business departments, the internal audit division made use of the data from the audit and the audit outcomes to hold the audit joint meeting, so as to provide advice for the decision-making and operation and management activities of the Company.

In 2020, the Company attached great importance to strengthening the audit informatization. The audit informatization system has been fully launched, and functional modules such as plan management and project management have been developed. The audit informatization enables us to solidify the whole process of project management, improve the audit quality control, continuously expand the audit coverage, and improve the audit effectiveness and efficiency. In 2020, the Company strengthened the internal audit team building by increasing its training efforts, and organized the heads of audit institutions and audit personals who have been on the job for less than two years to participate in the training of more than 3,000 hours by China Institute of Internal Audit. Meanwhile, the "Audit Cloud Classroom" was established to implement the audit policies and share the audit experience, which effectively improved the audit team's specialization and professionalism, and enhanced the ability of risk identification and assessment of internal audit.

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 2020. After receiving the report from the internal audit division as to the effectiveness of the relevant systems and the relevant confirmation from the management to the Board, the Board considered that the risk management and internal control systems of the Company were stable, healthy, proper, effective and adequate, and has satisfied the requirements under Rule C.2 of the Corporate Governance Code of the Stock Exchange regarding risk management and internal control.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

This report is prepared pursuant to the Environmental, Social and Governance ("ESG") Reporting Guideline (the "Guideline") in Appendix 27 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). This report covered the period from 1 January 2020 to 31 December 2020, and the key performance indicators in respect of environmental protection were mainly from the Group and certain large-scale subsidiaries. There is no significant change in the scope of this report from that of the 2019 ESG Report. This report has complied with all the "comply or explain" provisions as set out in the Guideline. We did not disclose certain key performance indicators which are required to be disclosed by the Stock Exchange but not directly related to the business of the Group or have minimal influence.

PHILOSOPHY OF ENVIRONMENTAL, SOCIAL AND GOVERNANCE

The Group is a leading service provider in the informatization sector in the PRC that adheres to the position as a "New Generation Integrated Smart Service Provider" and commits to "Building Smart Society, Boosting Digital Economy, Serving a Good Life". The Group provides integrated comprehensive smart solutions in the informatization and digitalization sectors. It consistently upholds its principle of "customer-oriented, outstanding performance, efficient resources allocation and innovative leadership", focuses on customer demands and values staff as fundamental assets. 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 actively fulfill 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 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.

ESG GOVERNANCE STRUCTURE

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

The strategic planning department of the Group is responsible for the overall planning of the ESG Report as well as the forming of working group together with the relevant departments of the headquarters and companies at the provincial level, which is responsible for the implementation of the environmental, social and governance strategies of the Company. The strategic planning department is also responsible for the management and monitoring of the effectiveness and preparation for information disclosure of the ESG Report.

COMMUNICATION WITH STAKEHOLDERS

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

Stakeholders	Mechanism and Means of Communication	Expectation on the Company	Company Response
Government and Regulatory Authorities	Meeting	Abide by laws and regulations	Comply with laws and operate in good faith
	Report or statement	Fulfill requirements of the government	Pay taxes in accordance with law and promote employment
	Report and visit	Promote construction of industrial ecosystem	Innovate smart products and services
Shareholders and Investors	Periodic report and announcement	Preserve and increase asset value	Operate in a stable and healthy manner and continuously create values for shareholders
	Special report and visit	Regulate corporate governance	Improve corporate governance and continuously improve internal control
	Daily communication	Prevent operating risks	Protect interests of investors, particularly minority investors in accordance with the laws
	Investor meeting	Regulate information disclosure	Disclose corporate information in strict accordance with rules

Stakeholders	Mechanism and Means of Communication	Expectation on the Company	Company Response
Employees	Staff representative supervisor and staff meeting	Protect legal interests	Regulate labour management
	Employee symposium with management	Realize career development	Strengthen employee training and streamline career development path
	Employee questionnaire	Participate in management	Improve income distribution and benefit package mechanism
	Letter and visit	Care about employees	Care about employees' physical and mental health and improve working condition
Suppliers	Supplier selection and engagement	Establish a clear procurement system, a strict process and a set of regulated conduct	Establish a synergistic and lawful procurement management system with separated supplier selection function, procurement function and monitoring function
	Subcontract management	Show explicit requirement and implement transparent management	Set up a supplier resource pool, ensure supplier qualification and service capability, provide necessary trainings and intensify full-process management on a project basis
Customers	Contract fulfillment	Provide high value for money solutions (services and products) to cater for customer needs	Further understand customer needs, innovate smart products and satisfy customer-tailored demands
	Visit and conference	Provide excellent services	Realize full life cycle business management through project report, regular meeting and project feedback
	Roadshow and exhibition	Respond quickly	Respond immediately to customers
Community	Community communication activity	Protect environment	Implement energy saving and emission reduction and reduce water and electricity consumption
	Community construction activity	Secure emergency communications	Actively respond to disaster relief and communications safeguard
	Public welfare activity	Care about the underprivileged	Conduct poverty-alleviation activities and help the disabled and the poor

Following a substantial study and analysis on the 12 ESG topics presented in the Guideline, the Group has identified several material topics by considering the characteristics of its own businesses and the industries in which it operates. These material topics, including "Human Resources Management", "Development and Training", "Health and Safety" and "Supply Chain Management" (content of which to be discussed separately in this report), are emphatically disclosed and analysed in this ESG Report.

ENVIRONMENTAL PROTECTION AND RESOURCES UTILIZATION

EMISSIONS

As an informatization communications services enterprise, the Group has always complied with relevant national laws and regulations on emission including the Environmental Protection Law of the People's Republic of China and the Energy Conservation Law of the People's Republic of China during the course of service provision. We have established an internal management system in respect of environmental protection and resources utilization, and embarked on energy-saving and emission-reduction activities. In 2020, the total energy consumption of the Group was approximately 172,000 tons of standard coal, with an energy consumption per revenue of RMB10,000 of 14.06 kg of standard coal (2019: approximately 162,000 tons of standard coal, with an energy consumption per revenue of RMB10,000 of 13.77 kg of standard coal).

According to the energy report of the Group, the total emission of greenhouse gases arising from energy consumption of the Group in 2020 as accounted pursuant to the Greenhouse Gas Protocol was approximately 554,400 tons (2019: approximately 415,800 tons).

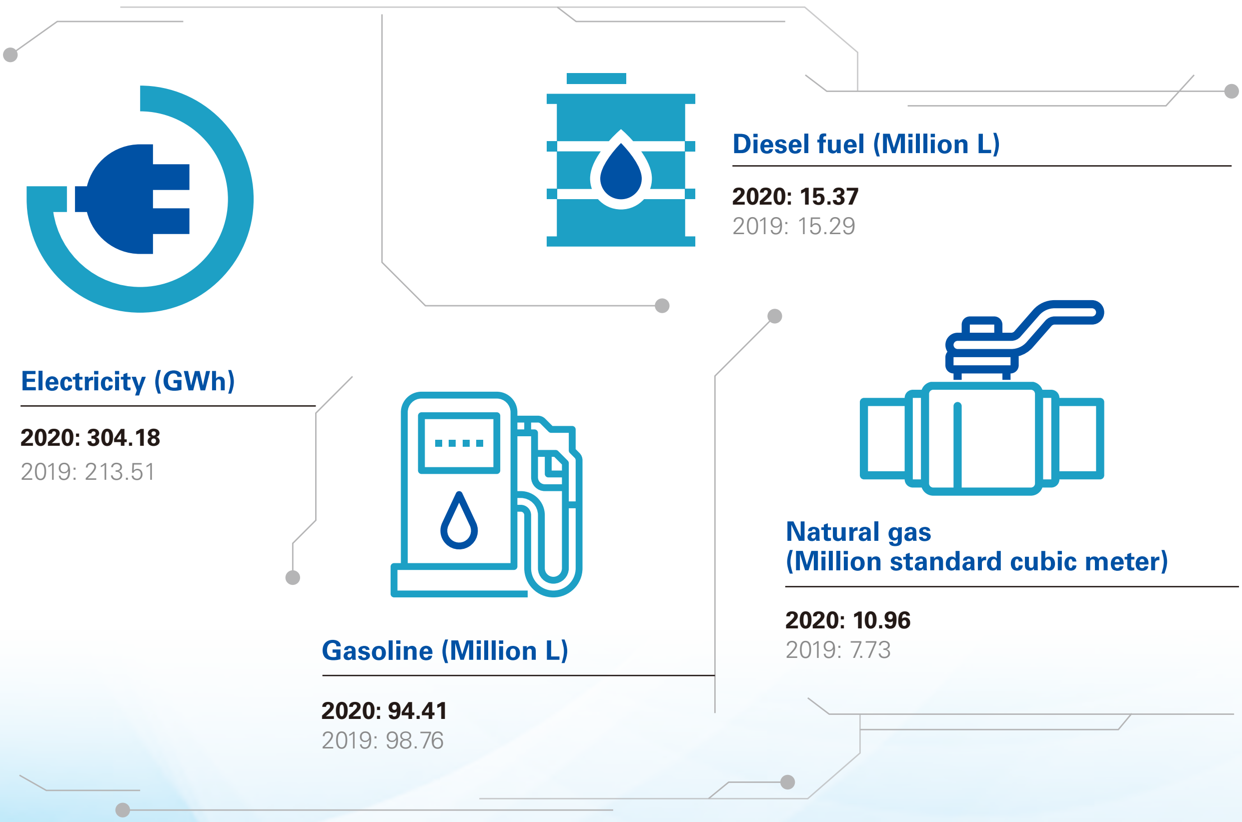
Type of Emissions	2020	2019
Greenhouse gas emissions (10,000 T)	**55.44**	41.58
Direct emissions (Scope 1)	**34.98**	27.15
Indirect emissions (Scope 2)	**20.46**	14.43

Note: Scope 1 direct greenhouse gas emissions include greenhouse gas emissions from the consumption of natural gas, coal, gasoline and diesel fuel.

Scope 2 indirect greenhouse gas emissions include greenhouse gas emissions from the purchase of electricity and heating.

Total greenhouse gas emissions are the sum of Scope 1 direct greenhouse gas emissions and Scope 2 indirect greenhouse gas emissions.

◆ DIRECT/INDIRECT ENERGIES BY TYPE



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

Daily garbage (10,000 T)	Sewage emissions (10,000 T)	Office paper consumption (T)
2020: 0.53	**2020: 54.27**	**2020: 693.50**
2019: 0.69	2019: 54.88	2019: 715.23

Notes: The data above represents the summarized data of some of the provincial companies and professional companies of the Group.

The Group is an asset-light enterprise and the sewage it discharges is mainly domestic sewage.

RESOURCES UTILIZATION

As for water consumption, the Group's water supply is provided by the owner or property manager of the office building. The Group attaches great importance to the reasonable and efficient usage of water resource in the normal course of business. We strive to promote and advocate water conservation by measures including daily public notices and installing water-saving taps, to further intensify the management of water resource utilization and the reduction of unnecessary consumption of water resource.

Under the influence of the pandemic in 2020, the Group and each of its provincial company and professional company increased the frequency of daily disinfection and cleaning of public areas, and instructed staff to wash their hands regularly before and after meals and after touching public objects, and to take proper personal precautions. Consequently, the Group's total water consumption was approximately 6.19 million tons (2019: approximately 5.90 million tons), representing a slight increase as compared to last year.

As for consumption of packaging materials, the Group operates in the informatization communications services industry and is mainly engaged in design, construction, supervision and maintenance, etc. There is no substantial usage of packaging materials in the course of production and operation.

The Group constantly improves the organizational system, management system and work process relevant to energy saving and emission reduction through multiple measures, in order to effectively reduce energy consumption. Campaigns like energy-saving promotion week and national low-carbon day are actively carried out by the Group to continuously enhance the energy-saving and environmental-protection awareness of our staff. Green and paperless office, waste paper recycling and double-sided printing are continuously implemented to effectively save office paper. A vehicle management system is adopted to strictly control fuel charges. All vehicles of the Group are equipped with GPS to choose the most environmental friendly option for driving while ensuring safety and reducing oil consumption and vehicle exhaust. Multiple provincial companies and professional companies of the Group utilize energy consumption monitoring platform to enhance the informatization level in monitoring and controlling their energy saving and emission reduction. The Group strictly implements the assessment and reward and punishment mechanisms in relation to energy saving and emission reduction and sets energy-saving and emission-reduction budgetary targets for its provincial companies each year, to ensure the smooth fulfillment of annual energy-saving tasks.

CLIMATE CHANGE

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

In 2020, the Group had active studies and discussions on the plans in relation to responding to climate change, the control of greenhouse gas emission, promotion of green and low-carbon development, and built relevant capabilities, organized scientific research and publicity work in fighting against climate change and endeavoured to improve its capability in environment management, with a view to making contribution to contain the global warming.

Responding to Climate Change: Energy Saving and Emission Reduction

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

Responding to Climate Change: Innovating Product Design to Achieve Energy Saving and Consumption Reduction and Realize Green Operation

Our provincial companies and professional companies improve employees' awareness of energy conservation and emission reduction through multiple measures. They promoted new technologies and new businesses in relation to energy saving by organizing trainings on energy saving and emission reduction. The companies also actively participated in seminars in relation to energy-saving and environmental friendly products and businesses to share energy-saving experience and results and promote energy-saving products in collaboration with its partners. The energy-saving elements are integrated into each part of services provided to customers. The Group makes strong efforts to promote the establishment of green base stations and green data centers and facilitate the recycling of waste materials. During the new construction and reconstruction of equipment rooms, IDCs and other infrastructures, the Group follows the advanced development principle of green and energy-saving, adopts the form of contracted energy management and entrusted energy management, provides green consultation, design, construction, maintenance, property management and other services to promote the application of energy-saving products, energy consumption monitoring platform and big data applications, enabling customers to save energy while raising efficiency.

1. *Green Data Center*

Huaxin Consulting Co., Ltd. (華信諮詢設計研究院有限公司), a subsidiary of the Group, has always been adhering to the design concepts of green, intelligentization and innovation, actively promoting the green, energy-saving and healthy development of data centers in the industry, and providing integrated data center solutions for customers of all types. It has been invited to attend three sessions of Data Center Cooling and Energy Conservation Technology Summit and delivered a keynote speech on the "Application and Prospect of Cooling Technologies for Data Centers in New Infrastructure", providing references for application of energy-saving technologies in data centers through data center policy review, in-depth analysis of energy saving technologies and model-based estimation of typical climate, and sharing opinions and communicating on future development trends such as green and energy saving, intelligentization and reliability, module deployment and flexible utilization of data centers. In the cloud computing information park project built for our clients, innovative design and construction are adopted in the integrated air duct intelligent heat exchange system, enabling its air conditioning system to fully integrate with the local natural conditions. Natural cooling sources are utilized in a gradient approach, which enables the data center to achieve wholly free cooling for 55% of the year and partially free cooling for 26% of the year, significantly reducing energy consumption of the air conditioning system and lowering the PUE to below 1.3, reaching an internationally and domestically advanced level.

2. ***Green Campus Platform***

Zhejiang Post & Telecommunication Construction Co., Ltd. (浙江省郵電工程建設有限公司), a subsidiary of the Group, built a green campus energy consumption big data platform for a university, connecting water, electricity and gas meters, air conditioning and streetlights on campus to operators' network platforms, realizing unified management, saving management costs and improving management efficiency. Upon the launch of the platform, the original four-person task of water and electricity meter reading turned to be done by one person online, directly saving 75% of labour costs. Instead of the previous working model of being switched on and off collectively at a pre-set time, streetlights can now be managed and controlled on an as-needed, by-time and by-zone basis, reducing energy consumption by 50%. As for control of air conditioning system, we realized unified management on the platform and big data analysis for energy-saving regulation purpose, reducing energy consumption by 15%. The university reduced its monthly electricity consumption from approximately 1.41 million kWh to approximately 1.22 million kWh, reducing energy consumption by 13%.

3. ***Eco-friendly Recycling***

Several professional companies of the Group collect returned network equipment and inefficient equipment of high-energy consumption for recycling and disposal via a green auction platform. By the introduction of a reverse integrated asset disposal model of "dismantling, transportation, storage and sale", a closed-loop ecological chain of asset disposal, starting from the source of scrap materials till the auction and delivery of assets, has been developed, which not only realizes eco-friendly disposal of waste and obsolete products, but also achieves effective utilization of resources. Among which, China Comservice Energy Saving Technology Co., Ltd. (中通服節能技術服務有限公司), a subsidiary of the Group, disposed scrap materials like returned network boards and cards, batteries and cables of RMB480 million through the auction platform in 2020, with the accumulative disposal amount reaching RMB16.0 billion. The green auction platform is supported by 26 warehouses & logistics systems, 1,100 reliable recyclers and 16 valuation techniques, which not only help its customers to improve economic efficiency but also minimize the risk of waste emission. Since obtaining the auction operation license at the end of 2017, Zhongjie Telecommunications Co., Ltd. (中捷通信有限公司), a subsidiary of the Group, has been committed to the business of disposal of waste and obsolete products. From 2019 to 2020, Zhongjie Telecommunications Co., Ltd. (中捷通信有限公司) assisted its customers to dispose of RMB1.63 billion of assets, including RMB1.47 billion of copper cables, RMB76 million of obsolete lead-acid batteries and RMB84 million of scrap materials.

4. ***Green and Energy Saving Products***

In 2020, China Comservice Energy Saving Technology Co., Ltd. (中通服節能技術服務有限公司), a subsidiary of the Group, adopted energy-saving and emission-reduction products such as heat pipe backplane, cold channel, flexible DC, integrated refrigeration station, double-circuit heat pipe air conditioner, and inverter air conditioning unit, to provide customers with energy-saving and emission-reduction technical services such as fresh air enthalpy difference-based energy saving transformation, inverter transformation of EC fans, precise air supply-oriented transformation, water cooling transformation of condensers, air conditioner grouped control transformation, and overall energy saving transformation of the cooling system.

5. ***Intelligent Environmental Monitoring***

The integrated intelligent environmental monitoring platform developed by Hubei Post Planning Design Co., Ltd. (湖北郵電規劃設計有限公司), a subsidiary of the Group, is capable of conducting standardized environmental monitoring data collection, transmission, interpretation, display and analysis, and realizing remote monitoring and control over the sewage treatment system through customised development. The system also allows interfacing with other systems through the interface to achieve data exchange and sharing. The intelligent environmental monitoring system is designed by adopting the SOA architecture and uses a combination of cloud computing, Internet of Things and big data technologies to monitor over sewage, air, noise and solid waste, realizing real-time data collection, transmission, analysis and display, real-time alarming of equipment and data abnormalities.

6. ***Intelligent Energy Consumption Monitoring***

Chongqing Communications Services Company Limited, a subsidiary of the Group, has been commissioned by a municipal level energy-saving technology service center, since 2018, to undertake the research and development and technical services of an online energy consumption monitoring platform project for major energy consumption units of the city. The platform aims at the city's energy consumption management. It integrates functions of online energy monitoring and management, energy saving target management, energy consumption management, overall energy control, energy service management, energy efficiency management, transaction management, electricity demand-side management, etc., to realize "visualisation of real-time energy data", "real-time observation of energy efficiency indicators", "real-time control over energy saving targets" and "real-time trace of energy use" for major energy consumption units. It has successfully helped customers to grasp energy data on a real-time basis, formulate energy policies and energy saving targets accurately, and promoted major energy consumption units to fully explore their energy saving potential, achieve cost-reducing operation and green development. As of May 2020, the online energy consumption monitoring platform has realized real-time monitoring and management of more than 200 major energy consumption units in the city and achieved an energy consumption management rate of 70% for the city, providing strong support to improve energy utilization efficiency of enterprises.

Intelligent online energy consumption monitoring

7. *Intelligent Photovoltaic (PV) Operation and Maintenance*

Jiangxi Communications Services Company Limited, a subsidiary of the Group, is dedicated to the promotion and development of intelligent PV projects. By laying solar panels on the roofs of houses and agricultural sheds and using the distributed solar power generation technology, each household becomes a miniature solar power station. In a project to provide intelligent operation and maintenance services for the photovoltaic power stations of a prefecture-level city, the Company is mainly responsible for building a 4G central control software platform and conducting relevant maintenance and upgrade work, carrying out module cleaning, data analysis, regular inspection, and troubleshooting for the power stations and preparing relevant reports. At present, the Jiangxi company has won the bid for the intelligent operation and maintenance service projects for four photovoltaic power stations with a total capacity of 52 MW, keeping on contributing to intelligent PV development.

Intelligent operation and maintenance of photovoltaic power stations

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

HUMAN RESOURCES MANAGEMENT

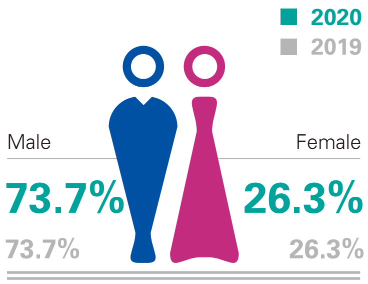
EMPLOYMENT

The Group had approximately 90,000 employees as at 31 December 2020. We are committed to ensuring equal development opportunities for both genders, protecting and enhancing the rights of female employees. Our employees are located primarily in the PRC with certain number of them located in the other districts such as Southeast Asia, the Middle East and Africa. Our employees are divided into contract employees, dispatched employees, part-time employees and other employees.

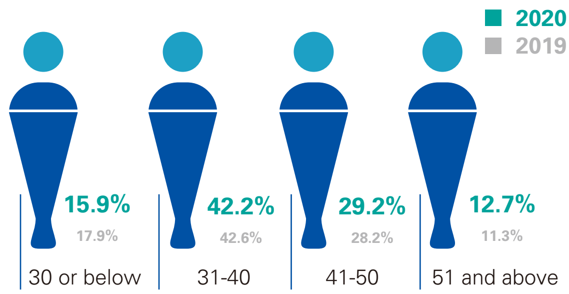
Indicator	2020	2019
Total employees (As at the end of the year)	**90,003**	91,564
By type		
Contract employees	**85,992**	87,706
Dispatched employees	**3,628**	3,500
Part-time employees	**62**	99
Others	**321**	259
By geographic location (%)		
Mainland China	**96.4**	96.4
Hong Kong, Macau, Taiwan and overseas	**3.6**	3.6

CONTRACT + DISPATCHED

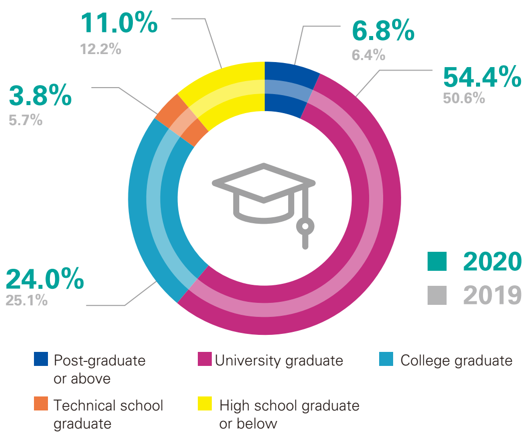
By gender



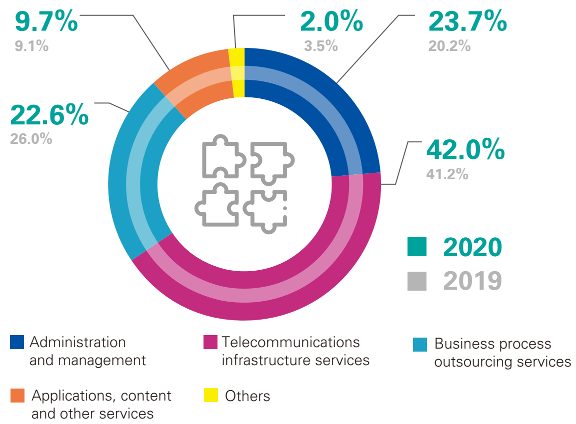
By age



By education level



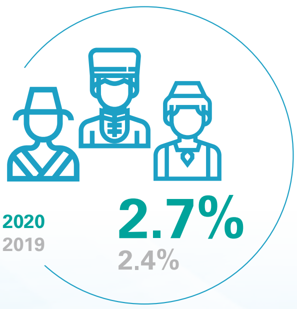
By nature



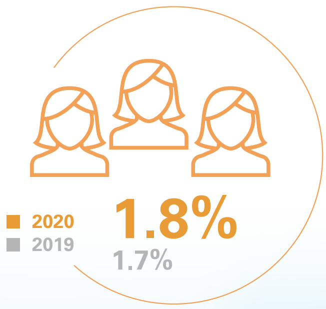
CONTRACT

Employees attending the trade union

Employees of ethnic minority



Female management



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

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

We consider our employees as an important resource and attach much importance to safeguarding their interests. We formulate and implement the Guidelines of China Comservice on the Market-oriented Remuneration System of Provincial Companies according to the principles of "performance-oriented, internally equitable and externally competitive" remuneration system, strive to expand career development channels for employees, continuously adjust the remuneration resource allocation, further improve the remuneration distribution system closely related to corporate value and individual performance, and actively promote the equity and dividend incentive mechanism for technology enterprises, to share the corporate development achievements with employees and boost the vitality of the organization and employees. In strict compliance with relevant policies of the PRC, we pay social insurance and housing funds for employees and establish the corporate annuity system so as to safeguard the employees' basic interests.

We are committed to the career development of our employees and offer dual promotion paths for them – "promotion for management functions" and "promotion for technical expertise". We implement a system that links our employees' remuneration and promotion to their work experience, capabilities and performance, which incentivizes their proactivity. The promotion follows the principles of fairness, justice, openness and transparency and fully respects employee's the right of choice, the right to know and the right of supervision. The headquarters of the Group releases the Measures of China Comservice Headquarters on Annual Performance Evaluation of Department and Employee every year, gives full play to motivating and guiding role of performance evaluation, further improves the employee satisfaction to performance evaluation work, and leverages performance evaluation to further optimize the work style of the headquarters and the quality and capability of employees at all levels, and build an highly-efficient, clean and smart headquarters to help the Company to realize comprehensive reform, innovation and transformation. In addition, the Group provides the Provincial Company Leaders' Performance Evaluation Indicator System and Scoring Measures every year to ensure the full implementation of the Company's development strategies and tasks for the year. By closely coordinating the budget, evaluation and resource allocation, the Group guides units at all levels to further develop strategic businesses, conduct effective risk prevention and promote the steady improvement of the Company's value and capability, so as to advance the sustainable and high-quality development of the Company.

LABOR STANDARDS

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

The Group stands on various labor policies, including but not limited to, gender equality, equal pay for equal work, and treats employees equally in the process of recruitment and promotion, regardless of their gender, age and race. It protects employee privacy in compliance with laws and implements a paid holiday system. Child labor and forced labor are strictly forbidden in the Group. In 2020, there was no child labor and forced labor in the Group. The Group also supports the trade union to perform its duties and responsibilities lawfully and encourages employee engagement to maintain a harmonious and stable labor relationship.

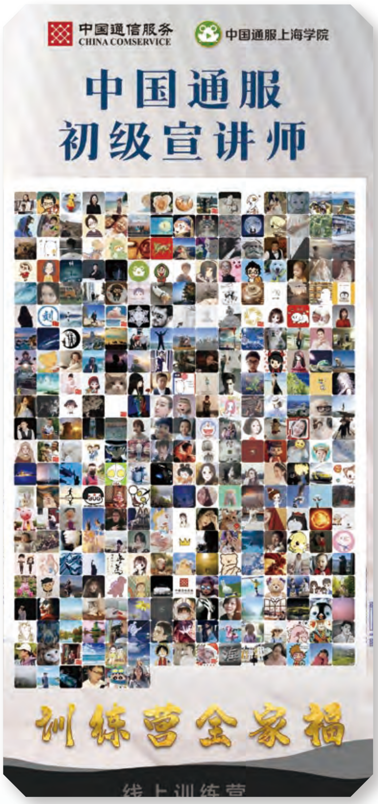
DEVELOPMENT AND TRAINING

We attach great importance to trainings and have established a three-tier training system covering the headquarters, provincial companies and professional companies currently. 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 2020, trainings of multiple levels and fields were provided by the Group. For the improvement of integrity and leadership of the management, the Group organized the management to attend the online special workshop of the parent company, China Telecom Group, themed "New Economy, New Infrastructure and New Challenges", and sent senior and middle management (totaling 6,568 leaders) to "Leaders' Training Month" and "Panshi Program", the general competence improvement trainings of the parent company China Telecom Group.

In 2020, the Group launched a new series of industry leader training camps for management reserves of provincial companies, in a bid to assist the provincial companies and professional companies of the Group in discovering and identifying talents, continuously expand the management reserves team and strengthen the development of the Group's human resources. The training was participated by 41 management reserves from the provincial companies of the Group. Through innovation on the scenarios, contents and forms of training, the leadership awareness of the management has been further improved.

In 2020, considering the requirements of pandemic prevention, the Group used China Comservice Cloud Course and other internal online resources to provide various online trainings, such as Online Competence Training for Marketing Personnel (with a total of 1,563 trainees) and Online Junior Trainers Training Camp (with a total of 483 trainees). Meanwhile, after taking a full account of the capability enhancement requirements of employees of the headquarters, the Group organized 12 sessions (with a total of 745 person-times) of series livestream lectures that covered topics of pandemic prevention, New Infrastructure, cloud computing, industrial internet and digital economy.



Junior Trainers Training Camp

The Group proactively held skill enhancement activities

In 2020, the Group released the Measures of China Comservice on the In-house Trainer Management, to further promote the development of talent teams by building a categorized and centralized in-house trainer management system with high efficiency. In the meantime, according to the "Measures" stated above, the Group formulated the Detailed Rules of China Comservice for the Implementation of "Headquarters-level" In-house Trainer Management, to allow headquarters-level in-house trainers to play their roles in the innovation and transformation, the promotion of corporate strategy and the career development of employees.

OVERALL TRAINING SITUATION

Total training expense (RMB million)

2020: 127
2019: 175

Total number of trainings (Person-time)

2020: 748,208
2019: 569,252

Total training hours (Hour)

2020: 7,621,737
2019: 16,698,979

Average training expense (RMB/person-time)

2020: 170
2019: 307

Average training hours (Hour/person-time)

2020: 10
2019: 29

Indicator	Unit	2020	2019
Types of Training			
Safe production training	No. of trainings	**4,917**	14,040
	Person-time	**226,219**	219,057
Anti-corruption training and activities	No. of trainings	**2,396**	1,628
	Person-time	**69,764**	46,193
Operation management training	No. of trainings	**4,095**	3,446
	Person-time	**62,575**	60,267
Technical expertise training	No. of trainings	**44,503**	13,179
	Person-time	**297,328**	192,374
Other training	No. of trainings	**5,162**	2,259
	Person-time	**92,322**	51,361
Training by Position			
Trainings received by senior management	Person-time	**1,548**	1,376
Trainings received by middle management	Person-time	**134,509**	39,481
Trainings received by general employees	Person-time	**612,151**	528,395

Number of trainings received by male employees (Person-time)

2020: 560,012
2019: 429,935

Number of trainings received by female employees (Person-time)

2020: 188,196
2019: 139,317

OPERATING PRACTICES

HEALTH AND SAFETY

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

The Group's Safe Production Committee is the safe production management organization, with the general manager acting as the director. Provincial companies all set up the Safe Production Committee, to fulfill the safe production responsibility, hold regular committee meetings to discuss and make decisions about important matters related to safe production. The key safe production tasks of 2020 have been issued to subsidiaries after being reviewed and approved by the Safe Production Committee, to guide its subsidiaries to carry out the work.

The Group puts the lives, safety, and health of employees as the first priority, and attaches great importance to the pandemic prevention for employees, especially the scientific pandemic prevention and the health guidance for frontline production personnel. It releases the Notice on Strengthening the Safe Production Work in the Period of Pandemic Prevention to deploy the safe production work in the context of resumption of work and production. Companies at all levels overcome various difficulties to purchase protective equipment for employees, especially for frontline employees, which include masks, protective clothing, disinfection products and temperature-measuring instruments, to safeguard the health and safety of employees.

At the early stage of pandemic prevention, the Group promptly formulates and issues eight COVID-19 prevention guidebooks for survey and design, construction, supervision, maintenance, supply chain, property, training and the call center, to offer guidelines to employees of all segments for working safely. While ensuring the safe production of its employees, the Group also incorporates the pandemic prevention for suppliers and their employees into its work.

The Group values and fully supports the contribution to safe production funds. The provincial companies under the Group are required to make a standard provision for safe production expenses and effectively manage and utilize such expenses, to provide financial support to safe production.

In 2020, the Group conducted safe production inspections to nine provincial companies and their professional companies in provinces including Qinghai, Anhui and Zhejiang, identified issues and vulnerabilities, to eliminate potential safety threats and prevent the occurrence of safe production liability accidents. Every year, companies at all levels conduct self-inspection and rectification on regular basis.

In 2020, companies at all levels of the Group promoted the safe production knowledge via "Safe Production Month" activities and organized online safe production trainings with a total of over 2,000 trainees, effectively improving employees' safe production awareness and skills through continuous education and training.

The Group regularly conducted safe production drill

The Group proactively carried out safe production inspection

The Group promotes the system construction for the safe production expert team, and initiates the campaign of selecting qualified safe production professionals within its whole organization to build the safe production talent team. By participating in the referral and selection of advanced groups and individuals of safe production organized by relevant units, the Group aims to lead by examples, reward outstanding performance and motivate the talents.

The Group further improves the emergency management system, develops safe production emergency management measures, and strengthens the emergency response efficiency and capabilities by conducting safe production emergency drills in different scenarios. It implements the accident reporting system, clarifies the time limit for reporting, and promotes the effective coordination and management.

To improve the health and safety management level, the Group brings in the internationally recognized Occupational Health and Safety Management System Certificate. As at the end of 2020, several subsidiaries of the Group passed the international OHSAS 18001 certification, the ISO 45001 certification or relevant domestic certifications, etc.

In 2020, no significant accident in respect of safe production occurred within the Group, and there was no lost working day due to work-related injuries.

	2020	2019
Safe production training	4,917 (Time)	14,040 (Time)
	226,219 (Person-time)	219,057 (Person-time)

Workplace Fatalities (Person)

2020: 0
2019: 0
2018: 0

SUPPLY CHAIN MANAGEMENT

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

1.Fairness and Justice

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

2.Cost Reduction and Efficiency Improvement

The Group implements hierarchical management over its headquarters, provincial companies and professional companies. The headquarters is responsible for the establishment of a synergistic procurement system, preparation of procurement management measures and IT management requirements, and inspection and assessment of the procurement management of the provincial companies. A provincial company is responsible for the establishment of a provincial procurement system and implementation of centralized management over the suppliers within its province by IT means and also responsible for the establishment of implementation measures for procurement management, improvement of corresponding internal controls, and inspection and assessment of the procurement management of professional companies. A professional company is responsible for the specific implementation of its own procurement management, establishment of management standards or specific measures and is subject to inspection and assessment by the headquarters and the provincial company of the Group. During the year, the Group formulated the guiding opinions on the procurement system construction, and further specified the construction roadmap of "professionalization, compliance, division of management and operation, unified overall planning". It established the procurement centers at the headquarters and provincial levels, and simultaneously built the digital procurement platform and the centralized procurement management system.

3.Tolerable Risk

Through continuous amendments and improvement on the mechanism, the Group drives the implementation of procurement system and further improves management, implementation and monitoring capabilities. It strictly follows the selection and examination procedures to kick out the disqualified suppliers, to ensure that all suppliers enlisted in the "supplier resource pool" have evidences to prove they possess adequate capabilities to perform the contract and control the risk. Such evidences include enterprise qualifications issued by relevant governmental departments (the construction enterprise qualification, the design qualification, the labor qualification and the safe production permit), product standards and competence certificates recognized by the industry (product certificates and the service capability evaluation), professional certificates of relevant personnel (certificates related to special operations, and certificates of safe production specialists of A, B and C classes). The Group instructs suppliers to improve their awareness of safe production, provides full insurance coverage for the working personnel of subcontractors, eliminates hidden risks and promotes the healthy development of the Company through the establishment of IT systems and standardization of management processes.

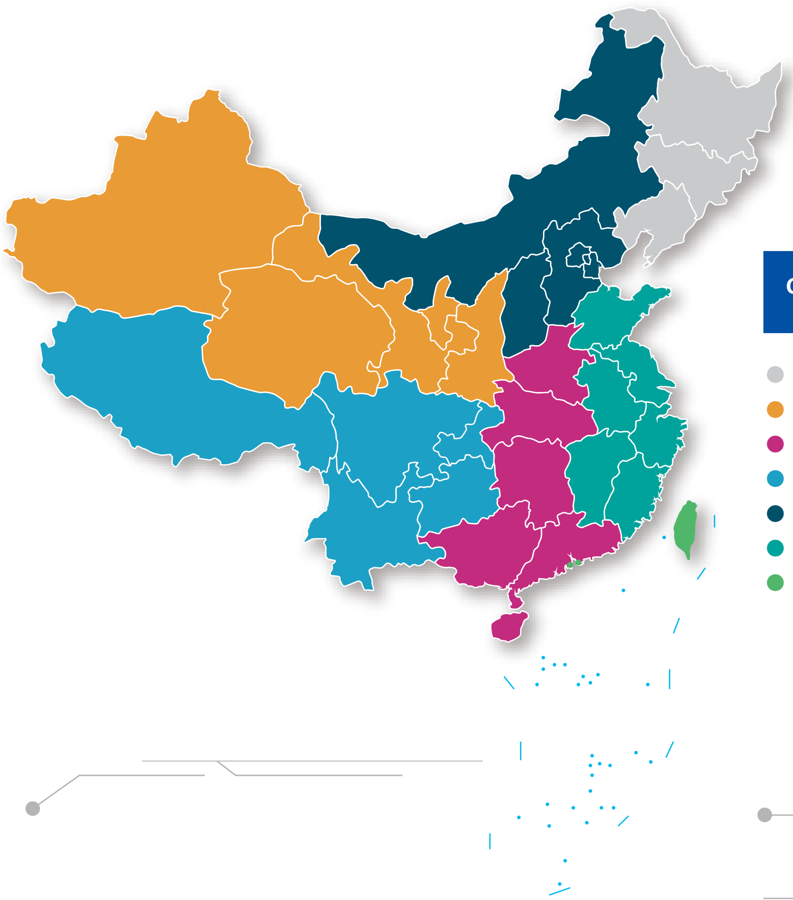
4.Integrity

When signing contracts with suppliers, the Group makes the Anti-corruption Agreement or the Integrity Commitment as one of the main appendixes of contracts, and takes "no breach of the integrity requirements, no interests conveyance or other rules and discipline violation" as one of the essential conditions for supplier admission. The Group has considered engineering service procurement as the key area for auditing and supervision. We conducted audits and reviews on supplier admission, tendering and bidding, pricing, signing of contracts, materials procurement and settlement of costs, with the aim to prevent illegal and non-compliant activities such as violation of the administrative measures of the Company and interests conveyance. During the year, the Group launched the company-wide special improvement action to the engineering service procurement. It also conducts special inspections on engineering service procurement every year to ensure that the relevant system is effectively implemented in each specific project.

5.Joint Efforts to Build the Ecosystem

The Group highly values the partnership with suppliers and builds the high-quality ecosystem together with suppliers. It communicates with suppliers, and supervises suppliers' fulfillment of obligations via business and safe production inspections. When providing engineering construction services to external parties, the Group maintains the requirements to subcontractors regarding the fulfilment of social responsibilities such as civilized construction and environmental protection consistent with those to its own teams. In the process of on-site clarification, project managers declare the specific items and supervise whether such items have been implemented in a right way. To align with the construction of procurement system, the Group will further strengthen the environmental protection guidelines and requirements to products and services provided by suppliers.

◆ NUMBERS OF SUPPLIERS BY GEOGRAPHIC LOCATION IN 2020



Geographic Location	Unit (Number)
Northeast region	308
Northwest region	1,531
Mid-South region	3,755
Southwest region	1,794
Northern China region	879
Eastern China region	3,963
Hong Kong, Macau and Taiwan	1
Overseas	12

Total 12,243

Note: Each supplier is counted only once by the region where most of its service engagement is located.

PRODUCT LIABILITY AND CUSTOMERS

The Group actively participates in the promotion of national strategy of innovation-driven development, and integrates into the main course of “Digital China” construction. With the integration of CT (Communications Technology), IT (Information Technology), DT (Data Technology) and OT (Operational Technology) capabilities, the Group provides customers with integrated comprehensive smart services that cover planning and design, engineering construction, informatization technologies and products, maintenance and operation, nationwide supported local services, technology ecosystem and security protection, to effectively satisfy customers’ cross-connection, cross-application, cross-platform, cross-region, cross-supplier construction demands.

The Group expanded into New Infrastructure construction business

The Group always starts from customers’ needs and focuses on customers. In 2020, the Group further strengthened the communication with customers, actively promoted the customer satisfaction program, and engaged the third-party consultancy to conduct survey to customers of the headquarters, provincial companies and professional companies in multiple ways including questionnaires and interviews. Selecting over 20,000 contracts the Group signed with group customers in recent three years as the sample, the customer satisfaction survey collected customers’ opinions and appeals from multiple dimensions and provided targeted improvement plans, to further improve the customer satisfaction.

Based on the digitalization, the Group provides quality products and integrated comprehensive services. Relying on its smart social products, the Group helps the government to build new infrastructures and improve urban management, emergency management and ecological and environmental control. Meanwhile, with established local supporting teams all over the country, the Group keeps active communications with customers, makes timely response and provides services subject to customer needs, observes relevant laws and regulations about product liability, and emphasizes the protection of customer information, which have been well received by the customers.

As the Builder of Digital Infrastructure, the Group provides comprehensive services led by consultation and design and delivered by cutting-edge energy-saving technologies and synergistic digital integration. In 2020, as the national strategy of New Infrastructure was promoted further, the Group helped provincial governments to build the new digital infrastructure layout with the “Consultant + Staff + Housekeeper” model in the significant new infrastructure projects in Northwest and Southwest China.

Based on the self-developed “CCS IoT Platform” – China Comservice IoT Service Platform, the Group built the core functional platform of smart city for a prefecture-level city in Southwest China. By relying on the platform technology capability and the industry ecosystem, it realized unified device access management, big data integration, urban governance and joint development of industry applications, and built a digital smart city.

With the self-developed dispersed research and development platform, the Group built the integrated cloud management platform for the digital government construction bureau of a city, and achieved the flexible software development and the rapid project delivery. It helped the relevant authorities to realize unified management and operation of multiple clouds, heterogeneous clouds and multiple IDCs, improving the maintenance and operation efficiency of the government service cloud, providing feasible information collection and management tools for the digital city management of the digital government construction bureau, and promoting the digitalization of such city.

The Group has participated in the natural disaster relief and telecommunications network restoration during and after major disasters and public safety incidents to fulfil our corporate social responsibilities. We assist in the repair of communications lines to ensure smooth communications network. In the battle against COVID-19, the Group supported the emergency management across the country without any delay, and provided emergency command centers of all levels of governments and local key medical institutions with 5G base stations, optical-fibre broadband and other informatization construction services, which showcased the "CCS Speed", provided important technology support to the country's battle against the virus, and offered real guarantee to the country's development and the health and safety of the people.

In 2020, more than 72,000 person-times of the Group with more than 19,000 vehicle-times participated in disaster-relief work for a total of more than 132,000 hours and repaired more than 44,000 communication facilities accumulatively. It also actively participated in post-disaster epidemic prevention and disinfection and environmental cleaning, fully demonstrating our corporate capabilities and commitment to social responsibility in disaster relief.

BATTLE AGAINST COVID-19

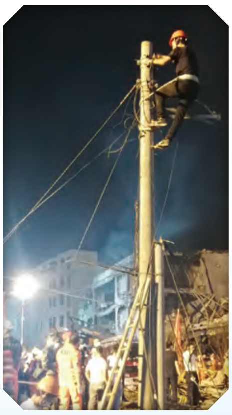
In 2020, after receiving the task of constructing "national integrated telecommunications big data analysis platform" of the Ministry of Industry and Information Technology of the PRC, the Group immediately appointed the best informatization experts within the Group to develop the overall plan, offered strong support to the construction of ministerial-level platform and 31 provincial telecommunications big data platforms. It participated in the whole process of the project, including design, survey, construction and system integration, completed the construction within the prescribed timeframe, and ensured that the platforms were launched in a timely manner across the country. For such contribution, the Group was honored the title of "Advanced Group in Fighting against COVID-19 in the Industry and Information Technology System" by Ministry of Industry and Information Technology of the PRC.

RAINSTORMS IN SICHUAN

In August 2020, Sichuan Basin was hit by rainstorms, and some places were hit by torrential rainstorms, with the rainfall "rarely seen in a hundred years". Sichuan Flood Control and Drought Relief Headquarters activated the Level I flood control response, which was the first Level I flood control response in the history of Sichuan Province. The Group's Sichuan subsidiary immediately activated the emergency response to provide Leshan, Ya'an and Mianyang with communications support.

TANK TRUCK EXPLOSION IN WENLING, ZHEJIANG

In June 2020, the off-ramp of Wenling West Exit of Shenhai Highway Wenling Section Wenzhou Direction in Wenling, Taizhou reported a grave LPG tank truck explosion accident. The Group's Zhejiang subsidiary proactively fulfilled the social responsibility, immediately activated the emergency response plan, rapidly organized the emergency management, coordinated the resources and rushed to the frontline to ensure that the communications line of the rescue area would function well. It built the temporary lines to provide network support to the temporary base station and the sky network maintenance, and installed cameras for panoramic and real-time monitoring of the site to enable timelier and more effective on-the-spot command and deployment, thus providing smooth communications to the local government, operators and general public.



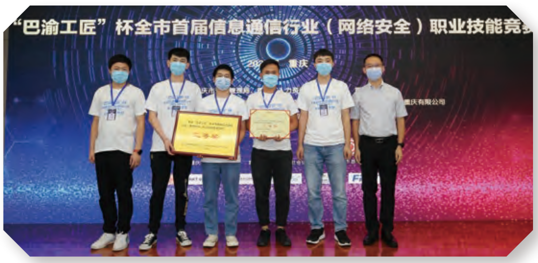
INFORMATION SECURITY AND PRIVACY PROTECTION/NETWORK SECURITY

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

The Group strengthens the relevant trainings on information security and privacy protection for its employees. It improves the employees' awareness of network information security by utilizing online promotional videos, putting up posters and organizing personal self-inspections. In 2020, the Group organized four trainings on network and information security, including specialized courses such as policy interpretation, cutting-edge technologies and solutions, to the relevant management and technical personnel, with a total of 420 person-times participation.

The Group proactively attended China Cybersecurity Week & Cybersecurity Expo with the theme "Escorting Smart Society, Supporting Digital Economy, Serving a Good Life" presented by pictures, words, videos and livestreams, in order to spread the theme that "cybersecurity aims for people and relies on people".

In 2020, no occurrence of leakage of customer privacy and information was identified within the Group. In line with customer needs, the Group enters into relevant agreements on information security and signs confidentiality agreements with relevant employees, if necessary, and strictly complies with the terms under such agreements. For data involving information of government or other customers, the Group adopts Internet isolation and data masking and encryption to prevent information leakage.



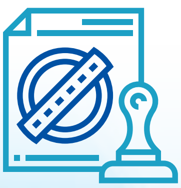
The Group carried out the work on employee information security and privacy protection

INTELLECTUAL PROPERTY PROTECTION

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

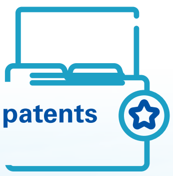
In the process of its research and development of smart society products, the Group attaches great importance to the protection of intellectual properties and the application of corresponding patents or software copyrights. In 2020, it received 514 new authorized patents, applied for 417 patents, and obtained 1,074 new software copyrights.

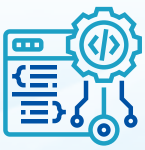
◆ In 2020



Received 514 new authorized patents

Applied for 417 new patents





Obtained 1,074 new software copyrights

ANTI-CORRUPTION

The Group consistently complies with laws and regulations, social integrity, commercial ethics and industrial standards, and formulates the Code of Conducts and Ethics for Employees and the Code of Conducts and Ethics for Senior Management to supervise the management and employees in respect of the compliance. We have been devoted to safeguarding the interests of shareholders, creditors, customers and partners and executing contracts in good faith. We honour commercial credibility and oppose improper competition with a view to preventing corruption in business activities.

We focus on strengthening anti-corruption and disciplinary education in various ways, such as seminars, training programmes, themed conferences and new internet media to procure our management and employees to comply with relevant laws and regulations, emphasize the strict compliance at each level and incorporate integrity education into the daily operation. In addition, we further reinforce our daily supervision and inspection in respect of anti-corruption, focus on priorities to conduct supervision, particularly keep a close watch on major festivals or holidays, advance targeted special supervision to risk-prone areas, improve the relevant procedures and the risk control capability, to prevent operating risks. By combining internal efforts such as the audit department and the discipline inspection department, we strictly prevent activities such as bribery, blackmail, fraud and money laundering. The Group intensifies peer supervision and actively promotes joint supervision. It allows the anti-corruption work coordination group to fully play the role by holding regular meetings, promoting the organic integration of various types of supervision and actively building the synergistic and highly-efficient comprehensive supervision system. The Group sets up a smooth channel for identifying and resolving existing problems in a timely manner. We have attached great importance to the establishment of an anti-corruption system by establishing an accountability system, upholding the "zero toleration" to illegal and non-compliant activities, and treating the matters seriously according to the requirements of laws, regulations, rules and disciplines, with a view to safeguarding the normal operation of its businesses.

To further strengthen employees' integrity and discipline awareness, each provincial company and professional company of the Group actively organized discipline inspection units at all levels to launch integrity education and promotion in 2020, offering over 50 trainings to primary-level units and covering 11,000 person-times. The Group prepared and issued the Typical Cases of Irregularities, analyzed 104 cases and sent it to every member of the management of provincial companies and professional companies, achieving a full coverage of anti-corruption trainings.

	2020		2019	
Anti-Corruption Training and Activities	**2,396** Times	**69,764** Person-times	1,628 Times	46,193 Person-times

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

The Group focuses on establishing and improving the supervision system in order to strengthen the restriction and supervision to exercises of power and create a clean development atmosphere. It promotes the integrity education via warning and education meetings, integrity promotion, daily education and reminder, new media platforms publicity and other means, to make employees hold discipline in awe, keep the vigilance and hold the baseline, thus building a solid integrity and self-discipline ideological defense line.

Organizational system construction

Issue the Opinions on Adhering to and Improving the Discipline Inspection and Supervision System of China Comservice (Trial), to ensure systematic, concrete and standardized supervision work and to strengthen the supervision power.

Work style construction

Issue the Notice on the Continuous Correction of Formalism Problems for Providing Strong Atmosphere Support to the Company's Reform and Development, organize units at all levels to fully implement the notice, eradicate formalism and bureaucratism.

Warning and education enhancement

Prepare the Typical Cases of Irregularities, disclose the typical cases, assess and analyze internal risks, closely monitor key links and key personnel to strengthen the supervision.

COMMUNITY PARTICIPATION

The Group carefully implements the poverty relief tasks from the government, sticks to the fundamental principle of targeted poverty relief, combines poverty relief with education and training, keeps a balance between development-oriented poverty relief and protection-oriented poverty relief, tailors measures to suit the conditions of designated targets, and organizes poverty relief activities in various forms, including employment and training, public welfare, consumption and industrial development.

POVERTY RELIEF

The Group attaches great importance to poverty relief and dispatches employees of the headquarters to Qinghai as leaders of poverty relief to facilitate the accomplishment of each poverty relief task, and actively promotes the poverty relief work of Jiuzhi County, Qinghai Province to help the county to remove poverty. In November 2020, Executive Vice President of the Group led a delegation to Jiuzhi County, Qinghai Province to visit the poverty relief leaders, helped poverty relief leaders to solve difficulties and problems in poverty relief work and life, and conducted field research, to help the promotion of poverty relief works in Jiuzhi County.

CONNECTING NETWORK FOR REMOTE REGIONS

The poverty relief leading group of Jiangsu subsidiary of the Group continuously strengthens the promotion of network project for poverty relief and its construction and management, and advances the communications network construction in remote areas. In June 2020, the last base station of Zaduo County, Moyun Town, Bayang Village, a base station at the height of 5,162 meters was put into service, indicating that Jiangsu subsidiary accomplished the poverty relief project of the government of Yushu Tibetan Autonomous Prefecture, Qinghai Province, earlier than scheduled and completed the construction task of 47 communication base stations. As at June 2020, Jiangsu subsidiary has participated in the pilot programs for constructing universal telecommunications services in the Inner Mongolia Autonomous Region, Gansu Province, Hunan Province, Yunnan Province and Qiannan Prefecture of Guizhou Province, and effectively offered 4G coverage to over 7,000 villages and broadband access to more than 60 counties.

DONATION TO REGIONS IN POVERTY

The Group actively raised charitable donations totaling RMB1,050,000 for financial assistance, and cooperated with a third party, China Charity Federation, to donate pandemic prevention materials (masks, disinfection pads, protective clothing and disinfection gels) worth RMB623,300 to the government of Shufu County. It also donated melt-blown non-woven fabric (raw materials for making masks) worth RMB243,200 to the education bureau of Shufu County, and donated teaching materials and sports equipment worth RMB162,600 to the Central Boarding Primary School of Sayibage Town, Shufu County. The total donations of materials were equivalent to RMB1,029,100.

In 2020, the Group aggregately enrolled 76 persons from registered impoverished households, and organized provincial trade unions to purchase farm produce from four designated poverty relief counties and two paring counties of China Telecom Group, the parent company, via the platform TYFO.COM. The products for poverty relief the Group purchased via TYFO.COM in 2020 were worth RMB22,102,100, with the average purchase amounting to RMB283 per person.

OVERSEAS PANDEMIC PREVENTION

In April 2020, since the outbreak of COVID-19 in Congo–Brazzaville, the Group's international subsidiary actively prepared pandemic prevention materials, fulfilled the social responsibility, offered support to the local government and relevant organization, and worked with them to fight the virus.

CARING ABOUT EMPLOYEES

The Group stays employee-centered and focuses on strengthening its care to employees. In 2020, the Group actively launched the employees' sense of happiness program, engaged the third-party consultancy to conduct online questionnaires to all over 90,000 employees of the Group, to collect their opinions and suggestions on the current work and environment and thus improving employees' sense of happiness.

The Group earnestly improves the working and living conditions of frontline employees, encourages primary-level trade unions to improve the working environment for employees by adding water purification equipment and mother-and-baby rooms, and promotes the "Four Small Facilities" including the "Small Canteens, Small Restrooms, Small Shower Rooms and Small Activity Rooms", which improves from "being available" to "being better". In 2020, the Group promoted the important deployments of pandemic prevention in a coordinated manner. It learnt about the thoughts of employees in a timely manner and resolved their problems, to further improve their sense of security, sense of gain, sense of achievement, sense of belonging and sense of happiness; faithfully fulfilled the social responsibility of caring about employees, and sending blessings to overseas employees and their families at traditional festivals such as the Dragon Boat Festival and the Mid-Autumn Festival.

The Group cares about its employees stationed outside of the province, values the rights protection for female employees, and frequently helps and supports the poor, ensuring that students from poverty-stricken families can go to school and keeps them warm in winter and cool in summer. It makes efforts to meet the customized and round-the-clock service demands of employees, improves their recognition and satisfaction to the organization, and works with them to build a better life together.

In the time of COVID-19 pandemic in 2020, the Group promoted the requirements of pandemic prevention in an effective and orderly manner, adjusted the key tasks and the measures in due course and according to circumstances, and developed the caring plan for specific employees for the pandemic prevention period. It earmarked special pandemic prevention funds, actively prepared masks, disinfection gels, disinfectants, infrared thermometers and other pandemic prevention materials, and put the psychological consultation hotline for the pandemic prevention period into service. It collected information of families of employees supporting the frontline of Hubei Province, sent special care to families of employees supporting the pandemic-hit regions, delivering them letters of condolences and providing them with one-off allowances and gifts.

The Group also cares deeply about overseas employees and sends solicitude to them. Before the large-scale spread of COVID-19, the Group established the leading group and office of overseas pandemic prevention, to guide the international subsidiary and overseas provincial companies to jointly establish and improve the overseas pandemic prevention accountability system. Referring to the domestic pandemic prevention experience, the Group prepared the overseas pandemic prevention guidebook and the emergency response plan, to scientifically organize, guide and standardize the pandemic prevention and emergency response of overseas institutions. It led the cooperation with The Third Affiliated Hospital of Southern Medical University to develop the health consultation project for overseas employees, to provide remote healthcare services to the employees of the Group and families of them. The Group also led overseas provincial companies and professional companies to participate in the SOS international emergency rescue plan. With the Group's proactive efforts to establish domestic and overseas channels for vaccination, 280 expatriates had vaccines administered successfully. During the reporting period, overseas employees reported no confirmed cases, suspected cases or medical observations.

INVESTOR RELATIONS

The Company attaches great importance to maintaining close and effective communication with the capital market, and builds sound relationship with investors through proactive interaction of various means. In 2020, the Company further strengthened its investor relations' initiatives under the principle of high transparency, accuracy, timeliness, fairness and effectiveness.

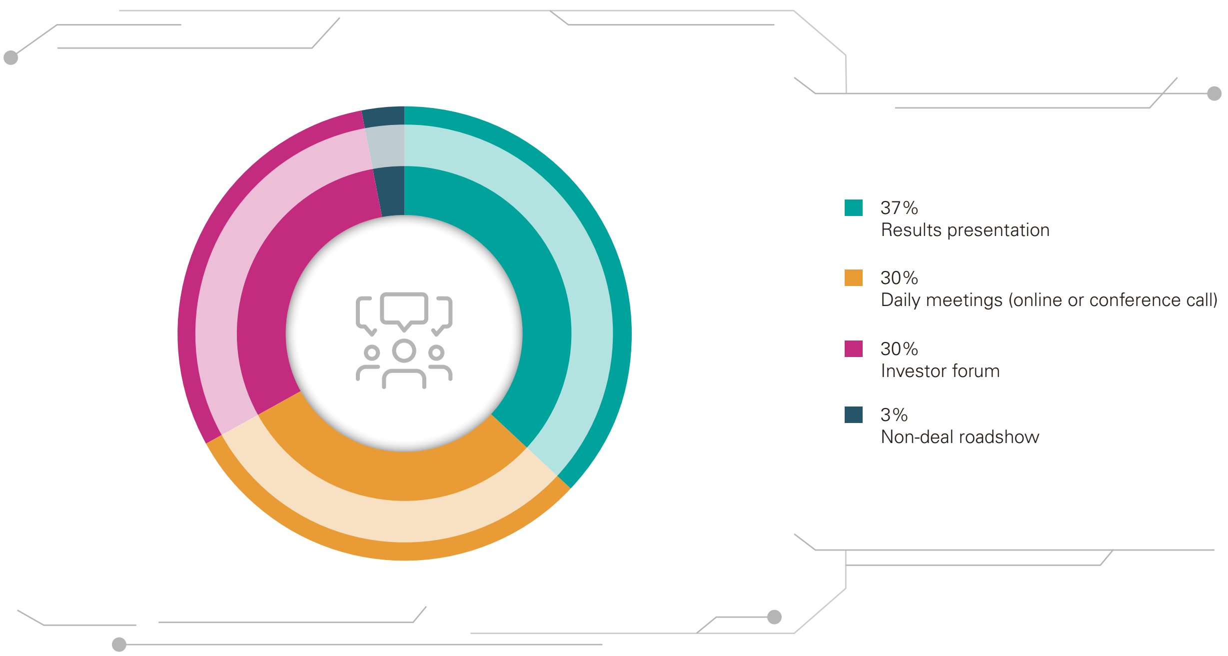
The Company keeps improving the two-way communication channels with the capital market in order to maintain favourable and long-term interaction with its shareholders and investors. Under the impact of novel coronavirus (the "COVID-19") pandemic, routine investor communications could not be conducted in the usual format such as hosting physical results presentation. The Company proactively innovated and adopted an online format to carry on hosting results presentation. Meanwhile, we participated in various conferences via different online conferencing tools to maintain favourable communication with the capital market, while proactively responding to the major issues that it concerns and explaining the impact of the pandemic on our businesses and corresponding measures we adopted, as well as our strategies, development measures, transformation progress, latest industry development, thereby facilitating investors to have a better grasp on the overview of the Company and conduct a more comprehensive analysis of the investment value of the Company. On the other hand, the investor relations team of the Company closely monitors the feedback from the capital market and reports the opinions, suggestions and expectation to the management in a timely manner. Such action is beneficial to the formulation of operation, management and development strategies by the management of the Company, promoting sustainable development and enhancing long-term corporate value of the Company.

INVESTOR RELATIONS ACTIVITIES

In 2020, the Company maintained direct and close communications with its investors through diverse channels including online investor presentation, press teleconferences, non-deal roadshows, online investor forums organized by investment banks, 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 for approximately 370 person-times. The Company continued proactively conducting good communications with analysts to enhance their understandings on the current and future development direction as well as strategies of the Company. At the same time, the Company also proactively participated in online investor forums and conferences held by mainland brokers to connect with more mainland investors.

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

ATTENDANCE ANALYSIS OF INVESTOR RELATIONS ACTIVITIES IN 2020



List of Investor Relations Activities of the Company in 2020

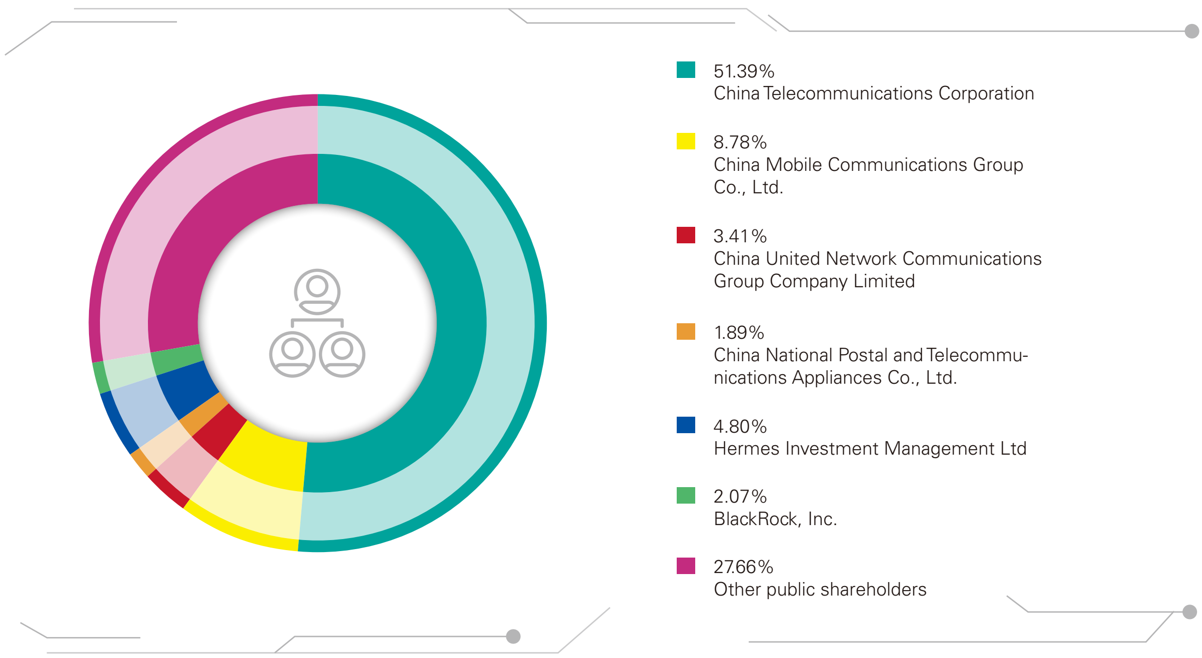
Date	Event
1/2020	UBS Greater China Conference 2020
3/2020	2019 Annual Results Announcement – Online Analyst Briefing – Press Teleconference
4/2020	Non-deal Roadshow
5/2020	Nomura Virtual Greater China TMT Corporate Day 2020
5/2020	Goldman Sachs TechNet Conference Asia Pacific 2020 – Online
6/2020	BofA 2020 Innovative China Virtual Conference
6/2020	CITICS Capital Market Conference 2020
6/2020	J.P. Morgan China Investor Conference
8/2020	2020 Interim Results Announcement – Online Analyst Briefing – Press Teleconference
8/2020	Non-deal Roadshow
9/2020	UBS China TMI Virtual Conference 2020
9/2020	Jefferies Asia Forum
11/2020	BofA Securities 2020 China Conference
11/2020	Citi 15th China Investor Conference
11/2020	J.P. Morgan 2020 Global TMT Conference
11/2020	Morgan Stanley Virtual Asia Pacific Summit
11/2020	Nomura Investment Forum 2020

SHAREHOLDING STRUCTURE

In 2020, the Company continued to appoint an international survey company to conduct comprehensive surveys on the shareholding structure to keep abreast of the information on its shareholders, including structure and position changes of shareholders, shareholder types, geographical distribution and investment styles. When organizing its roadshows, the Company developed a targeted visiting list of shareholders and potential investors by referencing on the above information. Such practice facilitated a more proactive and targeted interactive communications between the Company and investors. We proactively broadened our investor base to diversify the geographical distribution of investors, thereby 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 2020, 1.81% of the issued H share capital of the Company was held by the investors from Mainland China through China Securities Depository and Clearing Corporation Limited.

SHAREHOLDING STRUCTURE[1] AS OF 31 DECEMBER 2020



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

INFORMATION DISCLOSURE

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

In 2020, in accordance with the Listing Rules, the Company published approximately 25 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, acquisition of property and poll results for general meetings, details of which are as follows:

19/03/2020	Announcement relating to the date of board meeting to approve the 2019 annual results
20/03/2020	Announcement of resignation of non-executive directors
20/03/2020	Announcement of the list of directors and their role and function
31/03/2020	Announcement of annual results for the year ended 31 December 2019
28/04/2020	2019 annual report
28/04/2020	Circular of proposed appointment of non-executive directors, proposed amendments to the articles of association and notice of annual general meeting
28/04/2020	Notice of annual general meeting to be held on 15 June 2020, form of proxy and attendance slip
15/06/2020	Announcement of poll results of the annual general meeting held on 15 June 2020, payment of dividend and appointment of non-executive directors
15/06/2020	Announcement of the list of directors and their role and function
15/06/2020	Articles of Association
19/06/2020	Announcement of the list of directors and their role and function
31/07/2020	Announcement of discloseable transaction – acquisition of property
07/08/2020	Announcement in relation to the operating performance updates for the first half of 2020
13/08/2020	Announcement relating to the date of board meeting to approve the 2020 interim results
26/08/2020	Announcement of interim results for the six months ended 30 June 2020
26/08/2020	Announcement of appointment of executive vice president
10/09/2020	2020 interim report
22/09/2020	Announcement of resignation of director, proposed appointment of director and change of important executive positions
22/09/2020	Announcement of the list of directors and their role and function
28/09/2020	Circular of proposed appointment of executive director and notice of the extraordinary general meeting
28/09/2020	Notice of extraordinary general meeting to be held on 21 October 2020 and form of proxy
21/10/2020	Announcement of poll results of the extraordinary general meeting held on 21 October 2020 and appointment of executive director
21/10/2020	Announcement of the list of directors and their role and function
27/10/2020	Announcement of appointment of executive vice president
27/10/2020	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. Other than introducing the basic information of the Company and disclosing the corporate governance, environmental and social information, the website also showcases the businesses and markets of the Company, while highlighting various smart services we provide for different industries and related cases, such that investors could have a more comprehensive understanding on our transformation in recent years. In addition, a range of detailed information catering for investors' needs, including hot topics concerned by investors such as downloadable historical financial information, stock information, investment value, annual reports and investor activities of the Company are systematically disclosed in the Investor Relations' section of the website. The Company also updates the content of the website in a timely manner to keep the capital market abreast of the Company's latest development.

INVESTOR RELATIONS

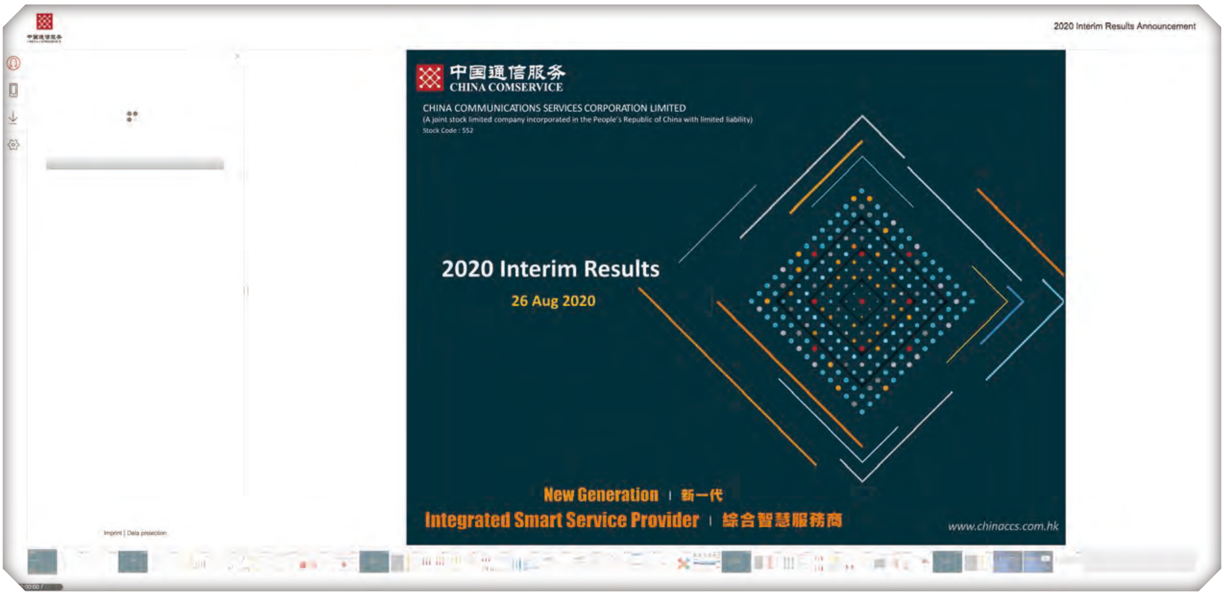
Annual report is not only an important document for information disclosure of a listed company in accordance with the regulatory requirement, the Company can also disclose more comprehensive information to investors through the annual report, such as its operating philosophy, strategies and market position,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

In the design story of the 2019 annual report, we took nine red points to signify the Company's logo, which also represent the three business segments and nine businesses of the Company. The four-layer die cut design symbolized not only the four-layer structure of the Company as a "New Generation Integrated Smart Service Provider", but also the four unique capabilities of the Company. In 2020, the preparation and design of the 2019 annual report of the Company were again recognized by international award organizations and received Platinum Award and ranked 42nd in the Top 100 Reports Worldwide of the "Vision Awards" in "The League of American Communications Professionals" (LACP) and two Gold Awards in "Cover Photo & Design" and "Printing & Production" in "International ARC Awards".

The Company's 2019 Annual Report design

COMMUNICATION AMID THE PANDEMIC

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



2020 Interim Results online presentation provided real-time Q&A opportunities to investors

As social media becomes one of the main daily communication channels, the Company prepared a dual-language results highlight for 2019 Annual Results with animation, graphs and texts. Such brief introduction illustrated key financial indicators such as revenue growth, profit margins, dividend payout ratio and the current development and future directions of each markets of the Company. By presenting the results highlight in social media platforms in a more vivid way, it was circulated in a wider range among the market while investors could have a more profound understanding on the key messages of the Company.

Dual-language results highlight for 2019 Annual Results with animation, graphs and texts

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 2020, the Group continued to achieve satisfactory operating results and free cash flow for the year. In view of the Company's confidence in operating performance and future development, the Board has proposed to distribute a final dividend of RMB0.1335 per share (equivalent to a payout ratio of 30%) and a special dividend of RMB0.0267 per share. Total dividend for 2020 is RMB0.1602 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.

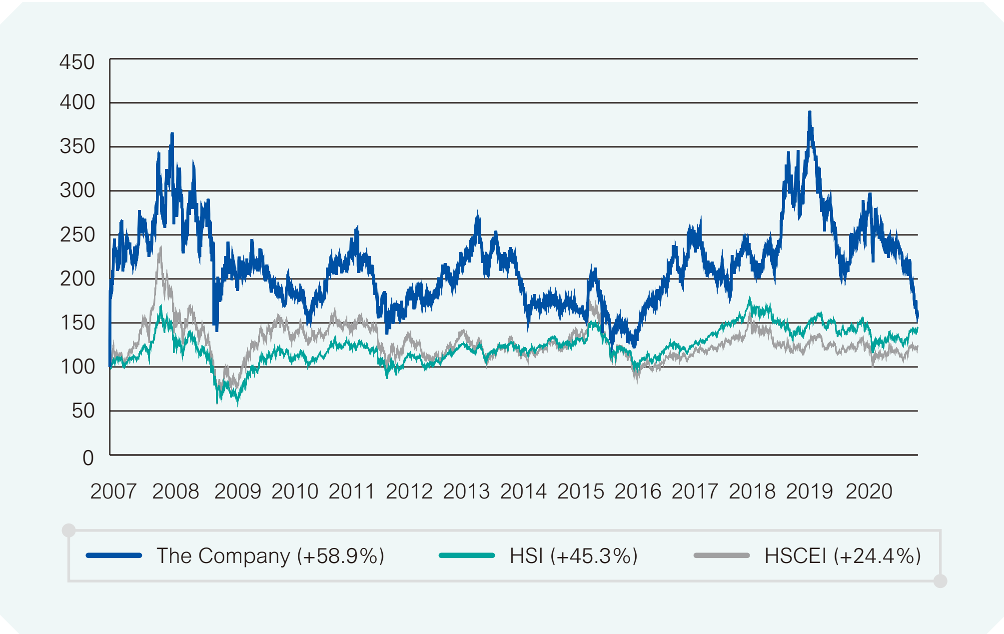
[3] Subject to the approval at the 2020 annual general meeting to be held on 18 June 2021.

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 firmly captured industry and technology development trend, elevated competitiveness continuously through the implementation of forward-looking development strategies, promoting innovation and transformation, facilitated development by grasping market opportunities. At the same time, the Company adhered to the principle of sound corporate governance and implemented practical and effective investor relations initiatives that supported the stock price performance of the Company.

Share Price Performance Since Listing

From 8 December 2006 to 31 December 2020

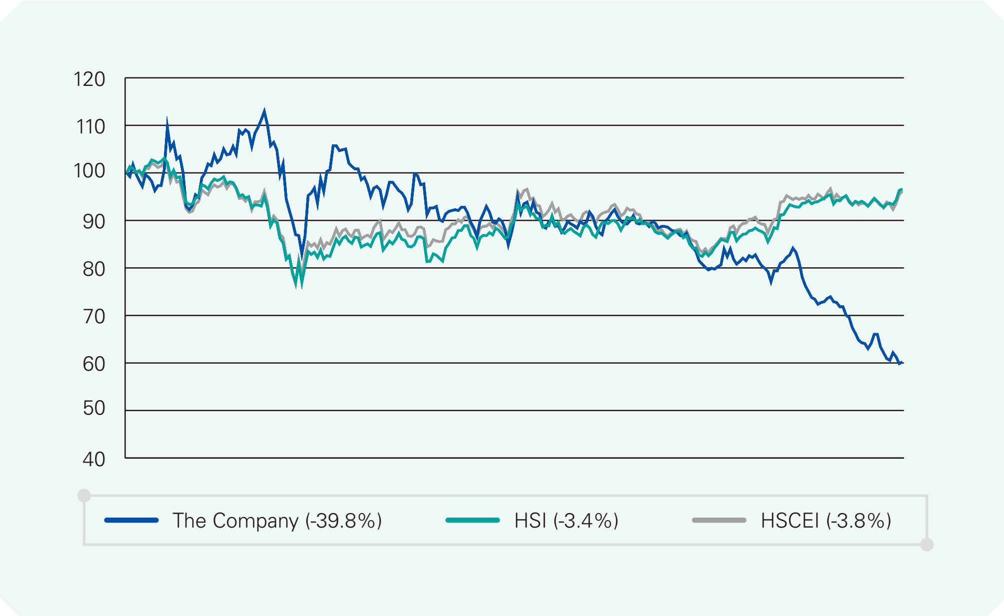


In 2020, global stock markets tumbled in the first quarter due to the outbreak of COVID-19, but with central banks in Europe and US adopting a quantitative easing and expansionary monetary policy, as well as the rollout of COVID-19 vaccines to the market and the completion of US presidential election in the fourth quarter, major global stock markets stabilized gradually and had a positive growth for the full year. Stock price of the Company in 2020 was affected by external factors to a larger extent. Though the acceleration of construction of New Infrastructure such as 5G in the mainland brought favourable opportunities to the Company, the pandemic had a considerable short-term impact on our operating results in the first half of the year. The US-China relations became increasingly tense, particularly in November, the then US president signed an executive order that prohibited US investors from investing in certain Chinese enterprises. Although the Company was not on the list of companies that were prohibited from investment by such executive order, the stock prices of relevant companies, including the Company, dropped significantly during the period due to the uncertainties brought by the news. As at 31 December 2020, stock price of the Company decreased by 39.8% year-on-year.

2020	Highest	Lowest	Closing
Price per H share of the Company (HK$)	6.7	3.32	3.42

Share Price Performance in 2020

From 1 January 2020 to 31 December 2020



As at 31 December 2020, 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 2020, the Company's total market capitalization was about HK$23.7 billion.

MAJOR AWARDS AND RECOGNITIONS IN 2020

1. **2020 "All-Asia Executive Team" Rankings by *Institutional Investor***
   - Honored Companies in Asia
   - Rank 3rd for Best CEO in the Overall Ranking in Telecommunications Sector
   - Rank 3rd in the Sell-side Ranking in the Telecommunications Sector
     * Best CEO
     * Best CFO
     * Best IR Program
     * Best IR Team
     * Best ESG

2. **"10th Asian Excellence Recognition Awards" by *Corporate Governance Asia***
   - Best CEO
   - Best CFO
   - Best Investor Relations

3. **"The Asset ESG Corporate Awards 2020" by *The Asset***
   - Titanium Award
   - Best Investor Relations Team

4. **The "5th Golden Hong Kong Equities Awards Ceremony" by *Zhitong Finance* and *Tonghuashun Finance***
   - The Best TMT Company

5. **The 10th "China Securities Golden Bauhinia Awards" by *Ta Kung Wen Wei***
   - The Best Investment Value Listed Company

6. **"Vision Awards" by *LACP***
   - Platinum Award
   - Rank 42nd in the Top 100 Annual Reports Worldwide

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

8. **"100 Most Competitive Software & IT Service Enterprises 2020" coordinated by *China Information Technology Industry Federation***
   - Rank 5th

9. **"2020 FORTUNE China 500" by *FORTUNE China***
   - Rank 86th

10. **"2020 Forbes Global 2000 – The World's Largest Public Companies" by *Forbes***
    - Rank 1,488th

RECOGNITIONS AND HONOURS IN THE CAPITAL MARKET

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

As of the date of this report, over 10 international and mainland investment banks and institutions prepared and published research reports for the Company on a regular basis, among which two investment banks initiated coverage on the Company in this year. Since its listing, the Company's investment value has also been recognized by the capital market. As of the date of this report, major research institutions maintained positive investment ratings such as "Buy", "Overweight" or "Hold" on the Company.

The Company has been dedicated to improving its management and operation in all aspects. In 2020, the Company was recognized by many domestic and overseas organizations and institutions. Authoritative institutions such as *Institutional Investor*, *Corporate Governance Asia* and *The Asset* offered recognitions and awards to the Company in respect of its corporate management, ESG and investor relations. The Company was named as "Honored Companies in Asia" by *Institutional Investor* for the first time. The management of the Company also ranked third in the "Best CEO" and "Best CFO" in the relevant rankings in the telecommunications sector, while the Company was also recognized in the fields of"Best ESG" and investor relations. *Corporate Governance Asia* awarded the "Best CEO" and the "Best CFO" to the management of the Company. These awards demonstrated the capital market's recognition to our management and corporate governance. At the 5th "Golden Hong Kong Equities Awards Ceremony", the Company was granted "The Best TMT Company"; at the 10th "China Securities Golden Bauhinia Awards", the Company was granted "The Best Investment Value Listed 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 1101–1102, 11/F., Great Eagle Centre, 23 Harbour Road, Wanchai, Hong Kong
Telephone: (852) 3699 0000
Facsimile: (852) 3699 0120
Email: ir@chinaccs.com.hk

INDEPENDENT AUDITOR'S REPORT

Deloitte. 德勤

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

OPINION

We have audited the consolidated financial statements of China Communications Services Corporation Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 125 to 206 which comprise the consolidated statement of financial position as at 31 December 2020, 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 2020, 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 from non-telecom operators	
We identified revenue recognition of construction service from non-telecom operators as a key audit matter due to the judgement of recognising revenue over time or at a point in time since there is no standard contract terms with non-telecom operators and some contracts might not meet the criteria for recognising revenue over time. Revenue from contracts with non-telecom operators for construction services signed in 2020 but not yet completed on 31 December 2020 amounts to RMB6,772 million. Details of revenue recognised on construction service and the related accounting policy of contract revenue are disclosed in notes 4 and 2(q) to the consolidated financial statements, respectively.	Our audit procedures in relation to revenue recognition of construction service from non-telecom operators included: • Understanding and testing the key controls related to recognising revenue over time or at a point in time; • Testing the completeness and accuracy of the list of the contracts with non-telecom operators for construction services signed in 2020 but not yet completed on 31 December 2020; and • Reviewing the terms of contracts for construction services, on a sample basis, to evaluate whether one of the following criteria for recognising revenue over time is met: 1. The customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs; 2. The Group's performance creates or enhances an asset that the customer controls as the Groups performs; or 3. The Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

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, actions taken to eliminate threats or safeguards applied.

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

The engagement partner on the audit resulting in the independent auditor's report is Ip Yat Hung.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
29 March 2021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2020

	Notes	**2020 RMB'000**	2019 RMB'000
Revenues	4	**122,648,944**	117,413,089
Cost of revenues	5	**(108,911,308)**	(103,726,130)
Gross profit		**13,737,636**	13,686,959
Other operating income	6	**1,687,789**	1,554,755
Selling, general and administrative expenses		**(11,826,471)**	(11,494,404)
Other operating expenses	7	**(216,802)**	(333,299)
Finance costs	8	**(63,482)**	(68,888)
Share of profits of associates and joint ventures		**168,928**	148,478
Profit before tax	9	**3,487,598**	3,493,601
Income tax	10	**(398,278)**	(463,802)
Profit for the year		**3,089,320**	3,029,799
Attributable to:			
Equity shareholders of the Company		**3,081,475**	3,049,229
Non-controlling interests		**7,845**	(19,430)
Profit for the year		**3,089,320**	3,029,799
Basic earnings per share (RMB)	15	**0.445**	0.440

The notes on pages 133 to 206 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

	Note	2020 RMB'000	2019 RMB'000
Profit for the year		**3,089,320**	3,029,799
Other comprehensive income/(expense) for the year (after tax)			
Item that will not be reclassified to profit or loss (after tax):			
Equity instruments at fair value through other comprehensive income:			
Net movement in the fair value reserve	11	**205,575**	263,452
Item that may be subsequently reclassified to profit or loss (after tax):			
Exchange differences on translation of financial statements of subsidiaries outside Mainland China		**(35,712)**	(2,646)
		169,863	260,806
Total comprehensive income for the year		**3,259,183**	3,290,605
Attributable to:			
Equity shareholders of the Company		**3,251,548**	3,309,973
Non-controlling interests		**7,635**	(19,368)
Total comprehensive income for the year		**3,259,183**	3,290,605

The notes on pages 133 to 206 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2020

	Notes	31 December 2020 RMB'000	31 December 2019 RMB'000
Non-current assets			
Property, plant and equipment, net	16	**4,330,733**	4,369,251
Right-of-use assets	17	**2,046,005**	1,895,996
Investment properties	18	**550,022**	563,820
Construction in progress	19	**3,468,094**	282,365
Goodwill	20	**103,005**	103,005
Other intangible assets	21	**535,710**	505,278
Interests in associates and joint ventures	22	**1,351,368**	418,336
Financial assets at fair value through profit or loss	30	**64,567**	818,268
Equity instruments at fair value through other comprehensive income	23	**4,362,469**	4,088,204
Deferred tax assets	24	**700,738**	690,341
Other non-current assets	25	**713,639**	553,819
Total non-current assets		**18,226,350**	14,288,683
Current assets			
Inventories	26	**1,676,943**	1,974,150
Accounts and bills receivable, net	27	**18,208,251**	19,092,825
Contract assets, net	28	**19,786,576**	17,153,529
Prepayments and other current assets	29	**9,618,272**	8,771,768
Financial assets at fair value through profit or loss	30	**3,098,634**	4,567,824
Restricted deposits	31	**2,865,265**	2,471,515
Cash and cash equivalents	32	**21,008,490**	19,220,764
Total current assets		**76,262,431**	73,252,375
Total assets		**94,488,781**	87,541,058
Current liabilities			
Interest-bearing borrowings	33	**704,401**	511,234
Accounts and bills payable	34	**33,363,786**	30,674,619
Current portion of lease liabilities	35	**400,627**	343,281
Contract liabilities	36	**10,977,645**	10,087,102
Accrued expenses and other payables	37	**9,499,772**	8,730,235
Income tax payable		**282,597**	337,372
Total current liabilities		**55,228,828**	50,683,843
Net current assets		**21,033,603**	22,568,532
Total assets less current liabilities		**39,259,953**	36,857,215

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2020

	Notes	31 December 2020 RMB'000	31 December 2019 RMB'000
Non-current liabilities			
Lease liabilities	35	**768,662**	690,172
Other non-current liabilities	38	**408,405**	295,527
Deferred tax liabilities	24	**895,912**	833,744
Total non-current liabilities		**2,072,979**	1,819,443
Total liabilities		**57,301,807**	52,503,286
Equity			
Share capital	39	**6,926,018**	6,926,018
Reserves		**29,791,666**	27,637,892
Equity attributable to equity shareholders of the Company		**36,717,684**	34,563,910
Non-controlling interests		**469,290**	473,862
Total equity		**37,186,974**	35,037,772
Total liabilities and equity		**94,488,781**	87,541,058

The notes on pages 133 to 206 form part of these consolidated financial statements.

The consolidated financial statements on pages 125 to 206 were approved and authorised for issue by the board of directors on 29 March 2021 and are signed on its behalf by:

Zhang Zhiyong
Chairman

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

		Equity attributable to equity shareholders of the Company											
	Notes	Share capital RMB'000	Share premium RMB'000 (note a)	Capital reserve RMB'000 (note b)	Statutory surplus reserve RMB'000 (note c)	Specific reserve RMB'000 (note d)	Fair value reserve RMB'000 (note e)	Exchange reserve RMB'000 (note f)	Other reserve RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance as at 1 January 2020		6,926,018	4,529,310	1,851,748	1,339,541	270,274	2,460,685	12,867	(68,310)	17,241,777	34,563,910	473,862	35,037,772
Changes in equity for the year ended 31 December 2020													
Profit for the year		–	–	–	–	–	–	–	–	3,081,475	3,081,475	7,845	3,089,320
Other comprehensive income/(expense) for the year		–	–	–	–	–	205,575	(35,502)	–	–	170,073	(210)	169,863
Total comprehensive income/(expense) for the year		–	–	–	–	–	205,575	(35,502)	–	3,081,475	3,251,548	7,635	3,259,183
Dividend declared	14(b)	–	–	–	–	–	–	–	–	(1,097,774)	(1,097,774)	–	(1,097,774)
Distribution to non-controlling interests		–	–	–	–	–	–	–	–	–	–	(12,351)	(12,351)
Appropriation		–	–	–	221,413	–	–	–	–	(221,413)	–	–	–
Appropriation of specific reserve		–	–	–	–	728,451	–	–	–	(728,451)	–	–	–
Utilisation of specific reserve		–	–	–	–	(684,943)	–	–	–	684,943	–	–	–
Capital contribution from non-controlling interests		–	–	–	–	–	–	–	–	–	–	144	144
Balance as at 31 December 2020		6,926,018	4,529,310	1,851,748	1,560,954	313,782	2,666,260	(22,635)	(68,310)	18,960,557	36,717,684	469,290	37,186,974
Balance as at 1 January 2019		6,926,018	4,529,310	1,851,936	1,219,710	225,299	2,197,233	15,575	(68,310)	15,401,798	32,298,569	497,197	32,795,766
Changes in equity for the year ended 31 December 2019													
Profit for the year		–	–	–	–	–	–	–	–	3,049,229	3,049,229	(19,430)	3,029,799
Other comprehensive income/(expense) for the year		–	–	–	–	–	263,452	(2,708)	–	–	260,744	62	260,806
Total comprehensive income/(expense) for the year		–	–	–	–	–	263,452	(2,708)	–	3,049,229	3,309,973	(19,368)	3,290,605
Dividend declared	14(b)	–	–	–	–	–	–	–	–	(1,044,444)	(1,044,444)	–	(1,044,444)
Distribution to non-controlling interests		–	–	–	–	–	–	–	–	–	–	(4,155)	(4,155)
Appropriation		–	–	–	119,831	–	–	–	–	(119,831)	–	–	–
Appropriation of specific reserve		–	–	–	–	681,925	–	–	–	(681,925)	–	–	–
Utilisation of specific reserve		–	–	–	–	(636,950)	–	–	–	636,950	–	–	–
Others		–	–	(188)	–	–	–	–	–	–	(188)	188	–
Balance as at 31 December 2019		6,926,018	4,529,310	1,851,748	1,339,541	270,274	2,460,685	12,867	(68,310)	17,241,777	34,563,910	473,862	35,037,772

For the year ended 31 December 2020

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 2020, the Company transferred RMB221 million (2019: RMB120 million) being 10% of the profit for the current year as determined in accordance with the PRC Accounting Rules and Regulations to this reserve.

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

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	2020 RMB'000	2019 RMB'000
Operating activities		
Profit before tax	3,487,598	3,493,601
Adjustments for:		
Depreciation and amortisation	1,350,230	1,251,618
Impairment losses on accounts receivable, other receivables and contract assets, net	127,187	264,630
Write-down of inventories, net	60,599	37,988
Impairment losses on associates	–	8,815
Impairment losses on property, plant and equipment	965	–
Interest income	(290,493)	(245,370)
Finance costs	63,482	68,888
Share of profits of associates and joint ventures	(168,928)	(148,478)
Dividend income	(161,920)	(143,868)
Investment income and fair value gains of financial instruments at fair value through profit or loss	(208,492)	(220,203)
Gain on disposal of associates	–	(687)
Loss/(gain) on disposal of property, plant and equipment, construction in progress, other intangible assets, leasehold lands and termination of lease, net	8,662	(44,845)
Foreign exchange loss, net	42,415	11,944
Write-back of non-payable liabilities	(24,717)	(54,806)
Operating profit before changes in working capital	4,286,588	4,279,227
Decrease in inventories	236,608	240,889
Decrease/(increase) in accounts and bills receivable	719,561	(583,035)
Increase in contract assets	(2,594,804)	(1,518,487)
Increase in prepayments and other current assets	(959,942)	(507,502)
Increase in accounts and bills payable	2,697,264	2,395,086
Increase in contract liabilities	890,543	1,439,042
Increase/(decrease) in accrued expenses and other payables	437,185	(557,856)
Net cash inflow from operations	5,713,003	5,187,364
Interest paid	(63,818)	(67,312)
Interest received	280,788	221,854
Income tax paid	(476,488)	(530,255)
Net cash generated from operating activities	5,453,485	4,811,651

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	Note	2020 RMB'000	2019 RMB'000
Investing activities			
Payments for purchase of property, plant and equipment, construction in progress, other intangible assets and investment properties		**(3,531,568)**	(1,025,735)
Payments for leasehold lands		**(309)**	(154,474)
Proceeds from disposal of property, plant and equipment, other intangible assets and investment properties		**15,326**	71,005
Proceeds from disposal of leasehold lands		**1,718**	15,416
Restricted bank deposits paid		**(485,869)**	(95,460)
Dividends received		**298,238**	207,608
Proceeds from disposal of equity investments		**20,338**	1,869
Payments for acquisition of wealth management products and structured deposits		**(10,978,985)**	(9,950,000)
Proceeds from disposal of wealth management products and structured deposits		**12,637,767**	10,450,000
Payments for acquisition of associates and joint ventures		**(128,575)**	(88,965)
Other cash paid related to investing activities		**(95,555)**	(176)
Other cash received related to investing activities		**3,779**	257,596
Net cash used in investing activities		**(2,243,695)**	(311,316)
Financing activities			
Proceeds from bank and other loans		**388,429**	125,945
Repayments of bank and other loans		**(166,315)**	(98,603)
Repayments of leases liabilities		**(467,840)**	(350,303)
Dividends paid		**(1,108,278)**	(1,062,172)
Capital contribution from non-controlling interests		**144**	–
Net cash used in financing activities		**(1,353,860)**	(1,385,133)
Net increase in cash and cash equivalents		**1,855,930**	3,115,202
Cash and cash equivalents at beginning of year		**19,220,764**	16,106,246
Effect of foreign exchange rate changes		**(68,204)**	(684)
Cash and cash equivalents at end of year	32	**21,008,490**	19,220,764

The notes on pages 133 to 206 form part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

1. PRINCIPAL ACTIVITIES AND ORGANISATION

(a) Principal activities

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

1. PRINCIPAL ACTIVITIES AND ORGANISATION (continued)

(b) Organisation (continued)

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

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

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

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

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

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.

1. PRINCIPAL ACTIVITIES AND ORGANISATION (continued)

(b) Organisation (continued)

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

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

(b) Basis of preparation of consolidated financial statements

The consolidated financial statements for the year ended 31 December 2020 comprise the Group and its interests in associates and joint ventures.

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

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

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 *Share-based Payment*, leasing transactions that are within the scope of IFRS 16 *Leases* ("IFRS 16"), and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets*.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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 43.

(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.

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Basis of consolidation (continued)

(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.

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

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

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

For the year ended 31 December 2020

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Basis of consolidation (continued)

(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.

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

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

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

(d) Goodwill

Goodwill represents the excess of

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Goodwill (continued)

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

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

(e) Investment properties

Investment properties are buildings which are owned to earn rental income and/or for capital appreciation.

Investment properties are stated in the consolidated statement of financial position at cost less accumulated depreciation and impairment losses (see note 2(j)). Depreciation is calculated to write off the cost less estimated residual value if applicable and is charged to profit or loss on a straight-line basis over the estimated useful lives ranging from 20 years to 30 years.

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

(f) Property, plant and equipment

Property, plant and equipment are initially recorded at cost, less subsequent accumulated depreciation and impairment losses (see note 2(j)). The cost of an asset comprises its purchase price, any directly attributable costs of bringing the asset to working condition and location for its intended use and the cost of borrowed funds used during the periods of construction. Expenditure incurred after the asset has been put into operation, including cost of replacing part of such an item, is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment and the cost can be measured reliably. All other expenditure is expensed as it is incurred.

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Construction in progress

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

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

(h) Intangible assets (other than goodwill)

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

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

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

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

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

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

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

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

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

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(j)).

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

Both the period and method of amortisation are reviewed annually.

(i) Leases

Definition of a lease

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Leases (continued)

The Group as a lessee

Allocation of consideration to components of a contract

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

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

Short-term leases and leases of low-value assets

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

Right-of-use assets

The cost of right-of-use asset includes:

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

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities other than adjustments to lease liabilities resulting from Covid-19-related rent concessions in which the Group applied the practical expedient.

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

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

Refundable rental deposits

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

Lease liabilities

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

For the year ended 31 December 2020

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Leases (continued)

The Group as a lessee (continued)

Lease liabilities (continued)

The lease payments include:

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

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

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

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

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

Lease modifications

Except for Covid-19-related rent concessions in which the Group applied the practical expedient, the Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Leases (continued)

The Group as a lessee (continued)

Covid-19-related rent concessions

In relation to rent concessions that occurred as a direct consequence of the Covid-19 pandemic, the Group has elected to apply the practical expedient not to assess whether the change is a lease modification if all of the following conditions are met:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- any reduction in lease payments affects only payments originally due on or before 30 June 2021; and
- there is no substantive change to other terms and conditions of the lease.

A lessee applying the practical expedient accounts for changes in lease payments resulting from rent concessions the same way it would account for the changes applying IFRS 16 if the changes are not a lease modification. Forgiveness or waiver of lease payments are accounted for as variable lease payments. The related lease liabilities are adjusted to reflect the amounts forgiven or waived with a corresponding adjustment recognised in the profit or loss in the period in which the event occurs.

The Group as a lessor

Classification and measurement of leases

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

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

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

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

Allocation of consideration to components of a contract

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

Refundable rental deposits

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

Sublease

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

For the year ended 31 December 2020

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Leases (continued)

The Group as a lessor (continued)

Lease modification

Changes in considerations of lease contracts that were not part of the original terms and conditions are accounted for as lease modifications, including lease incentives provided through forgiveness or reduction of rentals.

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

(j) Impairment of long-lived assets

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

– property, plant and equipment;

– right-of-use assets;

– investment properties;

– construction in progress;

– goodwill; and

– other intangible assets with finite useful lives.

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

– *Calculation of recoverable amount*

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

– *Recognition of impairment losses*

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

– *Reversals of impairment losses*

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

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

(k) Inventories

Inventories are carried at the lower of cost and net realisable value.

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

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

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

(l) Financial instruments

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

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

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

For the year ended 31 December 2020

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(I) Financial instruments (continued)

Financial assets

Classification and subsequent measurement of financial assets

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

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

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

(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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Financial instruments (continued)

Financial assets (continued)

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

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

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

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

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

(i) Significant increase in credit risk

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Financial instruments (continued)

Financial assets (continued)

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

(ii) Definition of default

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

(iii) Credit-impaired financial assets

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

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

(iv) Write-off policy

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

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data and forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights. The Group uses a practical expedient in estimating ECL on accounts receivable using a provision matrix taking into consideration historical credit loss experience, adjusted for forward looking information that is available without undue cost or effort.

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Financial instruments (continued)

Financial assets (continued)

Derecognition of financial assets

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

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

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

Financial liabilities and equity

Classification as debt or equity

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

Equity instruments

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

Financial liabilities

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

(i) Financial liabilities at FVTPL

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

A financial liability is held for trading if:

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

(ii) Financial liabilities at amortised cost

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

(iii) Derecognition of financial liabilities

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

For the year ended 31 December 2020

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Cash and cash equivalents

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

(n) Employee benefits

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

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

(ii) Termination benefits

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

(o) Income tax

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

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

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Income tax (continued)

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

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

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

- in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  - the same taxable entity; or

  - different taxable entities which, intend either to realise the current tax assets and settle the current tax liabilities on a net basis or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

(p) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(q) Revenue from contracts with customers

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

A performance obligation represents a 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Revenue from contracts with customers (continued)

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

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

- the Group's performance creates or enhances an asset that the customer controls as the Groups performs; or

- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

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

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

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

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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Revenue from contracts with customers (continued)

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.

Existence of significant financing component

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

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

Principal versus agent

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Government grants

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

(s) Translation of foreign currencies

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.

(t) 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.

(u) Segment reporting

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

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

The Group principally has one operating segment and hence no segment information is provided (see note 45).

(v) Dividends or profit distributions

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(w) Related parties

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

(i) has control or joint control of the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

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

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);

(iii) Both entities are joint ventures of the same third party;

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) The entity is controlled or jointly controlled by a person identified in (a);

(vi) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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

3. CHANGES IN ACCOUNTING POLICIES

In the current year, the Group has applied the Amendments to References to the Conceptual Framework in IFRS Standards and the following amendments to IFRSs issued by the IASB for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the consolidated financial statements:

Amendments to IAS 1 and IAS 8	Definition of Material
Amendments to IFRS 3	Definition of a Business
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform

In addition, the Group has early applied the Amendment to IFRS 16 *Covid-19-Related Rent Concessions*.

The application of the Amendments to References to the Conceptual Framework in IFRS Standards and the amendments to IFRSs in the current year 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.

4. REVENUES

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

Disaggregation of revenue

	2020 RMB'000	2019 RMB'000
Revenue from telecommunications infrastructure services	67,164,571	64,688,815
Revenue from business process outsourcing services	37,276,879	36,637,180
Revenue from applications, content and other services	18,207,494	16,087,094
	122,648,944	117,413,089

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 2020 amounted to RMB41,777 million and RMB19,285 million, respectively (2019: RMB40,633 million and RMB23,881 million, respectively), being 34.1% and 15.7% of the Group's total revenues, respectively (2019: 34.6% and 20.3%, respectively). The revenues derived from areas outside Mainland China for the year ended 31 December 2020 amounted to RMB3,095 million (2019: RMB3,266 million).

For the year ended 31 December 2020, the Group's first three businesses that contributed to the overall revenues were construction, management of infrastructure for information technology and system integration, the revenues from which amounted to RMB52,953 million, RMB15,794 million and RMB11,180 million, respectively (2019:The Group's first three businesses that contributed to the overall revenues were construction, management of infrastructure for information technology and supply chain, the revenues from which amounted to RMB50,735 million, RMB15,827 million and RMB10,320 million, respectively).

The Group's rental income for the year ended 31 December 2020 amounted to RMB670 million (2019: RMB714 million).

Revenue from contracts with non-telecom operators for construction services signed in 2020 but not yet completed on 31 December 2020 amounted to RMB6,772 million (2019: RMB5,733 million).

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

For the year ended 31 December 2020

4. REVENUES (continued)

The transaction price allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December 2020 and the expected timing of recognising revenue are as follows:

	Telecommunications infrastructure services RMB'000	Business process outsourcing services RMB'000	Applications, content and other services RMB'000
As at 31 December 2020			
Within one year	37,891,935	2,908,711	3,891,190
More than one year but not more than two years	11,497,911	767,858	1,054,434
More than two years	8,436,798	2,010,168	1,352,822
	57,826,644	5,686,737	6,298,446
As at 31 December 2019			
Within one year	27,780,074	1,548,614	2,287,248
More than one year but not more than two years	9,039,588	705,149	576,260
More than two years	7,045,049	177,752	378,213
	43,864,711	2,431,515	3,241,721

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

5. COST OF REVENUES

	2020 RMB'000	2019 RMB'000
Depreciation and amortisation	827,413	756,976
Direct personnel costs	8,300,338	9,111,016
Expense relating to short-term leases and leases of low-value assets	1,056,466	1,117,275
Materials costs	15,057,234	12,838,003
Direct costs of products distribution	4,067,599	4,167,579
Subcontracting charges	67,166,028	64,462,508
Others	12,436,230	11,272,773
	108,911,308	103,726,130

For the year ended 31 December 2020

6. OTHER OPERATING INCOME

	2020 RMB'000	2019 RMB'000
Interest income	**290,493**	245,370
Dividend income from equity instruments at FVTOCI	**161,920**	143,868
Government grants	**349,498**	283,910
Gain on disposal of associates	**–**	687
Gain on disposal of property, plant and equipment, other intangible assets, leasehold lands, construction in progress and termination of lease contracts	**6,211**	61,295
Penalty income	**4,569**	3,001
Management fee income	**382,224**	370,324
Write-back of non-payable liabilities	**24,717**	54,806
Investment income and fair value gains on wealth management products and structured deposits	**189,592**	216,349
Others	**278,565**	175,145
	1,687,789	1,554,755

7. OTHER OPERATING EXPENSES

	2020 RMB'000	2019 RMB'000
Impairment losses on property, plant and equipment	**965**	–
Loss on disposal of property, plant and equipment, construction in progress and other intangible assets	**14,873**	16,450
Donations	**2,189**	2,430
Penalty charge and compensation	**56,006**	199,790
Net foreign exchange loss	**42,415**	11,944
Others	**100,354**	102,685
	216,802	333,299

8. FINANCE COSTS

	2020 RMB'000	2019 RMB'000
Interest on bank and other borrowings	**21,942**	32,478
Interest on lease liabilities	**41,540**	36,410
	63,482	68,888

For the years ended 31 December 2020 and 2019, no borrowing costs were capitalised in relation to construction in progress.

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For the year ended 31 December 2020

9. PROFIT BEFORE TAX

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

		2020 RMB'000	2019 RMB'000
(a)	Staff costs:		
	Salaries, wages and other benefits	**15,209,385**	14,948,888
	Contributions to defined contribution retirement schemes	**1,021,958**	1,708,579
		16,231,343	16,657,467
(b)	Other items:		
	Depreciation		
	– Property, plant and equipment (note 16)	**668,398**	682,691
	– Right-of-use assets (note 17)	**488,178**	388,392
	– Investment properties (note 18)	**42,977**	43,585
	Amortisation		
	– Other intangible assets (note 21)	**150,677**	136,950
	Auditors' remuneration	**35,095**	34,695
	Materials costs (note 26)	**15,057,234**	12,838,003
	Direct costs of products distribution (note 26)	**4,067,599**	4,167,579
	Write-down of inventories (note 26)	**64,267**	56,174
	Reversal of write-down of inventories (note 26)	**(3,668)**	(18,186)
	Impairment losses on accounts receivable, other receivables and contract assets	**579,422**	560,178
	Reversal of impairment losses on accounts receivable, other receivables and contract assets	**(452,235)**	(295,548)
	Investment income and fair value gains of financial instruments at fair value through profit or loss	**(208,492)**	(220,203)
	Expense relating to short-term leases and leases of low-value assets	**1,268,302**	1,329,436
	Research and development costs	**3,781,598**	3,275,915

The selling expenses, general and administrative expenses and other expenses of the Group are RMB2,379 million, RMB8,930 million and RMB517 million (2019: RMB2,306 million, RMB8,482 million and RMB706 million), respectively for the year ended 31 December 2020. Research and development costs include RMB2,915 million (2019: RMB2,604 million) relating to staff costs, amount of which is also included in the staff costs disclosed in note 9(a).

10. INCOME TAX

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

	2020 RMB'000	2019 RMB'000
Current tax		
PRC enterprise income tax	**373,271**	466,882
Overseas enterprise income tax	**41,926**	55,224
Deferred tax		
Origination and reversal of temporary differences (note 24)	**(16,919)**	(58,304)
Total income tax	**398,278**	463,802

For the year ended 31 December 2020

10. INCOME TAX (continued)

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

	2020 RMB'000	2019 RMB'000
Profit before tax	3,487,598	3,493,601
Expected income tax expense at a statutory tax rate of 25% (2019: 25%) (note (i))	871,900	873,400
Differential tax rates on subsidiaries' income (note (i))	(210,176)	(203,262)
Non-deductible expenses (note (ii))	221,891	137,586
Non-taxable income	(121,044)	(73,091)
Tax losses not recognised	102,781	93,957
Utilisation of previously unrecognised tax losses	(8,775)	(25,231)
Over provision in respect of prior years	(20,360)	(30,567)
Others (note (iii))	(437,939)	(308,990)
Income tax	398,278	463,802

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 2020 and 2019, 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 INCOME

	2020 RMB'000	2019 RMB'000
Changes in fair value of equity instruments at FVTOCI recognised during the year	274,265	350,651
Deferred tax charged to other comprehensive income	(68,690)	(87,199)
Net movement in the fair value reserve during the year recognised in other comprehensive income	205,575	263,452

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 2020 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	2020 Total RMB'000
Executive Directors					
Zhang Zhiyong (chairman)	–	–	–	–	–
Huang Xiaoqing (appointed on 21 October 2020)	–	60	82	13	155
Si Furong (resigned on 21 October 2020)	–	289	624	106	1,019
Zhang Xu	–	173	549	70	792
	–	522	1,255	189	1,966
Non-Executive Directors					
Gao Tongqing (appointed on 15 June 2020)	–	–	–	–	–
Mai Yanzhou (appointed on 15 June 2020)	–	–	–	–	–
Li Zhengmao (resigned on 20 March 2020)	–	–	–	–	–
Shao Guanglu (resigned on 20 March 2020)	–	–	–	–	–
	–	–	–	–	–
Independent Non-Executive Directors					
Siu Wai Keung, Francis	300	–	–	–	300
Lv Tingjie	170	–	–	–	170
Wu Taishi	170	–	–	–	170
Liu linfei	170	–	–	–	170
	810	–	–	–	810
Supervisors					
Han Fang	–	–	–	–	–
Hai Liancheng	85	–	–	–	85
Si Jianfei	–	194	519	69	782
	85	194	519	69	867
Total directors' and supervisors' emoluments					3,643

For the year ended 31 December 2020

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 2019 are as follows:

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

Note:

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

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

The emoluments of executive directors were for their services 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 supervisors were in connection with their services as a supervisor of the Company or an employee of the Group.

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For the year ended 31 December 2020

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:

	2020	2019
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:

	2020 RMB'000	2019 RMB'000
Salaries, allowances and other benefits in kind	1,995	2,514
Discretionary bonuses	4,972	4,265
Pension scheme contributions	477	744
	7,444	7,523

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

	2020	2019
RMB equivalent		
1,000,001 to 1,500,000	3	3
1,500,001 to 2,000,000	2	2

(b) Senior management's remuneration

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

	2020	2019
RMB equivalent		
Nil to 1,000,000	18	16
1,000,001 to 2,000,000	3	5

14. DIVIDENDS

(a) Dividends attributable to the year

	2020 RMB'000	2019 RMB'000
Final dividend proposed after the end of reporting period of RMB0.1335 per share (2019: RMB0.1321 per share)	**924,623**	914,927
Special dividend proposed after the end of reporting period of RMB0.0267 per share (2019: RMB0.0264 per share)	**184,925**	182,847
	1,109,548	1,097,774

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

	2020 RMB'000	2019 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year, of RMB0.1321 per share (2019: RMB0.1257 per share)	**914,927**	870,601
Special dividend in respect of the previous financial year, approved and paid during the year, of RMB0.0264 per share (2019: RMB0.0251 per share)	**182,847**	173,843
	1,097,774	1,044,444

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 2020 of RMB3,081,475 thousand (2019: RMB3,049,229 thousand) and number of shares in issue during the year ended 31 December 2020 of 6,926,018 thousand shares (2019: 6,926,018 thousand shares).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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

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

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 RMB296 million as at 31 December 2020 (2019: RMB286 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. RIGHT-OF-USE ASSETS

	Leasehold lands RMB'000	Buildings RMB'000	Motor vehicles RMB'000	Other equipment RMB'000	Total RMB'000
As at 31 December 2020					
Carrying amount	878,477	1,100,535	1,670	65,323	2,046,005
As at 31 December 2019					
Carrying amount	872,116	983,708	1,757	38,415	1,895,996
For the year ended 31 December 2020					
Depreciation charge	24,698	437,240	1,358	24,882	488,178
For the year ended 31 December 2019					
Depreciation charge	24,448	329,118	1,260	33,566	388,392

	2020 RMB'000	2019 RMB'000
Expense relating to short-term leases	**1,234,860**	1,223,446
Expense relating to leases of low-value assets, excluding short-term leases of low value assets	**33,442**	105,990
Total cash outflow for leases	**1,768,649**	1,867,601
Additions to right-of-use assets	**692,922**	769,652

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

The Group entered into short-term leases mainly for buildings, motor vehicles and other equipment. As at 31 December 2020 and 2019, the portfolio of short-term leases is similar to the portfolio of short-term leases to which the short-term lease expense disclosed above.

As at 31 December 2020, the Group entered into new leases for buildings, motor vehicles and other equipment that have not yet commenced, the total future undiscounted cash flows over the non-cancellable period amounted to RMB655 million (2019: RMB1,519 million).

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18. INVESTMENT PROPERTIES

	2020 RMB'000	2019 RMB'000
Cost		
As at 1 January	1,210,486	1,209,506
Additions	27,580	1,717
Transfer from property, plant and equipment (note 16)	13,781	80
Transfer to property, plant and equipment (note 16)	(989)	(817)
Disposals	(72)	–
As at 31 December	1,250,786	1,210,486
Accumulated depreciation		
As at 1 January	646,666	603,441
Transfer from property, plant and equipment (note 16)	12,104	39
Transfer to property, plant and equipment (note 16)	(913)	(399)
Depreciation charge	42,977	43,585
Depreciation written back on disposals	(70)	–
As at 31 December	700,764	646,666
Net carrying value		
As at 31 December	550,022	563,820
As at 1 January	563,820	606,065
Fair value	2,685,137	2,641,598

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.

18. INVESTMENT PROPERTIES (continued)

The Group leases out its properties under operating leases. The leases typically run for period of one year to ten years, with an option to renew the lease after that date at which time all terms are renegotiated. None of the leases includes contingent rentals. At the end of the reporting period, the total future minimum lease payments under non-cancellable period were as follows:

	2020 RMB'000	2019 RMB'000
Within one year	**142,256**	120,525
In the second year	**81,972**	75,742
In the third year	**60,070**	61,088
In the fourth year	**49,787**	36,643
In the fifth year	**41,241**	26,750
After five years	**129,943**	90,170
As at 31 December	**505,269**	410,918

During the year ended 31 December 2020, RMB127 million (2019: RMB146 million) has been recognised as rental income in the consolidated statement of profit or loss and RMB53 million (2019: RMB57 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 RMB50 million as at 31 December 2020 (2019: RMB25 million). The directors of the Company are of the opinion that the Group is entitled to lawfully and validly occupy or use the above mentioned properties.

19. CONSTRUCTION IN PROGRESS

	2020 RMB'000	2019 RMB'000
Cost:		
As at 1 January	**282,365**	342,427
Additions	**3,478,159**	304,235
Disposals	**(202)**	(6,873)
Transfer to other intangible assets (note 21)	**(69,010)**	(120,622)
Transfer to property, plant and equipment (note 16)	**(223,218)**	(235,002)
Transfer to leasehold lands	**–**	(1,800)
As at 31 December	**3,468,094**	282,365

As at 31 December 2020, construction in progress primarily comprise purchased property under renovation.

20. GOODWILL

	2020 RMB'000	2019 RMB'000
Cost and carrying amount	**103,005**	103,005

	2020 RMB'000	2019 RMB'000
Impairment testing for group of cash-generating units containing goodwill		
China International Telecommunications Construction Corporation ("CITCC")	**103,005**	103,005

The recoverable amount of group of cash-generating units containing goodwill arising from the acquisition of CITCC is 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 11.46% (2019: 12.07%). The financial budgets and discount rate have been reassessed as at 31 December 2020 taking into consideration higher degree of estimation uncertainties in the current year due to uncertainty on how the Covid-19 pandemic may progress and evolve and volatility in financial markets.

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

Key assumptions used for the value in use calculations are the gross margin and revenue. 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. Management believes any reasonably possible change in the key assumptions would not cause the group of cash-generating units' carrying amount to exceed its recoverable amount.

21. OTHER INTANGIBLE ASSETS

	2020 RMB'000	2019 RMB'000
Cost:		
As at 1 January	**1,254,562**	978,116
Additions	**116,994**	171,473
Transfer from construction in progress (note 19)	**69,010**	120,622
Disposals	**(25,251)**	(15,649)
As at 31 December	**1,415,315**	1,254,562
Accumulated amortisation:		
As at 1 January	**749,284**	622,777
Amortisation charge	**150,677**	136,950
Written back on disposals	**(20,356)**	(10,443)
As at 31 December	**879,605**	749,284
Net carrying value:		
As at 31 December	**535,710**	505,278
As at 1 January	**505,278**	355,339

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

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22. INTERESTS IN ASSOCIATES AND JOINT VENTURES

	2020 RMB'000	2019 RMB'000
Share of net assets	**1,351,368**	418,336

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

23. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

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

24. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net balance	
	31 December 2020 RMB'000	31 December 2019 RMB'000	31 December 2020 RMB'000	31 December 2019 RMB'000	31 December 2020 RMB'000	31 December 2019 RMB'000
Impairment losses, primarily for receivables and inventories	**348,742**	346,229	**–**	–	**348,742**	346,229
Revaluation of property, plant and equipment	**–**	–	**(68)**	(68)	**(68)**	(68)
Unused tax losses (note (i))	**29,393**	49,726	**–**	–	**29,393**	49,726
Changes in fair value	**–**	–	**(894,674)**	(833,399)	**(894,674)**	(833,399)
Unpaid expenses	**319,121**	290,904	**–**	–	**319,121**	290,904
Others	**3,482**	3,482	**(1,170)**	(277)	**2,312**	3,205
Deferred tax assets (liabilities)	**700,738**	690,341	**(895,912)**	(833,744)	**(195,174)**	(143,403)

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24. DEFERRED TAX ASSETS AND LIABILITIES (continued)

Movements in deferred tax assets and liabilities for the year ended 31 December 2020 are as follows:

	As at 1 January 2020 RMB'000	Recognised in profit or loss RMB'000 (note 10(a))	Recognised in other comprehensive income RMB'000 (note 11)	As at 31 December 2020 RMB'000
Impairment losses, primarily for receivables and inventories	346,229	2,513	–	348,742
Revaluation of property, plant and equipment	(68)	–	–	(68)
Unused tax losses (note (i))	49,726	(20,333)	–	29,393
Changes in fair value	(833,399)	7,415	(68,690)	(894,674)
Unpaid expenses	290,904	28,217	–	319,121
Others	3,205	(893)	–	2,312
Deferred tax assets (liabilities)	(143,403)	16,919	(68,690)	(195,174)

	As at 1 January 2019 RMB'000	Recognised in profit or loss RMB'000 (note 10(a))	Recognised in other comprehensive income RMB'000 (note 11)	As at 31 December 2019 RMB'000
Impairment losses, primarily for receivables and inventories	308,864	37,365	–	346,229
Revaluation of property, plant and equipment	(68)	–	–	(68)
Unused tax losses (note (i))	30,343	19,383	–	49,726
Changes in fair value	(741,215)	(4,985)	(87,199)	(833,399)
Unpaid expenses	282,995	7,909	–	290,904
Others	4,573	(1,368)	–	3,205
Deferred tax assets (liabilities)	(114,508)	58,304	(87,199)	(143,403)

Notes:

(i) Expiry of recognised tax losses

	2020 RMB'000	2019 RMB'000
Year of expiry		
2020	–	1,558
2021	–	43,123
2022	2,152	78,715
2023	4,971	35,408
2024	136,343	172,650
2025	50,408	–
	193,874	331,454

(ii) As at 31 December 2020, the Group has not recognised deferred tax assets in respect of tax losses of RMB1,087.6 million (2019: RMB860.1 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 2021 to 2025 (2019: 2020 to 2024).

For the year ended 31 December 2020

25. OTHER NON-CURRENT ASSETS

Other non-current assets mainly represent the long-term receivables arising from provision of telecommunications infrastructure services.

26. INVENTORIES

	2020 RMB'000	2019 RMB'000
Construction materials	**651,518**	755,919
Finished goods	**1,008,627**	998,133
Spare parts and consumables	**16,798**	220,098
	1,676,943	1,974,150

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

	2020 RMB'000	2019 RMB'000
Carrying amount of inventories consumed and sold		
– Materials costs	**15,057,234**	12,838,003
– Direct costs of products distribution	**4,067,599**	4,167,579
Reversal of write-down of inventories	**(3,668)**	(18,186)
Write-down of inventories	**64,267**	56,174
	19,185,432	17,043,570

27. ACCOUNTS AND BILLS RECEIVABLE, NET

	2020 RMB'000	2019 RMB'000
Bills receivable	**264,802**	363,350
Accounts receivable	**19,610,315**	20,287,259
	19,875,117	20,650,609
Less: allowance for credit losses	**(1,666,866)**	(1,557,784)
	18,208,251	19,092,825

(a) Included in accounts and bills receivable are amounts due from CTC Group, associates of the Group and associates of CTC Group of RMB8,040 million (2019: RMB9,286 million) as at 31 December 2020. 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.

For the year ended 31 December 2020

27. 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:

	2020 RMB'000	2019 RMB'000
Current	852,540	844,908
Within 1 year	14,743,770	15,413,416
After 1 year but less than 2 years	2,016,517	2,038,087
After 2 years but less than 3 years	430,743	454,502
After 3 years	164,681	341,912
	18,208,251	19,092,825

(c) Credit losses of accounts and bills receivable

Credit losses in respect of accounts and bills receivable are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the credit loss is written off against accounts and bills receivable directly (see note 2(l)).

Details of impairment assessment of accounts receivable are set out in note 42(a).

28. CONTRACT ASSETS, NET

	2020 RMB'000	2019 RMB'000
Telecommunications infrastructure services	16,499,707	14,540,160
Business process outsourcing services	983,032	671,738
Applications, content and other services	2,523,856	2,201,628
	20,006,595	17,413,526
Less: allowance for credit losses	(220,019)	(259,997)
	19,786,576	17,153,529

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.

29. PREPAYMENTS AND OTHER CURRENT ASSETS

	2020 RMB'000	2019 RMB'000
Advances to staff	**37,302**	97,340
Amounts due from CTC Group, associates of the Group and associates of CTC Group	**1,875,707**	1,960,684
Prepayments in connection with construction work and equipment purchases	**3,561,181**	2,665,403
Prepaid expenses and deposits	**1,526,301**	1,399,747
Others	**2,617,781**	2,648,594
	9,618,272	8,771,768

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

30. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2020 RMB'000	2019 RMB'000
Wealth management products	**2,076,531**	703,420
Structured deposits	**1,022,103**	3,864,404
Equity instruments	**64,567**	818,268
	3,163,201	5,386,092
Analysed for reporting purpose as:		
Current assets	**3,098,634**	4,567,824
Non-current assets	**64,567**	818,268
	3,163,201	5,386,092

As at 31 December 2020 and 2019, the wealth management products and structured deposits were issued by banks in the PRC with variable returns linked to foreign exchange rates, floating interest rates or the performance of underlying assets.

As at 31 December 2020 and 2019, 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.

31. RESTRICTED DEPOSITS

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

For the year ended 31 December 2020

32. CASH AND CASH EQUIVALENTS

	2020 RMB'000	2019 RMB'000
Cash at bank and in hand	**16,961,389**	16,276,210
Cash at China Telecom Group Finance Co., Ltd. ("China Telecom Finance")	**4,001,266**	2,147,014
Deposits at bank with original maturity less than three months	**45,835**	797,540
Cash and cash equivalents	**21,008,490**	19,220,764

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.

33. INTEREST-BEARING BORROWINGS

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

	2020 RMB'000	2019 RMB'000
RMB denominated		
Loan from CTC Group		
– unsecured	**13,280**	13,280
Borrowings from banks		
– unsecured	**10,000**	–
USD denominated		
Borrowings from banks		
– unsecured	**546,656**	350,903
Other denominated		
Borrowings from banks		
– unsecured	**134,465**	147,051
	704,401	511,234

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33. INTEREST-BEARING BORROWINGS (continued)

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

	2020	2019
RMB denominated		
Loan from CTC Group		
– unsecured	**2.39%**	2.39%
Borrowings from banks		
– unsecured	**4.35%**	N/A
USD denominated		
Borrowings from banks		
– unsecured (fixed interest rate)	**N/A**	3.43%-4.90%
– unsecured (floating interest rate)	**London Interbank Offered Rate ("Libor") +1.00%-1.35%**	Libor +1.00%-1.70%
Other denominated		
Borrowings from banks		
– unsecured (fixed interest rate)	**2.80%-10.33%**	2.91%-10.63%
– unsecured (floating interest rate)	**N/A**	Karachi Interbank Offered Rate +1.00%

As at 31 December 2020 and 2019, no borrowings from bank were subject to financial covenants.

34. ACCOUNTS AND BILLS PAYABLE

Accounts and bills payable comprise:

	2020 RMB'000	2019 RMB'000
Accounts payable	**30,987,698**	28,773,659
Bills payable	**2,376,088**	1,900,960
	33,363,786	30,674,619

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

	2020 RMB'000	2019 RMB'000
Within 1 year	**30,759,309**	28,596,463
After 1 year but less than 2 years	**1,769,256**	1,363,485
After 2 years but less than 3 years	**428,587**	433,210
After 3 years	**406,634**	281,461
	33,363,786	30,674,619

Included in accounts and bills payable are amounts due to CTC Group, associates of the Group and associates of CTC Group of RMB1,187 million (2019: RMB1,447 million) as at 31 December 2020. 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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35. LEASE LIABILITIES

	2020 RMB'000	2019 RMB'000
Lease liabilities payable:		
Within 1 year	**400,627**	343,281
After 1 year but within 2 years	**267,119**	241,228
After 2 years but within 5 years	**382,229**	282,353
After 5 years	**119,314**	166,591
	1,169,289	1,033,453
Less: Amount due for settlement with 12 months shown under current liabilities	**400,627**	343,281
Amount due for settlement after 12 months shown under non-current liabilities	**768,662**	690,172

The weighted average lessee's incremental borrowing rate applied to lease liabilities is 3.6% (2019: 3.6%).

36. CONTRACT LIABILITIES

	2020 RMB'000	2019 RMB'000
Telecommunications infrastructure services	**8,124,136**	7,286,501
Other services	**2,853,509**	2,800,601
	10,977,645	10,087,102

When the Group receives an advance payment before the performance obligation is satisfied, this will give rise to contract liabilities, until the operating revenues recognised on the relevant contract exceed the amount of the advance payment.

The following table shows how much of the revenue recognised relates to carried-forward contract liabilities.

	Telecommunications infrastructure services RMB'000	Other services RMB'000
For the year ended 31 December 2020		
Revenue recognised that was included in the contract liability balance at the beginning of the year	**7,105,557**	**2,755,007**
For the year ended 31 December 2019		
Revenue recognised that was included in the contract liability balance at the beginning of the year	6,745,270	1,757,644

37. ACCRUED EXPENSES AND OTHER PAYABLES

	2020 **RMB'000**	2019 RMB'000
Wages and welfare payable	**1,586,944**	1,561,988
Amounts due to CTC Group, associates of the Group and associates of CTC Group (note (i))	**451,174**	467,791
Advance lease payments received	**44,541**	42,274
Other taxes payable	**764,731**	591,905
Special dividend and profit distribution payable to CTC Group (note (ii))	**29,300**	29,300
Dividend payable	**11,601**	15,896
Payables for construction and purchase of property, plant and equipment	**588,852**	20,384
Others (note (iii))	**6,022,629**	6,000,697
	9,499,772	8,730,235

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 2020.

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 2020.

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

38. OTHER NON-CURRENT LIABILITIES

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

39. SHARE CAPITAL

	2020 RMB'000	2019 RMB'000
Registered, issued and fully paid:		
4,534,598,160 (31 December 2019: 4,534,598,160) domestic shares of RMB1.00 each	**4,534,598**	4,534,598
2,391,420,240 (31 December 2019: 2,391,420,240) H shares of RMB1.00 each	**2,391,420**	2,391,420
	6,926,018	6,926,018

	2020 Thousand shares	2019 Thousand shares
At 1 January and 31 December	**6,926,018**	6,926,018

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

(a) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by strengthening their leading position as integrated service provider to the telecommunications industry and achieving economies of scale in the market.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital using a gearing ratio which is total debts divided by the sum of total debts and equity attributable to equity shareholders of the Company. For this purpose, the Group defines total debt as the sum of short-term interest bearing borrowings and long-term interest bearing borrowings. The Group aims to maintain the gearing ratio at a reasonable level. The Group's ratio as at 31 December 2020 was 1.9% (2019: 1.5%). 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.

40. RETIREMENT BENEFIT OBLIGATIONS

In accordance with the labour regulations of the PRC, the Group participates in various defined contribution retirement schemes organised by the municipal and provincial governments for its employees. The Group is required to make contributions to the retirement schemes at rates ranging from 14% to 19% (2019: 14% to 20%) of the salaries, bonuses and certain allowances of the employees, while the PRC government resolved to waive certain proportion of such contributions during the specific period affected by Covid-19 in order to help enterprises withstand the pandemic and stabilise employment.

The Group has no other material obligation for the payment of pension benefits associated with these schemes beyond the annual contributions described above.

41. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Capital commitments

As at 31 December 2020, the Group had capital commitments for acquisition and construction of property, plant and equipment and other non-current assets as follows:

	2020 **RMB'000**	2019 RMB'000
Contracted for but not provided	**41,270**	543,676

(b) Contingent liabilities

As at 31 December 2020, the Group had no material contingent liabilities and no financial guarantees issued.

42. FINANCIAL RISK MANAGEMENT AND FAIR VALUES

Exposure to credit, interest rate, liquidity and currency risks arises in the normal course of the Group's business. The Group is also exposed to equity price risk arising from its equity investments in other entities.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk and impairment assessment

The Group's credit risk is primarily attributable to accounts receivable and contract assets arising from contracts with customers and other receivables. Management has a credit policy in place and the exposure to credit risks is monitored on an ongoing basis. Normally, the Group does not obtain collateral from customers.

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 56% of the total accounts and bills receivable as at 31 December 2020 (2019: 60%). The Group has no significant credit risk with any of these customers since they are large state-owned companies in the telecommunications industry.

The credit risk on cash at banks and restricted bank deposits is limited because the counterparties are banks with high credit rankings, mainly the four large state-owned banks.

The credit risk on wealth management products and structured deposits is limited because the counterparties are reputable financial institutions.

The amounts of cash and cash equivalents, restricted deposits, accounts and bills receivable, contract assets, other receivables and long-term receivables in the consolidated statement of financial position after deducting impairment allowance represent the Group's maximum exposure to the credit risk in relation to financial assets and contract assets.

42. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(a) Credit risk and impairment assessment (continued)

The Group recognises a loss allowance for ECL on financial assets and contract assets. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition. The Group uses a practical expedient in estimating ECL on accounts receivable using a provision matrix. 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.

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 2020 and 2019, the credit loss allowance of contract assets was not material.

The following table provides information about the exposure to credit risk for accounts receivable which are assessed based on provision matrix within lifetime ECL. Debtors with significant outstanding balances with gross carrying amounts of RMB861 million as at 31 December 2020 were assessed individually (2019: RMB1,089 million). In addition, 100% loss allowance provision has been made regarding balances due from telecommunications operators aged over 4 years of RMB228 million (2019: RMB248 million) and balances due from non-telecom operators aged over 3 years of RMB405 million (2019: RMB319 million)as at 31 December 2020.

	2020			2019		
	Expected loss rate	Gross carrying amount RMB'000	Loss allowance provision RMB'000	Expected loss rate	Gross carrying amount RMB'000	Loss allowance provision RMB'000
Telecommunications operators						
Within 1 year	0.2%	9,770,960	(19,542)	0.3%	10,823,868	(32,472)
After 1 year but within 2 years	1.7%	1,240,785	(21,093)	2%	1,493,459	(29,869)
After 2 years but within 3 years	21%	384,204	(80,683)	20%	394,278	(78,856)
After 3 years but within 4 years	60%	155,452	(93,271)	50%	137,940	(68,970)
		11,551,401	(214,589)		12,849,545	(210,167)
Non-telecom operators						
Within 1 year	0.5%	5,513,595	(27,568)	1%	5,059,355	(50,594)
After 1 year but within 2 years	6.8%	837,150	(56,926)	10%	568,218	(56,822)
After 2 years but within 3 years	49%	214,267	(104,991)	20%	153,963	(30,793)
		6,565,012	(189,485)		5,781,536	(138,209)

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. The Group has considered the uncertainty caused by Covid-19 and the risk that a prolonged pandemic could led to increased credit default rates appropriately.

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42. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(a) Credit risk and impairment assessment (continued)

Accounts receivable and contract assets arising from contracts with customers (continued)

The following table shows the movement in lifetime ECL that has been recognised for accounts receivable under the simplified approach.

	RMB'000
As at 1 January 2019	1,414,533
Changes due to financial assets recognised as at 1 January 2019:	
– Impairment loss recognised	160,450
– Impairment loss reversed	(188,527)
– Uncollectible amounts written off	(16,326)
New financial assets originated	187,654
As at 31 December 2019	1,557,784
Changes due to financial assets recognised as at 1 January 2020:	
– Impairment loss recognised	304,668
– Impairment loss reversed	(285,121)
– Uncollectible amounts written off	(39,457)
New financial assets originated	128,992
As at 31 December 2020	1,666,866

The Group writes off an accounts receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings.

(b) Interest rate risk

The Group is exposed to fair value interest rate risk primarily from its short-term and long-term debts carrying interests at fixed rates. The Group manages its exposure to fair value interest rate risk by maintaining high proportion of fixed rate debts with maturity within one year. Details of the interest rates of interest-bearing borrowings are disclosed in note 33.

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.

A fundamental reform of major interest rate benchmarks is being undertaken globally, including the replacement of some interbank offered rates ("IBORs") with alternative nearly risk-free rates. As listed in note 33, several of the Group's Libor bank loans will be subject to the interest rate benchmark reform. The Group is closely monitoring the transition to new benchmark interest rates.

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

42. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(c) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the Company's board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor its liquidity requirements, to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following table show the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities and lease liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on interest rates at the end of the reporting period) and the earliest date the Group can be required to pay:

	31 December 2020					
	Carrying amount RMB'000	**Total contractual undiscounted cash outflow RMB'000**	**Within 1 year or on demand RMB'000**	**More than 1 year but less than 2 years RMB'000**	**More than 2 years but less than 5 years RMB'000**	**More than 5 years RMB'000**
Short-term interest-bearing borrowings (note 33)	**704,401**	**709,818**	**709,818**	**–**	**–**	**–**
Accounts and bills payable (note 34)	**33,363,786**	**33,363,786**	**33,363,786**	**–**	**–**	**–**
Lease liabilities (note 35)	**1,169,289**	**1,255,781**	**415,050**	**286,698**	**408,586**	**145,447**
Accrued expenses and other payables (note 37)	**9,499,772**	**9,499,772**	**9,499,772**	**–**	**–**	**–**
	44,737,248	**44,829,157**	**43,988,426**	**286,698**	**408,586**	**145,447**

	31 December 2019					
	Carrying amount RMB'000	Total contractual undiscounted cash outflow RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	More than 5 years RMB'000
Short-term interest-bearing borrowings (note 33)	511,234	517,090	517,090	–	–	–
Accounts and bills payable (note 34)	30,674,619	30,674,619	30,674,619	–	–	–
Lease liabilities (note 35)	1,033,453	1,113,951	355,639	258,117	309,022	191,173
Accrued expenses and other payables (note 37)	8,730,235	8,730,235	8,730,235	–	–	–
	40,949,541	41,035,895	40,277,583	258,117	309,022	191,173

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42. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(d) Currency risk

Foreign currency exchange rate risk arises on financial instruments that are denominated in a currency other than the respective functional currencies of group entities. The Group's foreign currency risk exposure mainly relates to the bank deposits and borrowings denominated primarily in United States dollars, Hong Kong dollars, Nigerian Naira, Saudi Arabian Riyal and Ethiopian Birr. 96.1% (2019: 95.8%) of the Group's cash and cash equivalents and 3.3% (2019: 2.6%) of the Group's short-term debt and long-term debt as at 31 December 2020 are denominated in RMB.

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they related. For presentation purposes, the amounts of the exposure are shown in RMB, translated using the spot rate at the year-end date.

Exposure to currency risk

	Exposure to foreign currencies (expressed in RMB) 31 December 2020					
	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	432,435	79,485	58,642	38,029	172	217,610
Accounts receivable	175,552	85,627	13,527	87,327	5,431	204,208
Contract assets	315,817	83,553	179	141,334	22,619	250,976
Accounts payable	(68,670)	(344,931)	(19,122)	(44,605)	(7,955)	(222,826)
Short-term interest-bearing borrowings	(546,656)	–	–	–	–	(134,465)
Overall net exposure	308,478	(96,266)	53,226	222,085	20,267	315,503

	Exposure to foreign currencies (expressed in RMB) 31 December 2019					
	United States dollars RMB'000	Hong Kong dollars RMB'000	Nigerian Naira RMB'000	Saudi Arabian Riyal RMB'000	Ethiopian Birr RMB'000	Others RMB'000
Cash and cash equivalents	434,002	48,986	91,400	41,894	1,123	191,462
Accounts receivable	335,471	95,152	6,791	190,057	8,218	216,451
Contract assets	222,146	8,809	72	24,563	42,798	226,832
Accounts payable	(189,945)	(360,260)	(25,288)	(58,355)	(24,554)	(189,536)
Short-term interest-bearing borrowings	(350,903)	–	–	–	–	(147,051)
Overall net exposure	450,771	(207,313)	72,975	198,159	27,585	298,158

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42. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(d) Currency risk (continued)

Exposure to currency risk (continued)

The following significant exchange rates applied during the year:

	Average rate		Spot rate	
	2020	2019	**2020**	2019
United States dollars	**6.75**	6.92	**6.52**	6.98
Hong Kong dollars	**0.87**	0.89	**0.84**	0.90
Nigerian Naira	**0.02**	0.02	**0.02**	0.02
Saudi Arabian Riyal	**1.80**	1.84	**1.74**	1.86
Ethiopian Birr	**0.20**	0.23	**0.17**	0.22

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.

	2020			2019		
	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%**	**11,568**	**–**	5%	16,904	–
	(5)%	**(11,568)**	**–**	(5)%	(16,904)	–
Hong Kong dollars	**5%**	**(3,610)**	**–**	5%	(7,774)	–
	(5)%	**3,610**	**–**	(5)%	7,774	–
Nigerian Naira	**5%**	**1,996**	**–**	5%	2,737	–
	(5)%	**(1,996)**	**–**	(5)%	(2,737)	–
Saudi Arabian Riyal	**5%**	**8,328**	**–**	5%	7,431	–
	(5)%	**(8,328)**	**–**	(5)%	(7,431)	–
Ethiopian Birr	**5%**	**760**	**–**	5%	1,034	–
	(5)%	**(760)**	**–**	(5)%	(1,034)	–

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the group entities' profit after tax measured in the respective functional currencies, translated into RMB at the exchange rate ruling at the end of the reporting period for presentation purpose.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to remeasure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis is performed on the same basis for 2019.

42. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(e) Price risk

The Group is exposed to equity price changes arising from equity investments at FVTPL and designated as at FVTOCI. Other than certain unquoted equity securities, all of these investments are listed.

The Group's listed investments are listed on the Shanghai Stock Exchange and Shenzhen Stock Exchange. Listed investments held in the investment portfolio have been chosen based on their longer term growth potential and are monitored regularly for performance against expectations.

The price risk on wealth management products and structured deposits is limited because maturity period of these investments is short.

At 31 December 2020, it is estimated that an increase/(decrease) of 5% (2019: 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:

	2020		2019	
	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%	163,294	5%	153,016
Decrease	(5%)	(163,294)	(5%)	(153,016)

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.

	2020			
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Financial Assets				
Equity instruments at fair value through other comprehensive income (note (i))	45,796	–	4,316,673	4,362,469
Financial assets at fair value through profit or loss				
– Wealth management products and structured deposits (note (ii))	–	–	3,098,634	3,098,634
– Equity instruments at fair value through profit or loss (note (iii))	–	–	64,567	64,567

42. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(f) Fair value (continued)

(i) Financial instruments carried at fair value on a recurring basis (continued)

	2019			
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Financial Assets				
Equity instruments at fair value through other comprehensive income (note (i))	47,339	–	4,040,865	4,088,204
Financial assets at fair value through profit or loss				
– Wealth management products and structured deposits (note (ii))	–	–	4,567,824	4,567,824
– Equity instruments at fair value through profit or loss (note (iv))	–	–	818,268	818,268

Notes:

(i) One of the invested entities was listed on Shanghai Stock Exchange in 2018 and the Group is contractually prevented from selling the shares immediately following the initial public offering. At the end of each reporting period, the Group involves external valuer to determine the fair value of the listed equity security that is within the restricted period, based on the quoted price of the identical unrestricted shares traded in stock exchange and adjusted to reflect the effect of restriction. An increase in the discount rate of lack of marketability used in isolation would result in a decrease in the fair value measurement of this equity instrument and vice versa, and the discount rate is 9.90% (2019: 11.50%). A 5% increase in the discount rate holding all other variables constant would decrease the carrying amount of this equity instrument by RMB24 million as at 31 December 2020 (2019: RMB26 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 returns, and discounted at a rate that reflects the credit risk of various counterparties.

(iii) The invested entity was a private company. At the end of reporting period, the Group involves an external valuer to determine the fair value of the invested entity based on discounted cash flows. The future cash flows are estimated based on long-term revenue growth rates, taking into management's experience and knowledge of market conditions.

(iv) One of the invested entities was China Telecom Finance. As at 31 December 2019, the Group involves external valuer to determine the fair value of China Telecom Finance based on P/B multiples of comparable companies and discount rate for lack of marketability. In October 2020, the board of directors of China Telecom Finance passed a resolution, which declared that the Group has the contractual right to appoint one out of the 6 directors to the board of directors of China Telecom Finance. Accordingly, the Group considers that it has significant influence over China Telecom Finance and transferred the investment in China Telecom Finance to interests in associates.

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

	Equity instruments at fair value through other comprehensive income RMB'000	Wealth management products and structured deposits RMB'000	Equity instruments at fair value through profit or loss RMB'000
As at 1 January 2019	3,694,869	5,046,898	–
Purchase	–	9,950,000	64,430
Transferred from deposit paid	–	–	750,000
Settlements	–	(10,450,000)	–
Total gains			
– in profit or loss	–	20,926	3,838
– in other comprehensive income	345,996	–	–
As at 31 December 2019	4,040,865	4,567,824	818,268

(iii) Fair values of financial instruments carried at other than fair value

The directors of the Company are of the opinion that the fair values of financial assets and financial liabilities recorded at amortised cost are not materially different from their carrying amounts.

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43. 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(q), 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

Accounts receivable and contract assets with significant balances are assessed for ECL individually. In addition, the Group uses provision matrix to calculate ECL for the accounts receivable and contract assets by groupings of various debtors that have similar loss patterns. The provision matrix is based on the Group's historical loss rates taking into consideration reasonable and supportable forward-looking information that is available without undue cost or effort. At every reporting date, the historical loss rates are reassessed and changes in the forward-looking information are considered. The provision of ECL is sensitive to changes in estimates. The Group has considered the uncertainty caused by Covid-19 and the risk that a prolonged pandemic could led to increased credit default rates appropriately. The information about the ECL and the Group's accounts receivable and contract assets are disclosed in notes 42(a), 27 and 28 respectively.

(c) 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.

(d) 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 42(f) for further disclosures.

44. 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:

	2020 RMB'000	2019 RMB'000
Engineering related services revenue (note (i))	**17,667,912**	16,386,268
IT application services revenue (note (ii))	**3,052,386**	3,094,988
Provision of ancillary telecommunications services revenue (note (iii))	**14,887,858**	14,758,217
Provision of operation support services revenue (note (iv))	**3,421,884**	3,567,633
Supplies procurement services revenue (note (v))	**2,608,574**	2,697,304
Property leasing services revenue (note (vi))	**138,167**	128,729
Management fee income (note (vii))	**382,224**	370,324
Property leasing services charges (note (viii))	**158,206**	202,655
IT application services charges (note (ix))	**147,786**	153,874
Operation support services charges (note (x))	**877,889**	736,005
Supplies procurement services charges (note (xi))	**1,027,061**	1,121,107
Interest expenses (note (xii))	**19,457**	17,847
Net deposit to China Telecom Finance (note (xiii))	**1,854,252**	2,147,014
Interest income of deposits to China Telecom Finance (note (xiv))	**8,086**	3,020

Notes:

(i) The amount represents telecommunications infrastructure services such as design, construction and project management provided to CTC Group.

(ii) The amount represents the telecommunications network support services, software and hardware development and other IT related services provided to CTC Group.

(iii) The amount represents ancillary telecommunications services such as maintenance of network facilities (including optical ducts and cables, exchange buildings and base stations), operation of distribution channels, fixed line and wireless value-added service, internet contents and information services provided to CTC Group.

(iv) The amount represents the facilities management, advertising, conferencing services and certain repair and leasing of equipment services provided to CTC Group.

(v) The amount represents supplies procurement service such as warehousing, transportation and installation and other related services provided to CTC Group.

(vi) The amount represents rentals from operating leases in respect of business premises leased to CTC Group.

(vii) The amount represents management fee in respect of headquarters management function services ("Centralised Services") provided to CTC Group.

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

(ix) The amount represents the charge paid and payable to CTC Group for basic telecommunications service, value-added service and information application service.

(x) The amount represents the charge paid and payable to CTC Group for logistics, labor resources, cultural, educational, hygiene and other supporting services.

(xi) The amount represents the charge paid and payable to CTC Group for supplies procurement services, warehousing, transportation and installation services.

(xii) The amount represents the interest paid and payable to CTC Group in respect of the loans and lease liabilities from CTC Group.

(xiii) The amount represents net deposit under deposit services provided by China Telecom Finance.

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

44. RELATED PARTIES (continued)

(a) Transactions with CTC Group (continued)

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

	2020 RMB'000	2019 RMB'000
Cash and cash equivalents	4,001,266	2,147,014
Accounts and bills receivable, net	7,674,270	8,863,454
Contract assets, net	9,271,716	8,760,826
Prepayments and other current assets	635,041	759,769
Total amounts due from CTC Group	21,582,293	20,531,063
Interest-bearing borrowings	13,280	13,280
Accounts and bills payable	357,364	608,905
Current portion of lease liabilities	143,450	123,506
Contract liabilities	577,932	550,012
Accrued expenses and other payables	422,434	409,680
Lease liabilities	364,787	314,655
Total amounts due to CTC Group	1,879,247	2,020,038

As at 31 December 2020, the Group has recognised credit losses of RMB391 million (2019: RMB349 million) in respect of amounts due from CTC Group.

For the year ended 31 December 2020, additional amount of RMB250 million of right-of-use assets has been recognised under new lease contracts with CTC Group (2019: RMB226 million).

As at 31 December 2020, the Group has capital commitments to CTC Group for acquisition and construction of property, plant and equipment and other assets as follows:

	2020 RMB'000	2019 RMB'000
Contracted for but not provided	–	459,437

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.

44. RELATED PARTIES (continued)

(a) Transactions with CTC Group (continued)

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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44. RELATED PARTIES (continued)

(a) Transactions with CTC Group (continued)

According to these Supplement Agreements for the year ended 31 December 2020, (i) the annual cap for the service charges receivable by the Company from CTC Group under the Engineering Related Services Framework Agreement was RMB33,000 million; (ii) the annual cap for the service charges receivable by the Company from CTC Group under the Ancillary Telecommunications Services Framework Agreement was RMB24,000 million; (iii) the annual caps for the service charges receivable by the Company from CTC Group and the service charges payable by the Company to CTC Group under the Operation Support Services Framework Agreement were RMB4,000 million and RMB2,000 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 RMB4,300 million and RMB500 million respectively; (v) the annual cap for the service charges receivable by the Company from CTC Group under the Centralised Services Framework Agreement was RMB450 million; (vi) the annual caps for the service charges receivable by the Company from CTC Group and the service charges payable by the Company to CTC Group under the Property Leasing Services Framework Agreement were RMB240 million and RMB300 million respectively; (vii) the annual caps for the service charges receivable by the Company from CTC Group and the service charges payable by the Company to CTC Group under the Supplies Procurement Services Framework Agreement were RMB6,500 million and RMB5,200 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.

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44. RELATED PARTIES (continued)

(a) Transactions with CTC Group (continued)

(iv) The Group has entered into agreement with CTC pursuant to which the Group takes up the role as headquarter management function to manage assets of the telecommunications support business of provinces, municipalities and autonomous regions ("Centralised Services") including Ningxia, Tibet and any assets retained by CTC after the Restructuring and acquisition of Target Business. The aggregate administrative costs incurred by the Group for the provision of the Centralised Services are apportioned pro rata between the Group and CTC Group according to the net asset ratio of each of the relevant party.

(v) The Group has entered into Supplies Procurement Services Framework agreement for procurement of telecommunication and non-telecommunication supplies, agency services of supplies procurement, sales of telecommunication supplies and management of biddings, verification of technical specifications, warehousing transportation and installation service. Pursuant to the agreement, the Group charges CTC Group for these services in accordance with the following terms:

- maximum 1% of the contract value for procurement services on imported telecommunication supplies;
- maximum 3% of the contract value for procurement services on domestic telecommunication and non-telecommunication supplies and materials;
- market price. In determining the market price, the Group primarily considers the following factors: (i) cost of service; (ii) prices of the same or similar type of services provided to CTC Group or the Group by other service providers in the market; (iii) prices of the same or similar type of services provided to CTC Group and independent third parties by the Group, or prices of the same or similar type of services provided to the Group by CTC Group and independent third parties;
- in the absence of market price or where the market price cannot be determined, the price shall be agreed between both parties, which shall be the aggregate amount of reasonable costs, the taxes in sales and reasonable profits. "Reasonable costs" means the costs confirmed by both parties after negotiations, and "reasonable profit" means a profit ratio confirmed by both parties during the course of normal commercial negotiation, taking into account factors such as historical price, transaction size, average profit ratio within the relevant industry, supply and demand, labor cost, local commodity prices and economic development levels.

On 1 February 2019, the Group and China Telecom Finance entered into the Financial Services Framework Agreement, pursuant to which China Telecom Finance has agreed to provide financial services to the Group, including deposit services, loan services and other financial services.

According to the Financial Services Framework Agreement for the year ended 31 December 2020, the annual cap in respect of the maximum daily balance of the Group's deposits with China Telecom Finance (including the interest accrued thereon) under the deposit services was RMB8 billion.

The terms of the financial services offered to the Group by China Telecom Finance shall be equivalent to or more favorable than those offered to the Group by the major cooperative commercial banks of the Group for the financial services in the same period and of the same type.

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44. 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:

	2020 RMB'000	2019 RMB'000
Engineering related services revenue (note (i))	**3,863,108**	3,247,327
IT application services revenue (note (ii))	**165,374**	83,571
Provision of ancillary telecommunications services revenue (note (iii))	**1,635,027**	1,531,402
Provision of operation support services revenue (note (iv))	**94,883**	73,501
Supplies procurement services revenue (note (v))	**286,980**	171,621
Property leasing services revenue (note (vi))	**2,886**	3,966
Property leasing services charges (note (vii))	**36,323**	3,289
IT application services charges (note (viii))	**112,801**	124,724
Operation support services charges (note (ix))	**1,993,509**	1,727,336
Supplies procurement service charges (note (x))	**14,993**	42,221
Interest expenses (note (xi))	**16**	5

Notes:

(i) The amount represents telecommunications infrastructure services such as design, construction and project management provided to associates of the Group and associates of CTC Group.

(ii) The amount represents the telecommunications network support services, software and hardware development and other IT related services provided to associates of the Group and associates of CTC Group.

(iii) The amount represents ancillary telecommunications services such as maintenance of network facilities (including optical ducts and cables, exchange buildings and base stations); operation of distribution channels; fixed line and wireless value-added 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 the Group and associates of CTC Group.

(vi) The amount represents rentals from operating leases in respect of business premises leased to associates of the Group and associates of CTC Group.

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

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

(ix) The amount represents the charge paid and payable to associates of the Group and associates of CTC Group for logistics, labour resources, cultural, educational, hygiene and other supporting services.

(x) The amount represents the charge paid and payable to associates of the Group and associates of CTC Group for supplies procurement services, warehousing, transportation and installation services.

(xi) The amount represents the interest paid and payable associates of CTC Group in respect of lease liabilities from associates of CTC Group.

44. 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:

	2020 RMB'000	2019 RMB'000
Accounts and bills receivable, net	365,759	422,635
Contract assets, net	274,771	225,008
Prepayments and other current assets	1,240,666	1,200,915
Total amounts due from associates of the Group and associates of CTC Group	1,881,196	1,848,558
Accounts and bills payable	829,503	838,139
Current portion of lease liabilities	604	125
Contract liabilities	737,413	742,458
Accrued expenses and other payables	58,040	87,411
Lease liabilities	41	113
Total amounts due to associates of the Group and associates of CTC Group	1,625,601	1,668,246

For the year ended 31 December 2020, additional amount of RMB681 thousand of right-of-use assets has been recognised under new lease contracts with associates of CTC Group (2019: RMB291 thousand).

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

(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 44(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.

44. 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:

	2020 RMB'000	2019 RMB'000
Salaries and other emoluments	**6,905**	5,914
Retirement benefits	**1,829**	2,642
Discretionary bonuses	**17,230**	16,619
	25,964	25,175

(e) Contributions to defined contribution retirement plans

In accordance with the labour regulations of the PRC, the Group participates in various defined contribution retirement schemes organised by the municipal and provincial governments for its employees. The Group is required to make contributions to the retirement schemes at rates ranging from 14% to 19% (2019: 14% to 20%) 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 2020 and 2019, 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 44(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.

45. SEGMENT REPORTING

The Group principally has one operating segment, which is the provision of integrated comprehensive smart solutions in the field of informatization and digitalization. Therefore, no additional segment information has been presented. Additional information about major customers and geographical areas of the Group has been disclosed in note 4.

46. SUBSIDIARIES

The following list contains only the particulars of subsidiaries at 31 December 2020 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 2020 Directly %	31 December 2019 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	RMB317 million	Provision of integrated telecommunications support services through its subsidiaries in Hubei Province
Jiangsu Communications Services Company Limited	Limited Liability Company	The PRC	100	100	RMB578 million	Provision of integrated telecommunications support services through its subsidiaries in Jiangsu Province
Anhui Communications Services Company Limited	Limited Liability Company	The PRC	100	100	RMB420 million	Provision of integrated telecommunications support services through its subsidiaries in Anhui Province

For the year ended 31 December 2020

46. 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 2020 Directly %	31 December 2019 Directly %	Issued and paid up capital	Principal activities
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
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

For the year ended 31 December 2020

46. 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 2020 Directly %	31 December 2019 Directly %		
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
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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

46. 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 2020 Directly %	31 December 2019 Directly %		
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 RMB469 million as at 31 December 2020 (2019: RMB474 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 2020

47. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	31 December 2020 RMB'000	31 December 2019 RMB'000
Non-current assets		
Property, plant and equipment, net	24,168	15,548
Construction in progress	3,255,278	11,591
Other intangible assets	167,285	169,826
Investments in subsidiaries	13,772,534	13,772,534
Interests in associates and joint ventures	786,794	23,605
Financial assets at fair value through profit or loss	–	753,838
Other non-current assets	37,916	–
Total non-current assets	18,043,975	14,746,942
Current assets		
Inventories	322	326
Accounts and bills receivable, net	179	–
Prepayments and other current assets	2,099,138	1,796,998
Restricted deposits	503,006	500,000
Cash and cash equivalents	105,732	1,251,013
Total current assets	2,708,377	3,548,337
Total assets	20,752,352	18,295,279
Current liabilities		
Interest-bearing borrowings	1,147,000	–
Accounts and bills payable	229	50
Contract liabilities	481	–
Accrued expenses and other payables	1,318,239	1,188,969
Income tax payable	4,989	4,386
Total current liabilities	2,470,938	1,193,405
Net current assets	237,439	2,354,932
Total assets less current liabilities	18,281,414	17,101,874
Non-current liabilities		
Other non-current liabilities	63,184	–
Total non-current liabilities	63,184	–
Total liabilities	2,534,122	1,193,405
Equity		
Share capital	6,926,018	6,926,018
Reserves	11,292,212	10,175,856
Total equity	18,218,230	17,101,874
Total liabilities and equity	20,752,352	18,295,279

47. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (continued)

The movements of equity of the Company are as follows:

	Share capital RMB'000 (note 39)	Share premium RMB'000	Capital reserve RMB'000	Statutory surplus reserve RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2019	6,926,018	4,529,310	1,966,293	1,219,710	2,306,673	16,948,004
Profit for the year	–	–	–	–	1,198,314	1,198,314
Distribution of dividend (see note 14(b))	–	–	–	–	(1,044,444)	(1,044,444)
Appropriation	–	–	–	119,831	(119,831)	–
At 31 December 2019	6,926,018	4,529,310	1,966,293	1,339,541	2,340,712	17,101,874
Profit for the year	**–**	**–**	**–**	**–**	**2,214,130**	**2,214,130**
Distribution of dividend (see note 14(b))	**–**	**–**	**–**	**–**	**(1,097,774)**	**(1,097,774)**
Appropriation	**–**	**–**	**–**	**221,413**	**(221,413)**	**–**
At 31 December 2020	**6,926,018**	**4,529,310**	**1,966,293**	**1,560,954**	**3,235,655**	**18,218,230**

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.

48. POSSIBLE IMPACT OF AMENDMENTS TO STANDARDS AND NEW STANDARD ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING YEAR ENDED 31 DECEMBER 2020

Up to the date of issue of these consolidated financial statements, the IASB has issued the following amendments to standards and new standard which are not yet effective for the year ended 31 December 2020 and which have not been adopted in these consolidated financial statements.

IFRS 17	Insurance Contracts and the related Amendments[1]
Amendments to IFRS 3	Reference to the Conceptual Framework[2]
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform – Phase 2[4]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to IAS 1	Classification of Liabilities as Current or Non-current[1]
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies[1]
Amendments to IAS 8	Definition of Accounting Estimates[1]
Amendments to IAS 16	Property, Plant and Equipment: Proceeds before Intended Use[2]
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract[2]
Amendments to IFRS Standards	Annual Improvements to IFRS Standards 2018-2020[2]

1 Effective for annual periods beginning on or after 1 January 2023
2 Effective for annual periods beginning on or after 1 January 2022
3 Effective for annual periods beginning on or after a date to be determined
4 Effective for annual periods beginning on or after 1 January 2021

48. POSSIBLE IMPACT OF AMENDMENTS TO STANDARDS AND NEW STANDARD ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING YEAR ENDED 31 DECEMBER 2020 (continued)

The Group is in the process of making an assessment of the impact that will result from adopting the amendments to standards and new standard issued by the IASB which are not yet effective for the accounting period ended on 31 December 2020. So far the Group believes that the adoption of these amendments to standards and new standard is unlikely to have a significant impact on its financial position and the results of operations.

49. 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 2020 RMB'000	Accruals RMB'000	Financing cash flows RMB'000	Foreign exchange translation RMB'000	Lease modified RMB'000	As at 31 December 2020 RMB'000
Borrowings (note 33)	**511,234**	**–**	**222,114**	**(28,947)**	**–**	**704,401**
Dividends payable (note 37)	**45,196**	**1,110,125**	**(1,108,278)**	**(6,142)**	**–**	**40,901**
Lease liabilities (note 35)	**1,033,453**	**660,221**	**(467,840)**	**–**	**(56,545)**	**1,169,289**
	1,589,883	**1,770,346**	**(1,354,004)**	**(35,089)**	**(56,545)**	**1,914,591**

	As at 1 January 2019 RMB'000	Accruals RMB'000	Financing cash flows RMB'000	Foreign exchange translation RMB'000	Lease modified RMB'000	As at 31 December 2019 RMB'000
Borrowings (note 33)	470,925	–	32,342	7,967	–	511,234
Dividends payable (note 37)	52,132	1,048,599	(1,062,172)	6,637	–	45,196
Lease liabilities (note 35)	950,908	554,267	(350,303)	–	(121,419)	1,033,453
Others	–	5,000	(5,000)	–	–	–
	1,473,965	1,607,866	(1,385,133)	14,604	(121,419)	1,589,883

50. IMMEDIATE AND ULTIMATE HOLDING COMPANY

At 31 December 2020, 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				
	2020 RMB	2019 RMB	2018 RMB	2017 RMB	2016 RMB
Results					
Revenue from telecommunications infrastructure services	**67,164,571**	64,688,815	57,359,436	50,510,988	45,886,950
Revenue from business process outsourcing services	**37,276,879**	36,637,180	35,102,822	32,763,685	32,533,602
Revenue from applications, content and other services	**18,207,494**	16,087,094	13,714,379	11,297,738	10,028,804
Total Revenues	**122,648,944**	117,413,089	106,176,637	94,572,411	88,449,356
Depreciation and amortisation	**(827,413)**	(756,976)	(466,096)	(472,621)	(455,215)
Direct personnel costs	**(8,300,338)**	(9,111,016)	(8,747,317)	(8,647,493)	(8,316,693)
Materials costs	**(15,057,234)**	(12,838,003)	(9,783,239)	(9,327,654)	(8,281,024)
Direct costs of products distribution	**(4,067,599)**	(4,167,579)	(4,629,177)	(6,594,772)	(9,764,598)
Subcontracting charges	**(67,166,028)**	(64,462,508)	(57,555,216)	(46,858,020)	(41,016,647)
Lease charges and others	**(13,492,696)**	(12,390,048)	(12,110,626)	(10,459,491)	(8,925,014)
Cost of revenues	**(108,911,308)**	(103,726,130)	(93,291,671)	(82,360,051)	(76,759,191)
Gross profit	**13,737,636**	13,686,959	12,884,966	12,212,360	11,690,165
Other operating income	**1,687,789**	1,554,755	1,244,889	1,014,492	943,021
Selling, general and administrative expenses	**(11,826,471)**	(11,494,404)	(10,611,071)	(9,885,426)	(9,501,481)
Other operating expenses	**(216,802)**	(333,299)	(173,722)	(126,278)	(95,232)
Finance costs	**(63,482)**	(68,888)	(25,179)	(47,119)	(46,667)
Share of profits of associates and joint ventures	**168,928**	148,478	105,421	63,782	66,095
Profit before tax	**3,487,598**	3,493,601	3,425,304	3,231,811	3,055,901
Income tax	**(398,278)**	(463,802)	(497,405)	(482,733)	(502,706)
Profit for the year	**3,089,320**	3,029,799	2,927,899	2,749,078	2,553,195
Attributable to:					
Equity shareholders of the Company	**3,081,475**	3,049,229	2,901,324	2,714,213	2,536,249
Non-controlling interests	**7,845**	(19,430)	26,575	34,865	16,946
Profit for the year	**3,089,320**	3,029,799	2,927,899	2,749,078	2,553,195
Basic earnings per share (RMB)	**0.445**	0.440	0.419	0.392	0.366

FINANCIAL SUMMARY

(Amounts in thousands, except per share data)

	At 31 December				
	2020 RMB	2019 RMB	2018 RMB	2017 RMB	2016 RMB
Financial position					
Property, plant and equipment, net	**4,330,733**	4,369,251	4,384,700	4,190,375	4,215,616
Right-of-use assets	**2,046,005**	1,895,996	–	–	–
Equity instruments at fair value through other comprehensive income	**4,362,469**	4,088,204	3,737,553	–	–
Other non-current assets	**7,487,143**	3,935,232	4,289,914	4,199,679	3,837,012
Inventories	**1,676,943**	1,974,150	2,253,027	2,275,735	2,221,334
Accounts and bills receivable, net	**18,208,251**	19,092,825	18,668,024	30,370,500	29,362,985
Contract assets, net	**19,786,576**	17,153,529	15,664,758	–	–
Prepayments and other current assets	**9,618,272**	8,771,768	8,646,123	11,815,129	6,740,547
Financial assets at fair value through profit or loss	**3,098,634**	4,567,824	5,046,898	1,262,514	–
Cash and cash equivalents	**21,008,490**	19,220,764	16,106,246	13,266,631	13,324,079
Restricted deposits	**2,865,265**	2,471,515	2,128,757	3,354,288	2,892,408
Total assets	**94,488,781**	87,541,058	80,926,000	70,734,851	62,593,981
Interest-bearing borrowings	**704,401**	511,234	462,003	308,876	46,697
Accounts and bills payable	**33,363,786**	30,674,619	28,279,533	24,600,681	20,399,409
Current portion of lease liabilities	**400,627**	343,281	–	–	–
Contract liabilities	**10,977,645**	10,087,102	8,648,060	–	–
Receipts in advance for contract work	**–**	–	–	4,997,284	4,046,097
Accrued expenses and other payables	**9,499,772**	8,730,235	9,017,427	11,320,729	9,730,662
Income tax payable	**282,597**	337,372	323,514	339,393	351,647
Non-current liabilities	**2,072,979**	1,819,443	1,366,602	348,237	971,687
Total liabilities	**57,301,807**	52,503,286	48,097,139	41,915,200	35,546,199
Equity attributable to equity shareholders of the Company	**36,717,684**	34,563,910	32,331,323	28,329,098	26,573,429
Non-controlling interests	**469,290**	473,862	497,538	490,553	474,353
Total equity	**37,186,974**	35,037,772	32,828,861	28,819,651	27,047,782
Total liabilities and equity	**94,488,781**	87,541,058	80,926,000	70,734,851	62,593,981

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