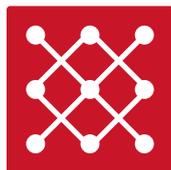


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中国通信服务
CHINA COMSERVICE

中國通信服務股份有限公司

CHINA COMMUNICATIONS SERVICES CORPORATION LIMITED

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

(Stock Code: 552)

**ANNOUNCEMENT OF ANNUAL RESULTS FOR
THE YEAR ENDED 31 DECEMBER 2020**

HIGHLIGHTS

- In 2020, the Group overcame the significant impact brought by the pandemic, and seized the opportunities of 5G, New Infrastructure and social digitalization, thus resuming positive growth for its full year results.
 - Total revenues were RMB122,649 million, up by 4.5%.
 - Profit attributable to equity shareholders of the Company was RMB3,081 million, up by 1.1%.
 - Free cash flow was RMB2,630 million, and continued to maintain at a healthy level.
 - Gross profit margin and net profit margin were 11.2% and 2.5%, respectively.
- The Board has proposed to distribute a final dividend of RMB0.1335 per share and a special dividend of RMB0.0267 per share. The total dividend for 2020 is RMB0.1602 per share, and the total dividend payout ratio is 36%.

CHAIRMAN’S STATEMENT

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 flow¹ 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 group²; 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.

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.

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%.

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") services⁴ and revenue from ACO services of domestic telecommunications operator market recorded relatively good development and supported the overall performance of such market.

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 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 intelligitization 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%.

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 headquarter 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.

⁵ “EPC+F+I+O+S”: EPC (Engineering, Procurement, Construction) + Finance + Investment + Operation + Solution

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

PRESIDENT’S STATEMENT

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.

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.

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.

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 headquarter 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.

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.

⁸ “F+EPC”: Finance + EPC (Engineering, Procurement, Construction)

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

GROUP RESULTS

China Communications Services Corporation Limited (the “Company”) is pleased to announce the consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2020, extracted from the audited consolidated financial statements of the Group as set out in its 2020 annual report.

Consolidated Statement of Profit or Loss

For the year ended 31 December 2020

	<i>Notes</i>	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
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)	11	0.445	0.440

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2020

	<i>Note</i>	2020 RMB'000	2019 RMB'000
Profit for the year		<u>3,089,320</u>	<u>3,029,799</u>
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	<i>13</i>	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		<u>(35,712)</u>	<u>(2,646)</u>
		<u>169,863</u>	<u>260,806</u>
Total comprehensive income for the year		<u>3,259,183</u>	<u>3,290,605</u>
Attributable to:			
Equity shareholders of the Company		3,251,548	3,309,973
Non-controlling interests		<u>7,635</u>	<u>(19,368)</u>
Total comprehensive income for the year		<u>3,259,183</u>	<u>3,290,605</u>

Consolidated Statement of Financial Position

At 31 December 2020

		31 December 2020	31 December 2019
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current assets			
Property, plant and equipment, net		4,330,733	4,369,251
Right-of-use assets		2,046,005	1,895,996
Investment properties		550,022	563,820
Construction in progress	14	3,468,094	282,365
Goodwill		103,005	103,005
Other intangible assets		535,710	505,278
Interests in associates and joint ventures		1,351,368	418,336
Financial assets at fair value through profit or loss		64,567	818,268
Equity instruments at fair value through other comprehensive income		4,362,469	4,088,204
Deferred tax assets		700,738	690,341
Other non-current assets		713,639	553,819
Total non-current assets		18,226,350	14,288,683
Current assets			
Inventories		1,676,943	1,974,150
Accounts and bills receivable, net	15	18,208,251	19,092,825
Contract assets, net	16	19,786,576	17,153,529
Prepayments and other current assets	17	9,618,272	8,771,768
Financial assets at fair value through profit or loss		3,098,634	4,567,824
Restricted deposits		2,865,265	2,471,515
Cash and cash equivalents		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		704,401	511,234
Accounts and bills payable	18	33,363,786	30,674,619
Current portion of lease liabilities		400,627	343,281
Contract liabilities	19	10,977,645	10,087,102
Accrued expenses and other payables		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 (Continued)*At 31 December 2020*

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

Notes:

1. STATEMENT OF COMPLIANCE

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) as issued by the International Accounting Standards Board (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”).

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

2. 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.

3. 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.

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 <i>RMB'000</i>	2019 <i>RMB'000</i>
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
	<u>122,648,944</u>	<u>117,413,089</u>

The Group's major customers are telecommunications operators which include China Telecommunications Corporation and its subsidiaries (excluding the Group) ("CTC Group") and China Mobile Communications 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).

5. COST OF REVENUES

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
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
	<u>108,911,308</u>	<u>103,726,130</u>

6. OTHER OPERATING INCOME

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Interest income	290,493	245,370
Dividend income from equity instruments at fair value through other comprehensive income (“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
	<u>1,687,789</u>	<u>1,554,755</u>

7. OTHER OPERATING EXPENSES

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
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
	<u>216,802</u>	<u>333,299</u>

8. FINANCE COSTS

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

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

9. PROFIT BEFORE TAX

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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
(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
	<u>16,231,343</u>	<u>16,657,467</u>
(b) Other items:		
Depreciation		
– Property, plant and equipment	668,398	682,691
– Right-of-use assets	488,178	388,392
– Investment properties	42,977	43,585
Amortisation		
– Other intangible assets	150,677	136,950
Auditors' remuneration	35,095	34,695
Materials costs	15,057,234	12,838,003
Direct costs of products distribution	4,067,599	4,167,579
Write-down of inventories	64,267	56,174
Reversal of write-down of inventories	(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	<u>3,781,598</u>	<u>3,275,915</u>

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 <i>RMB'000</i>	2019 <i>RMB'000</i>
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	<u>(16,919)</u>	<u>(58,304)</u>
Total income tax	<u><u>398,278</u></u>	<u><u>463,802</u></u>

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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Profit before tax	<u><u>3,487,598</u></u>	<u><u>3,493,601</u></u>
Expected income tax expense at a statutory tax rate of 25% (2019: 25%) <i>(note (i))</i>	871,900	873,400
Differential tax rates on subsidiaries' income <i>(note (i))</i>	(210,176)	(203,262)
Non-deductible expenses <i>(note (ii))</i>	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 <i>(note (iii))</i>	<u>(437,939)</u>	<u>(308,990)</u>
Income tax	<u><u>398,278</u></u>	<u><u>463,802</u></u>

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. 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).

12. DIVIDENDS

(a) Dividends attributable to the year

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
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
	<u>1,109,548</u>	<u>1,097,774</u>

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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
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
	<u>1,097,774</u>	<u>1,044,444</u>

13. OTHER COMPREHENSIVE INCOME

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

14. CONSTRUCTION IN PROGRESS

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

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

15. ACCOUNTS AND BILLS RECEIVABLE, NET

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

(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.

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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
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	<u>164,681</u>	<u>341,912</u>
	<u>18,208,251</u>	<u>19,092,825</u>

16. CONTRACT ASSETS, NET

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
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
	<u>20,006,595</u>	<u>17,413,526</u>
Less: allowance for credit losses	(220,019)	(259,997)
	<u>19,786,576</u>	<u>17,153,529</u>

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.

17. PREPAYMENTS AND OTHER CURRENT ASSETS

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
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
	<u>9,618,272</u>	<u>8,771,768</u>

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.

18. ACCOUNTS AND BILLS PAYABLE

Accounts and bills payable comprise:

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

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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
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
	<u>33,363,786</u>	<u>30,674,619</u>

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.

19. CONTRACT LIABILITIES

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

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.

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 ratio⁹ 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.

⁹ Cash conversion ratio = net cash generated from operating activities/profit attributable to equity shareholders of the Company

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.

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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>	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%

	2020	2019	
	RMB'000	RMB'000	Change
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 <i>RMB'000</i>	2019 <i>RMB'000</i>	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	<u>108,911,308</u>	<u>103,726,130</u>	5.0%

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	2019
	<i>RMB'000</i>	<i>RMB'000</i>
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)
	<u>1,855,930</u>	<u>3,115,202</u>

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 ratio¹⁰ was 1.9%, which was slightly higher than 1.5% as at the end of 2019.

Contractual Obligations

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

	Total	2021	2022	2023	2024	2025
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>and after</i> <i>RMB'000</i>
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

¹⁰ Gearing ratio = total interest-bearing debts at the end of the financial year/(equity attributable to equity shareholders of the Company + interest-bearing debts)

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.

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

For the year ended 31 December 2020, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

AUDIT COMMITTEE

The audit committee has reviewed with the management and the Company's international auditors, Deloitte Touche Tohmatsu, the accounting principles and practices adopted by the Group and discussed the risk management, internal control and financial reporting matters including the review of the annual report for the year ended 31 December 2020.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

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 has abided by the PRC Company Law and the applicable laws, regulations and regulatory requirements of Hong Kong and the PRC as the basic guidelines for the Company's corporate governance. Throughout the year ended 31 December 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.

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

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

CLOSURE OF SHARE REGISTER

1. Annual General Meeting

The H share register of members of the Company will be closed, for the purpose of determining the H share shareholders' entitlement to attend the annual general meeting (the "Annual General Meeting") to be held on Friday, 18 June 2021, from Tuesday, 15 June 2021 to Friday, 18 June 2021 (both days inclusive), during which period no transfer of H shares will be registered. In order to attend the Annual General Meeting, all transfer documents, accompanied by the relevant share certificates, must be lodged for registration with Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, not later than 4:30 p.m. on Friday, 11 June 2021. H share shareholders of the Company who are registered on the register of members held by Computershare Hong Kong Investor Services Limited on Friday, 18 June 2021 are entitled to attend the Annual General Meeting.

2. Proposed Final Dividend and Special Dividend

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. If such proposed dividend distribution is approved by the shareholders, the final dividend and special dividend will be distributed to those shareholders whose names appear on the register of members of the Company on Monday, 12 July 2021. The register of members will be closed from Wednesday, 7 July 2021 to Monday, 12 July 2021 (both days inclusive). In order to be entitled to the final dividend and special dividend, H share shareholders who have not registered the transfer documents are required to lodge the transfer documents together with the relevant share certificates with Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong at or before 4:30 p.m. on Tuesday, 6 July 2021.

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 Annual General Meeting. The record date for entitlement to the shareholders’ rights and the relevant arrangements of dividend distribution for Southbound Shareholders are the same as those for the Company’s H share shareholders. The proposed dividends are expected to be paid on or about Friday, 13 August 2021 upon approval at the Annual General Meeting.

The Company shall be obliged to withhold and pay income tax on behalf of overseas non-resident enterprise shareholders and overseas resident individual shareholders of H shares whose names appear on the Company’s H share register of members on Monday, 12 July 2021 according to the following regulations:

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

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

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

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.

ANNUAL REPORT

The Annual Report for the year ended 31 December 2020 will be dispatched to shareholders and made available on the HKExnews website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (www.chinaccs.com.hk) in due course.

FORWARD-LOOKING STATEMENTS

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

Beijing, PRC
29 March 2021

As at the date of this announcement, our executive directors are Mr. Zhang Zhiyong, Mr. Huang Xiaoqing and Ms. Zhang Xu, our non-executive directors are Mr. Gao Tongqing and Mr. Mai Yanzhou, and our independent non-executive directors are Mr. Siu Wai Keung, Francis, Mr. Lv Tingjie, Mr. Wu Taishi and Mr. Liu Linfei.