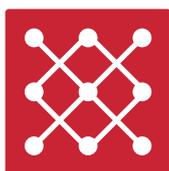


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中国通信服务
CHINA COMSERVICE

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 2022**

HIGHLIGHTS

- The Group overcame difficulties and achieved a record high in overall performance, with major indicators of operating results, efficiency, and shareholders' return improved across the board, showcasing its high-quality development.
 - Total revenues were RMB140,746 million, up by 5.0%.
 - Net profit was RMB3,358 million, up by 6.4%. This growth rate was higher than revenue growth rate, indicating favourable momentum.
 - Gross profit margin was 11.4%, up by 0.4 percentage point. Gross profit margin stabilized and recovered, and reversed the declining trend for more than a decade.
 - Free cash flow was RMB4,353 million, up by 7.2%. Free cash flow was at its highest level in the recent five years.
 - The Board has proposed to increase the dividend and pay a final dividend of RMB0.1939 per share, representing an increase of 12.0% over the total dividend per share of last year. The total dividend payout ratio increased from 38% in 2021 to 40% in 2022.
- The domestic non-operator market showed stable growth and quality improvement, making it the largest contributor to the recovery of gross profit margin.
- The domestic telecommunications operator market shifted development momentum and maintained relatively stable revenue growth.
- The Group will seize the opportunities from Digital China and accelerate the expansion of industrial digitalization-related businesses, with a view to forging a new growth curve for its sustainable and healthy development.

CHAIRMAN’S STATEMENT

Dear Shareholders,

In 2022, the Chinese government accelerated the construction of Cyberpower and Digital China, resulting in the acceleration of integrated development of the digital economy and the real economy. By positioning itself as a “New Generation Integrated Smart Service Provider” and targeting to become “the Main Force in Digital Infrastructure Construction, the Vanguard in Smart City Services, the Leading Enterprise in Industrial Digitalization Services, and a Trusted Expert in Smart Operation”, the Group adhered to the overall roadmap of “value-driven, seeking steady yet progressive growth and high-quality development”, upheld the concept of new development philosophy, strengthened the core competitiveness of the Group and actively fulfilled corporate social responsibilities. By closely following the industrial transformation driven by digitalization, the Group has accelerated the deployment in new tracks of strategic emerging industries, supporting the transformation and development of industries, enterprises and society, while also achieving steady improvements in the Group’s operating performance and development quality.

I. Full-year Operating Performance Hit a Record High, with Major Indicators Showing Improvements Across the Board

In 2022, amid the impact of the changes in the macro environment, the Group persisted in progressive development while maintaining overall stability, actively seized the development opportunities of the digital economy, and endeavoured to minimize the impact of adverse factors. As a result, our indicators on operating performance, efficiency, and shareholders’ return improved across the board, with both total revenues and net profit¹ reaching historic highs.

During the year, the Group’s total revenues reached RMB140,746 million, representing a year-on-year increase of 5.0%. Gross profit amounted to RMB15,981 million, representing a year-on-year increase of 8.1%, and gross profit margin stabilized and rebounded to 11.4%, representing a year-on-year increase of 0.4 percentage point. Net profit was RMB3,358 million, representing a year-on-year increase of 6.4%, and such growth rate was higher than the revenue growth rate for the first time in recent years. Net profit margin was 2.4%, which stabilized and improved on a year-on-year basis. Free cash flow was RMB4,353 million, which was higher than net profit. Return on equity (ROE) was 8.5%, representing a year-on-year increase of 0.1 percentage point. Basic earnings per share were RMB0.485, representing a year-on-year increase of 6.4%.

Considering the solid operating results and the favourable cash flow for the full year, and to further increase shareholders’ return, the Board has proposed to increase the total dividend payout ratio from 38% in 2021 to 40% for the financial year ended 31 December 2022, representing a final dividend of RMB0.1939 per share with an increase of 12.0% over the total dividend per share of last year.

¹ Net profit refers to profit attributable to the equity shareholders of the Company.

II. Promoting High-quality Development of the Company with Value Creation as the Focus

In 2022, the Group seized the strategic opportunity of industrial digitalization upgrade, leveraged its strength as a “New Generation Integrated Smart Service Provider”, continuously enhanced its capabilities in market competitiveness, technological innovation, reform impetus, ecosystem collaboration, and risk control. By focusing on strategic emerging industries, the Group developed smart products and solutions for industrial digitalization, driving improvement in both business scale and quality. During the year, the revenue of telecommunications infrastructure (“TIS”) services amounted to RMB72,907 million, representing a year-on-year increase of 1.4%, accounting for 51.8% of total revenues, and the efficiency of development remained largely stable. Business process outsourcing (“BPO”) services continued to gain momentum, with revenue amounting to RMB43,072 million, representing a year-on-year increase of 6.0%, accounting for 30.6% of total revenues, and was an important contributor to revenue growth. Driven by industrial digitalization, revenue from applications, content, and other (“ACO”) services grew rapidly and amounted to RMB24,767 million, representing a year-on-year increase of 15.3%, accounting for 17.6% of total revenues, and continued to be the largest contributor to the Group’s revenue growth.

1. Accelerating the Strategic Deployment in Key Fields

The Group focused on accelerating the deployment in key fields such as digital infrastructure, smart city, green and low-carbon, emergency management and security, and strengthened capabilities consolidation and capabilities empowerment to expand high-value businesses and drive high-quality development of the Company.

In the field of digital infrastructure, the Group actively engaged in the national strategic deployment of the Cyberpower and Digital China. By establishing a digital infrastructure industrial research institute and focusing on areas such as data centers, 5G, cloud computing and the Internet of Things (“IoT”), the Group actively served the national “East-To-West Computing Resources Transfer” projects, and participated extensively in the construction of national integrated big data center system for the “8 National Computing Hubs and 10 National Data Center Clusters”. The Group secured key digital infrastructure projects with contract size over RMB100 million each in more than ten provinces and cities, including Beijing, Shanghai, Jiangsu, Zhejiang, and Guangdong, and the total new contract amount for data centers exceeded RMB10 billion for the full year.

In the field of smart city, the Group seized the strategic opportunity of the national urban renewal, focused on key regions such as Beijing-Tianjin-Hebei region, Yangtze River Delta region, the Guangdong-Hong Kong-Macao area as well as the Chengdu-Chongqing region, accumulated rich smart city solutions in sectors such as government, transportation, park and healthcare, enhanced the full cycle integrated general contracting service capability in smart city and cultivated specialized local teams. The Group successfully undertook many projects with contract size over RMB100 million each, such as the Digital Road Intelligentization Project of the Rongdong Area in Xiong'an New Area, Hebei Province, the Phase 5 Intelligentization Project of the Xixi Park in Hangzhou City, Zhejiang Province, and the construction of the Government Affairs Data Brain cum Smart City Intelligent Operations Center (IOC²) Project of a city in Guangdong Province. The total new contract amount exceeded RMB10 billion for the full year. The Group's competitiveness in the field of smart city continued to increase, and its brand influence was further enhanced.

In the field of green and low-carbon, the Group implemented the national "Dual Carbon" strategy by focusing on key industries such as energy and power, industrial manufacturing, transportation, information and communications, as well as developing efficient, low-carbon, smart, and green products for new economy and industrial ecology. China Telecom (National) Digital Qinghai Green Big Data Center, a project undertaken by the Group as the general contractor, was the first benchmark case in the country for 100% clean energy traceable green big data centers, and it was also the first exemplary model of an integrated green power smart supply system incorporating source-grid-load-storage³ in the field of big data centers, showcasing the industry-leading level in the field of green and low-carbon.

In the field of emergency management and security, the Group firmly grasped the opportunity of public safety emergency management construction, strengthened research and development of proprietary core products and built up industry benchmark cases. In the field of cybersecurity, the Group developed core products such as asset surveying and mapping, situational awareness, and security orchestration, which were selected in the "China Cybersecurity Industry Panorama" by AQNIU⁴. In the field of emergency management, the Group developed products such as a safe production risk monitoring and early warning platform, an integrated intelligent park monitoring platform, and an Industrial IoT security access gateway. The Emergency Capacity Improvement Project undertaken by the Group in Anhui Province was recognized as a benchmark case by the relevant national authority.

² IOC (Intelligent Operations Center) is the intelligent operation center of smart cities.

³ "Source-grid-load-storage" refers to power supply, grid, load, and energy storage.

⁴ "AQNIU" is an influential third-party professional media and flagship think-tank in the domestic cybersecurity sector.

2. *Deepening the Expansion of the Three Major Markets*

- (A) **The domestic non-operator market showed stable growth and quality improvement and was the largest contributor to the rebound in gross profit margin.** The Group focused on digital transformation of society and seized opportunities from the acceleration in digital technology innovation applications in key industries. By leveraging its “Consultant + Staff + Housekeeper”⁵ service advantages and “Platform + Software + Service”⁶ capability advantages, as well as constructing an “Industry + Region” marketing system, the Group continuously strengthened comprehensive service capabilities and constantly expanded high-value businesses. During the year, revenue from the domestic non-telecom operator (“domestic non-operator”) market reached RMB60,583 million, achieving steady growth with a year-on-year increase of 5.5%.
- (B) **Domestic telecommunications operator market grew continuously and was an important revenue growth driver.** The Group responded in a timely manner to domestic telecommunications operator customers’ investment demand of emerging businesses, such as the “East-to-West Computing Resources Transfer”, digital information infrastructure construction and industrial digitalization. By adhering to the development strategy of “CAPEX + OPEX + Smart Applications”⁷, the Group continued to improve its service quality and strengthened its cooperation with the customers in market expansion, technology research and development, cloud-network construction and supply chain, resulting in remarkable results. After the 5G investment of operator customers reached its peak, revenue from such market maintained steady growth during the year, amounting to RMB77,165 million, representing a year-on-year increase of 4.6%, becoming an important driver and anchor for the growth of total revenues.

⁵ “Consultant + Staff + Housekeeper” service model is a unique business model adopted by the Group in recent years. “Consultant” means that the Group acts as the “Consultant” to help its customers through leveraging its talents and product advantages, so as to turn customers’ needs into feasible solutions or projects. “Staff” means that the Group, as appointed by its customers, assists them in the capacity of “Staff” in coordinating other stakeholders of the project, so as to promote the smooth implementation of the project and ensure that its customers’ expectation could be achieved. “Housekeeper” means the Group provides full life cycle management and accompanying service of the relevant businesses and creates values for customers.

⁶ “Platform + Software + Service” capabilities: utilize core foundation platforms, including cybersecurity and IoT, focus on various smart applications for customer scenarios and the integrated service capabilities covering consultation and planning, project construction, operation and maintenance, to provide customers with customized integrated solutions.

⁷ “CAPEX + OPEX + Smart Applications”: CAPEX refers to the capital expenditure of domestic telecommunications operators, while OPEX refers to the operating expenditure of domestic telecommunications operators.

(C) **Overseas market achieved rapid growth, with a stabilizing and improving development trend.** The Group overcame the impact of the macroeconomic environment and the pandemic in overseas regions by strengthening risk prevention, optimizing its market deployment, expanding into upstream and downstream of the industrial chain, and providing integrated services from network construction to operation. The Group continued to provide services in sectors such as digital infrastructure, power and energy for countries and customers along the “Belt and Road”. As a result, there was an improvement in the development in the overseas market, and the Group’s revenue from overseas market achieved relatively fast growth during the year and amounted to RMB2,998 million, representing a year-on-year increase of 9.3%.

3. *Strengthening Empowerment through Reform and Innovation*

(A) *Technological Innovation Enhanced Development Momentum for High-quality Development*

Persisting in innovation-driven development, the Group continuously increased R&D investment and achieved breakthroughs in core products and remarkable results in technological innovation. The total research and development costs for the year were RMB4,952 million, representing a year-on-year increase of 17.0%. Targeting potential markets such as emergency management and security, IoT and cloud computing, the Group launched core products such as IoT Cloud Platform, Maintenance Cloud, Cyberspace Asset Surveying and Mapping, and Innovation Middle Platform. The Group accelerated the digital transformation of internal production and operation, optimized the construction of internal data middle platform, strengthened the internal promotion and implementation of proprietary digital scenarios, such as project onsite management systems, production efficiency enhancement platforms and smart legal affairs platforms, empowering the high-quality development of the Company. The Group’s technological strength continues to be recognized by society, ranking 4th in the “100 Most Competitive Software & IT Service Enterprises 2022” by the China Federation of Electronics and Information Industry, being named in the “China Cybersecurity Industry Panorama” and “China AIoT Industry Panoramic Map”, and winning a total of 28 provincial and ministerial-level or above awards during the year for its technological innovation achievements.

(B) *Deepening Reform Stimulated Vitality for High-quality Development*

The Group continued to improve systems for a modern enterprise and deepened reforms. The Group continued to promote human resources mechanism reform, fully implementing tenure system and contract management for management, implementing mid-to-long-term incentive policies such as share appreciation rights scheme and dividend reward for technology-based enterprises. As a result, overall labour productivity increased by about 10% during the year and the development vitality of the Company was fully stimulated. The Group deepened the mixed ownership reform of China Comservice Supply Chain

Management Company Ltd., and established China Comservice Smart Property Development Co., Ltd., to promote business consolidation of its property management business.

III. Adopting a Customer-centric Approach and Strengthening Core Competencies

1. *Digital Infrastructure Construction Capability*

The Group seized the strategic opportunity of “East-To-West Computing Resources Transfer”, grasped the development opportunities of expanding digital information infrastructure construction for government and enterprise customers, and focused on key areas such as data centers, 5G, and Industrial Internet. The Group persisted in technological innovation to drive development and featured innovative products and services. By strengthening technological empowerment through its digital infrastructure industrial research institute, the Group developed “Consultation and Design + General Contracting + Integration + Operation and Maintenance” multi-disciplinary and multi-regional collaboration advantages to provide full-profession, integrated, and full life cycle green and low-carbon digital infrastructure specialized services, built a local industry ecosystem, with a view to becoming the Main Force in Digital Infrastructure Construction.

2. *Smart Product Service Capability*

The Group closely followed the national strategic deployment of “Crafting Livable, Resilient, Smart Cities”, focusing on new urbanization construction and urban renewal, revitalization of old neighborhoods in urban areas and community development, and important needs of smart transportation, safe cities, smart government services, smart towns, city brains, one platform unified services, and digital villages. The Group capitalized on its advantages of “Consultation + Software + Platform + Service” to build up a “Construction + Sustainable Operation” model, leveraging its benchmark cases of medium to large-scale smart cities as the lead, the Group seized opportunities in urbanization construction and replicated and promoted its capabilities, with a view to becoming the Vanguard in Smart City Services.

3. *Industrial Digitalization Service Capability*

The Group established industrial research institutes, increased investment in technological research and development, expanded into strategic emerging industries, and leveraged its advantages in software research and development, system integration, and support services to forge benchmark products in the fields of power, Dual Carbon, and digitalization of state-owned enterprises, aiming to establish a virtuous cycle of mutual promotion between technological innovation and market expansion. Meanwhile, facing the digitalization needs of society, industry and customers, the Group strengthened cooperation with domestic telecommunications operator customers and industry-leading enterprises, promoted collaboration in ecosystem and worked together to empower industry customers’ digital

transformation and explore new potential, new models as well as new values in the industrial digitalization market, striving to become the Leading Enterprise in Industrial Digitalization Services.

4. *Smart Operation Support Capability*

The Group continuously upgraded its service capabilities such as smart supply chain, smart maintenance and smart property management. It strengthened the construction of a standardized system, and developed a unified production and operation platform to enhance digitalization value and improve its comprehensive smart service capabilities. Adhering to a customer-centric approach, the Group carried out product research and development, market expansion, and operational promotion in tandem to provide customers with safe, reliable, professional, efficient, green and low-carbon digitalized operation services, with a view to establishing an image of a Trusted Expert in Smart Operation.

IV Fulfilling Environmental and Social Responsibility and Enhancing Corporate Governance

The Group upholds the corporate mission of “Building Smart Society, Boosting Digital Economy, Serving a Good Life”, actively fulfilling environmental, social, and governance responsibilities and tracking and monitoring relevant material risks, persisting in compliant operations, promoting green development, striving to give back to society, with a view to achieving coordinated and unified development of enterprises, society and the environment. The Group proactively responded to the concerns from the capital market and continued to enhance the transparency of its ESG information, which was recognized by the market. During the year, the Group was included in “Hang Seng Corporate Sustainability Benchmark Index”, reflecting the Group’s outstanding performance in corporate sustainability.

In 2022, the Group actively responded to the national “Dual Carbon” strategy by establishing a “Carbon Peak, Carbon Neutrality” management organization to research and implement green development work. The Group prepared a rolling development plan and action plan for “Dual Carbon” from 2023 to 2025, actively implemented green operations, and developed a series of green products and services such as green retrofit of old machine rooms, green data centers, and dual carbon energy-saving platforms to help customers save energy and reduce emissions.

The Group actively participated in the communications support work of multiple national strategic projects and major activities. The Group successfully completed project construction and communications services for events such as the “Beijing 2022 Winter Olympics” and the “Boao Forum for Asia Annual Conference 2022” and provided relevant technical support and communications support for national strategic projects such as the “Wentian Lab Module” rocket launch mission, the Long March 8 carrier rocket launch, and the construction of the national cloud.

The Group prioritized the safety of individuals and actively participated in emergency communications support for disaster prevention and relief and pandemic prevention and control across the country. The Group provided informatization construction, operation and maintenance

services for government emergency command and various medical institutions, and utilized digital means to assist scientific fight against pandemic and resumption of work and production. In major disasters and public safety incidents such as the earthquakes in Ya'an and Luding in Sichuan, floods in Guangdong, wildfires in Chongqing, and the China Eastern Airlines Flight MU5735 aircraft accident, the Group responded promptly to ensure smooth communications.

The Group actively participated in rural revitalization of poverty-stricken areas, as well as helping distressed small and medium-sized enterprises. The Group formulated key work tasks to help promote comprehensive rural revitalization, established an effective coordination mechanism to consolidate and expand the achievements of poverty alleviation and rural revitalization, introduced assistance funds at no cost, and actively carried out agricultural product procurement assistance activities. The Group also helped small and medium-sized enterprises which were in distress by means of reducing or exempting rent.

The Group continuously optimized its corporate governance, and its good corporate governance has been widely recognized by the capital market. The Group ranked 102nd in the “2022 FORTUNE China 500” released by *FORTUNE China* and was elected for the “2022 FORTUNE China ESG Influential List”. The Group ranked 1,649th in the “2022 Forbes Global 2000” released by *Forbes*. The Group was awarded with awards including “Most Honored Company”, “Best CEO”, “Best CFO”, and “Best ESG” in the “2022 Asia Executive Team Rankings” by *Institutional Investor*. We also won awards such as “Asia’s Best CEO”, “Asia’s Best CFO”, and “Best Investor Relations Company” in the “12th Asian Excellence Award 2022” held by the well-known corporate governance magazine, *Corporate Governance Asia*. In the “7th Zhitong Finance Listed Company Awards” held by a PRC leading financial platform, the Group won the “The Best TMT Company” award.

V. Outlook

Currently, digitalization is spawning disruptive industrial changes, and the integration of digital economy and real economy is deepening, bringing rare strategic opportunities to the Group. Capitalizing on the development of industrial digitalization, the Group will deeply participate in the construction of Digital China. By leveraging its positioning of “1 Positioning, 4 Roles”, the Group will persist in high-quality development as the principle, value creation as the focus, and digital transformation as the driver and continuously focus on strategic emerging industries with broad prospects and enormous market potential, including digital infrastructure, smart city, green and low-carbon, emergency management and security. The Group will enhance market competitiveness with better quality, superior technological innovation capability for better products, stronger reform impetus, more valuable synergistic capability in ecosystem, and more effective risk control capability. The Group aims to build itself as a First-class Smart Service Innovative Enterprise, creating more value for shareholders, customers, employees, and society.

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 those directors and supervisors who resigned or retired during the year, including Mr. Huang Xiaoqing, Mr. Mai Yanzhou, Mr. Wu Taishi, Mr. Liu Linfei, Mr. Hai Liancheng and Mr. Si Jianfei for their outstanding contributions to the development of the Group during their tenure; and my sincere welcome to Mr. Yan Dong, Mr. Wang Qi and Mr. Wang Chungu who have joined the Board, and Ms. Cai Manli and Ms. Liu Lian who have joined the Supervisory Committee.

Liu Guiqing

Chairman

Beijing, PRC

29 March 2023

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 2022, extracted from the audited consolidated financial statements of the Group as set out in its 2022 annual report.

Consolidated Statement of Profit or Loss

For the year ended 31 December 2022

		2022	2021
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenues	4	140,745,755	133,991,317
Cost of revenues	5	<u>(124,765,212)</u>	<u>(119,206,899)</u>
Gross Profit		15,980,543	14,784,418
Other income	6	1,954,228	1,946,396
Selling, general and administrative expenses		(13,960,199)	(12,951,723)
Other expenses	7	(140,956)	(213,956)
Finance costs	8	(90,986)	(78,624)
Share of profits of associates and joint ventures		<u>92,747</u>	<u>91,923</u>
Profit before tax	9	3,835,377	3,578,434
Income tax	10	<u>(356,096)</u>	<u>(392,673)</u>
Profit for the year		<u><u>3,479,281</u></u>	<u><u>3,185,761</u></u>
Attributable to:			
Equity shareholders of the Company		3,358,149	3,157,434
Non-controlling interests		<u>121,132</u>	<u>28,327</u>
		<u><u>3,479,281</u></u>	<u><u>3,185,761</u></u>
Basic/diluted earnings per share (RMB)	11	<u><u>0.485</u></u>	<u><u>0.456</u></u>

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2022

	<i>Note</i>	2022 RMB'000	2021 <i>RMB'000</i>
Profit for the year		<u>3,479,281</u>	<u>3,185,761</u>
Other comprehensive (expense)/income for the year (after tax)	<i>13</i>		
Item that will not be reclassified to profit or loss (after tax):			
Equity instruments at fair value through other comprehensive income:			
Net movements in the fair value reserve		(242,483)	(517,677)
Item that may be subsequently reclassified to profit or loss (after tax):			
Exchange differences on translation of financial statements of subsidiaries outside of Mainland China		<u>26,141</u>	<u>(25,337)</u>
		<u>(216,342)</u>	<u>(543,014)</u>
Total comprehensive income for the year		<u>3,262,939</u>	<u>2,642,747</u>
Attributable to:			
Equity shareholders of the Company		3,141,239	2,614,500
Non-controlling interests		<u>121,700</u>	<u>28,247</u>
		<u>3,262,939</u>	<u>2,642,747</u>

Consolidated Statement of Financial Position

At 31 December 2022

	<i>Notes</i>	31 December 2022 RMB'000	31 December 2021 RMB'000
Non-current assets			
Property, plant and equipment, net		6,269,187	6,212,786
Right-of-use assets		2,402,559	2,422,952
Investment properties		1,715,147	1,729,906
Construction in progress		427,691	576,405
Goodwill		103,005	103,005
Intangible assets		724,013	683,477
Interests in associates and joint ventures		1,307,945	1,285,547
Financial assets at fair value through profit or loss		275,804	111,330
Equity instruments at fair value through other comprehensive income		3,336,403	3,672,472
Deferred tax assets		941,879	758,187
Deposits at financial institutions with original maturity more than one year		7,651,866	2,563,841
Other non-current assets		908,016	632,317
Total non-current assets		<u>26,063,515</u>	<u>20,752,225</u>
Current assets			
Inventories		1,367,311	1,492,011
Accounts and bills receivable, net	<i>14</i>	20,309,943	18,254,155
Contract assets, net	<i>15</i>	25,268,821	21,534,745
Current portion of deposits at financial institutions with original maturity more than one year		221,188	—
Prepayments and other current assets	<i>16</i>	12,717,632	11,102,020
Financial assets at fair value through profit or loss		61,556	3,364,554
Short-term bank deposits and restricted cash		2,168,795	2,357,234
Cash and cash equivalents		22,085,344	21,171,025
Total current assets		<u>84,200,590</u>	<u>79,275,744</u>
Total assets		<u>110,264,105</u>	<u>100,027,969</u>
Current liabilities			
Interest-bearing borrowings		752,001	723,024
Accounts and bills payable	<i>17</i>	44,611,295	36,319,980
Current portion of lease liabilities		513,223	490,859
Contract liabilities	<i>18</i>	10,867,975	11,449,171
Accrued expenses and other payables		9,499,470	9,090,865
Income tax payable		351,104	239,624
Total current liabilities		<u>66,595,068</u>	<u>58,313,523</u>
Net current assets		<u>17,605,522</u>	<u>20,962,221</u>
Total assets less current liabilities		<u>43,669,037</u>	<u>41,714,446</u>

Consolidated Statement of Financial Position (Continued)

At 31 December 2022

	31 December 2022 RMB'000	31 December 2021 RMB'000
Non-current liabilities		
Interest-bearing borrowings	129,120	89,808
Lease liabilities	1,066,892	1,071,944
Other non-current liabilities	217,628	197,623
Deferred tax liabilities	<u>632,747</u>	<u>744,951</u>
Total non-current liabilities	<u>2,046,387</u>	<u>2,104,326</u>
Total liabilities	<u>68,641,455</u>	<u>60,417,849</u>
Equity		
Share capital	6,926,018	6,926,018
Reserves	<u>33,433,344</u>	<u>31,481,196</u>
Equity attributable to equity shareholders of the Company	40,359,362	38,407,214
Non-controlling interests	<u>1,263,288</u>	<u>1,202,906</u>
Total equity	<u>41,622,650</u>	<u>39,610,120</u>
Total liabilities and equity	<u><u>110,264,105</u></u>	<u><u>100,027,969</u></u>

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

Amendments to IFRS3	Reference to the Conceptual Framework
Amendments to IAS16	Property, Plant and Equipment — Proceeds before Intended Use
Amendments to IAS37	Onerous Contracts — Cost of Fulfilling a Contract
Amendments to IFRS Standards	Annual Improvements to IFRS Standards 2018–2020

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

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

	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue from telecommunications infrastructure services	72,906,517	71,889,248
Revenue from business process outsourcing services	43,072,446	40,623,583
Revenue from applications, content and other services	<u>24,766,792</u>	<u>21,478,486</u>
	<u>140,745,755</u>	<u>133,991,317</u>

The Group's major customers are telecommunications operators mainly including China Telecommunications Corporation and its subsidiaries (excluding the Group) ("CTC Group") and China Mobile Communications Group Co., Ltd. and its subsidiaries ("CM Group"). Revenues from the provision of integrated telecommunications support services to CTC Group and CM Group for the year ended 31 December 2022 amounted to RMB50,268 million and RMB17,415 million, respectively (2021: RMB46,047 million and RMB18,186 million, respectively) being 35.7% and 12.4% of the Group's total revenues, respectively (2021: 34.4% and 13.6%, respectively). The revenues derived from areas outside Mainland China for the year ended 31 December 2022 amounted to RMB2,998 million (2021: RMB2,742 million).

For the year ended 31 December 2022, the Group's top three business lines that contributed to the overall revenues were construction included in telecommunications infrastructure services, management of infrastructure for information technology included in business process outsourcing services and system integration included in applications, content and other services, the revenues from which amounted to RMB59,231 million, RMB18,158 million and RMB15,211 million, respectively (2021: The Group's top three business lines that contributed to the overall revenues were construction, management of infrastructure for information technology and system integration, the revenues from which amounted to RMB57,310 million, RMB16,678 million and RMB13,278 million, respectively). Revenues from contracts with non-telecom operators for construction included in telecommunications infrastructure services amounted to RMB29,993 million (2021: RMB28,664 million).

5. COST OF REVENUES

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Subcontracting charges	76,546,469	71,239,853
Materials costs	21,657,339	19,166,225
Direct personnel costs	8,558,051	8,804,676
Direct costs of products distribution	4,065,197	4,614,143
Expense relating to short-term leases and leases of low-value assets	1,184,887	1,114,587
Depreciation and amortisation	960,995	908,323
Others	<u>11,792,274</u>	<u>13,359,092</u>
	<u>124,765,212</u>	<u>119,206,899</u>

6. OTHER INCOME

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Interest income	590,891	372,221
Management fee income	386,733	403,877
Input tax credits	313,019	301,821
Government grants	280,771	261,145
Dividend income from equity instruments at fair value through other comprehensive income	178,234	163,731
Investment income and fair value gains on wealth management products and structured deposits	51,888	193,894
Write-back of non-payable liabilities	50,506	35,708
Gain on disposal of property, plant and equipment, intangible assets and right-of-use assets	26,936	115,973
Others	<u>75,250</u>	<u>98,026</u>
	<u>1,954,228</u>	<u>1,946,396</u>

7. OTHER EXPENSES

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Bank handling fees	81,897	73,399
Penalty charge and compensation	23,976	70,858
Loss on disposal of property, plant and equipment, construction in progress and intangible assets	6,821	10,271
Donations	2,779	2,796
Net foreign exchange loss	158	15,883
Others	<u>25,325</u>	<u>40,749</u>
	<u>140,956</u>	<u>213,956</u>

8. FINANCE COST

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Interest on bank and other borrowings	33,342	24,552
Interest on lease liabilities	<u>57,644</u>	<u>54,072</u>
	<u>90,986</u>	<u>78,624</u>

For the year ended 31 December 2022, no borrowing costs were capitalised in relation to construction in progress (2021: Nil).

9. PROFIT BEFORE TAX

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

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
(a) Staff costs:		
Salaries, wages and other benefits	16,207,176	15,932,148
Contributions to defined contribution retirement schemes	<u>1,776,161</u>	<u>1,703,830</u>
	<u>17,983,337</u>	<u>17,635,978</u>
(b) Other items:		
Depreciation		
— Property, plant and equipment	744,841	746,188
— Right-of-use assets	583,559	549,885
— Investment properties	87,503	58,377
Amortisation		
— Intangible assets	181,571	174,321
Auditors' remuneration	28,499	27,187
Materials costs	21,657,339	19,166,225
Direct costs of products distribution	4,065,197	4,614,143
Write-down of inventories, net	26,835	26,188
Impairment losses recognised and reversed on accounts receivable, other receivables, contract assets and others, net	333,085	67,643
Expense relating to short-term leases and leases of low-value assets	<u>1,403,579</u>	<u>1,340,856</u>

The selling expenses, general and administrative expenses, research and development costs and others of the Group are RMB2,654 million, RMB5,623 million, RMB4,952 million and RMB731 million (2021: RMB2,778 million, RMB5,486 million, RMB4,233 million and RMB455 million), respectively for the year ended 31 December 2022.

10. INCOME TAX

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

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Current tax	566,816	428,763
Deferred tax	<u>(210,720)</u>	<u>(36,090)</u>
Total income tax	<u>356,096</u>	<u>392,673</u>

10. INCOME TAX (CONTINUED)

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

	2022 RMB'000	2021 RMB'000
Profit before tax	<u>3,835,377</u>	<u>3,578,434</u>
Expected income tax expense at a statutory tax rate of 25% (2021: 25%)	958,844	894,609
Differential/preferential tax rates on subsidiaries' income (note (i)(ii))	(176,342)	(177,809)
Non-deductible expenses (note (iii))	239,494	208,190
Non-taxable income	(107,391)	(99,407)
Tax losses not recognised	64,043	119,652
Utilisation of previously unrecognised tax losses	(13,089)	(9,286)
Over provision in respect of prior years	(3,964)	(40,503)
Additional deduction of research and development expenses (note (iv))	<u>(605,499)</u>	<u>(502,773)</u>
Income tax	<u><u>356,096</u></u>	<u><u>392,673</u></u>

Notes:

- (i) The provision for income tax of the Group is calculated based on a statutory tax rate of 25% of the assessable profit of the Group as determined in accordance with the relevant PRC income tax rules and regulations for the years ended 31 December 2022 (2021: 25%), except for certain domestic subsidiaries of the Group, which are taxed at preferential rates (refer to note (ii) below) where applicable; and for certain overseas subsidiaries of the Group, which are taxed at their respective statutory rates.
- (ii) According to the PRC enterprise income tax law and its relevant regulations, certain subsidiaries that are qualified as High and New Technology Enterprise, enterprises under the Western Region Development Program, and Small and Micro enterprises as defined under the tax law are entitled to a preferential income tax rate of 15%, 15% and 20% (2021: 15%, 15%, 20%).
- (iii) The amounts represent staff costs in excess of the statutory deductible limits for tax reporting purposes and other non-deductible expenses.
- (iv) According to the PRC enterprise income tax law and its relevant regulations, certain research and development expenses of Group's PRC subsidiaries are qualified for an additional deduction of 75% and 100% for tax reporting purposes, from 1 January 2022 to 30 September 2022, and from 1 October 2022 to 31 December 2022 respectively (2021: 75%).

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 2022 of RMB3,358,149 thousand (2021: RMB3,157,434 thousand) and number of shares in issue during the year ended 31 December 2022 of 6,926,018 thousand shares (2021: 6,926,018 thousand shares).

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

12. DIVIDENDS

(a) Dividends attributable to the year

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Final dividend proposed after the end of reporting period of RMB0.1939 per share (2021: RMB0.1732 per share, including final dividend RMB0.1641 per share and special dividend RMB0.0091 per share)	<u>1,342,955</u>	<u>1,199,587</u>

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

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Final dividend in respect of the previous financial year, approved and paid during the year, of RMB0.1641 per share (2021: RMB0.1335 per share)	1,136,560	924,623
Special dividend in respect of the previous financial year, approved and paid during the year, of RMB0.0091 per share (2021: RMB0.0267 per share)	<u>63,027</u>	<u>184,925</u>
	<u>1,199,587</u>	<u>1,109,548</u>

13. OTHER COMPREHENSIVE (EXPENSE)/INCOME

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Changes in fair value of equity instruments at fair value through other comprehensive expense recognised during the year	(326,391)	(689,997)
Net deferred tax credited to other comprehensive expense	83,908	172,320
Exchange differences on translation of financial statements	<u>26,141</u>	<u>(25,337)</u>
Other comprehensive expense for the year	<u>(216,342)</u>	<u>(543,014)</u>

14. ACCOUNTS AND BILLS RECEIVABLE, NET

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Bills receivable	508,294	405,956
Accounts receivable	<u>21,748,133</u>	<u>19,542,192</u>
	22,256,427	19,948,148
Less: allowance for credit losses	<u>(1,946,484)</u>	<u>(1,693,993)</u>
	<u><u>20,309,943</u></u>	<u><u>18,254,155</u></u>

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

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Current	1,897,638	1,112,606
Within 1 year	15,650,729	14,636,676
After 1 year but less than 2 years	2,026,546	1,729,092
After 2 years but less than 3 years	513,913	542,481
After 3 years but less than 4 years	139,131	99,950
After 4 years but less than 5 years	33,512	36,257
Over 5 years	<u>48,474</u>	<u>97,093</u>
	<u><u>20,309,943</u></u>	<u><u>18,254,155</u></u>

15. CONTRACT ASSETS, NET

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Telecommunications infrastructure services	21,099,704	17,771,357
Business process outsourcing services	1,114,789	1,381,365
Applications, contents and other services	<u>3,337,797</u>	<u>2,621,771</u>
	25,552,290	21,774,493
Less: allowance for credit losses	<u>(283,469)</u>	<u>(239,748)</u>
	<u><u>25,268,821</u></u>	<u><u>21,534,745</u></u>

The contract assets relate to the rights of the Group to considerations receivable for work completed and not billed because the rights are conditional upon the Group's future performance in achieving specified milestones on construction, design and other service contracts. The contract assets are transferred to accounts receivable when the rights become unconditional. The Group typically transfers the contract assets to accounts receivable within one year when the specific milestones are met.

16. PREPAYMENTS AND OTHER CURRENT ASSETS

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Prepayments in connection with construction work and equipment purchases	6,115,312	5,368,905
Other receivables	4,504,116	3,625,219
Input VAT deductible	834,169	1,074,711
Long-term receivables due within 1 year	718,425	477,580
Others	<u>545,610</u>	<u>555,605</u>
	<u><u>12,717,632</u></u>	<u><u>11,102,020</u></u>

Included in other receivables are mainly deposits.

17. ACCOUNTS AND BILLS PAYABLE

Accounts and bills payable comprise:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Accounts payable	40,985,965	32,759,611
Bills payable	<u>3,625,330</u>	<u>3,560,369</u>
	<u><u>44,611,295</u></u>	<u><u>36,319,980</u></u>

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

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Within 1 year	42,062,776	34,147,550
After 1 year but less than 2 years	1,414,963	1,226,760
After 2 years but less than 3 years	450,309	459,884
After 3 years	<u>683,247</u>	<u>485,786</u>
	<u><u>44,611,295</u></u>	<u><u>36,319,980</u></u>

18. CONTRACT LIABILITIES

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Telecommunications infrastructure services	8,526,663	8,626,944
Other services	<u>2,341,312</u>	<u>2,822,227</u>
	<u>10,867,975</u>	<u>11,449,171</u>

When the Group receives advance payments from customers before the performance obligation is satisfied, the amounts will give rise to contract liabilities, until the performance obligation is satisfied.

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

Overview

In 2022, by adhering to its overall roadmap of “value-driven, seeking steady yet progressive growth and high-quality development” and positioning itself as a “New Generation Integrated Smart Service Provider”, the Group overcame multiple difficulties and seized the opportunities brought by digital economy, digital information infrastructure construction and industrial digitalization, thus remaining robust in its operating performance. Total revenues for the year amounted to RMB140,746 million, representing an increase of 5.0% as compared to 2021. Profit attributable to the equity shareholders of the Company was RMB3,358 million, representing an increase of 6.4% as compared to 2021, with basic earnings per share amounted to RMB0.485. Free cash flow was RMB4,353 million with cash conversion ratio⁸ being 146.2%, which continued to remain at a healthy and relatively high level.

Total Revenues

The Group’s total revenues in 2022 amounted to RMB140,746 million, representing an increase of 5.0% as compared to 2021. From the business perspective, the revenue from telecommunications infrastructure (“TIS”) services was RMB72,907 million, representing a year-on-year growth of 1.4%; the revenue from business process outsourcing (“BPO”) services was RMB43,072 million, representing a year-on-year increase of 6.0%; the revenue from applications, content and other (“ACO”) services was RMB24,767 million, representing a year-on-year growth of 15.3%. In 2022, the Group seized the opportunities arising from 5G, New Infrastructure and industrial digitalization while enhancing the integrated comprehensive smart service capabilities, thus maintaining the continuous and steady growth of the TIS services. The Group further consolidated its resources and promoted specialized operations, resulting in favourable growth in BPO services that possess attributes such as strong customer loyalty and short cash conversion cycle. Meanwhile, the Group continuously increased investment in technology research, consolidated the capabilities on its research and development as well as product development, and seized opportunities arising from digital transformation of enterprises and informatization construction of emergency management, smart city upgrade, etc. These efforts stimulated the growth of its businesses such as system integration and software development, making the ACO services continue to be the fastest-growing business segment.

From the market perspective, the revenue from the domestic non-operator market amounted to RMB60,583 million, representing a year-on-year increase of 5.5%. Revenue from the domestic telecommunications operator market amounted to RMB77,165 million, representing a year-on-year increase of 4.6%; revenue from the overseas market amounted to RMB2,998 million, representing a year-on-year increase of 9.3%. The Group kept abreast of the trend brought by the transformation from industrial digitalization, seized the development opportunities of the digital transformation across

⁸ Cash conversion ratio = net cash generated from operating activities/profit attributable to equity shareholders of the Company

industries and focused on key aspects such as digital infrastructure, smart city, green and low-carbon, emergency management and security, etc. Through continuously forging core capabilities and platforms, leveraging the advantage of integrated service capabilities and striving to expand high-value businesses, the Group achieved high-quality business development and continuous optimization of revenue structure in domestic non-operator market. Meanwhile, the Group seized new opportunities of industrial digitalization, 5G and data center construction, and effectively implemented the development strategy of “CAPEX + OPEX + Smart Applications” in the domestic telecommunications operator market, further developed the traditional CAPEX businesses, endeavored to raise the OPEX market share, took initiative to integrate itself into the whole process of operators’ transformation and actively participated in the expansion of 5G industry application, operators’ industrial digitalization, network information security and other businesses. The above measures stabilized the fundamentals of the Group’s business from the domestic telecommunications operators, allowing such market to continue to maintain relatively stable revenue growth after the 5G investment of domestic telecommunications operators reached its peak, and making such market the main driver for business growth during the year.

The following table sets forth a breakdown of our total revenues for 2021 and 2022, together with their respective changes:

	2022	2021	
	RMB’000	RMB’000	Change
Telecommunications Infrastructure Services			
Design services	9,621,129	10,521,239	-8.6%
Construction services	59,231,390	57,310,463	3.4%
Project supervision and management services	4,053,998	4,057,546	-0.1%
	<u>72,906,517</u>	<u>71,889,248</u>	1.4%
Business Process Outsourcing Services			
Management of infrastructure for information technology (Network Maintenance)	18,157,716	16,677,957	8.9%
General facilities management (Property Management)	7,740,594	7,127,497	8.6%
Supply chain	12,848,890	11,963,560	7.4%
Sub-total of Core BPO Services	<u>38,747,200</u>	<u>35,769,014</u>	8.3%
Products distribution	4,325,246	4,854,569	-10.9%
	<u>43,072,446</u>	<u>40,623,583</u>	6.0%

	2022	2021	
	RMB'000	RMB'000	Change
Applications, Content and Other Services			
System integration	15,210,749	13,278,131	14.6%
Software development and system support	4,781,207	3,634,339	31.6%
Value added services	2,553,557	2,386,280	7.0%
Others	<u>2,221,279</u>	<u>2,179,736</u>	1.9%
	<u>24,766,792</u>	<u>21,478,486</u>	15.3%
Total	<u>140,745,755</u>	<u>133,991,317</u>	5.0%

Telecommunications Infrastructure Services

In 2022, the Group's revenue from TIS services amounted to RMB72,907 million, representing an increase of 1.4% as compared to RMB71,889 million in 2021. TIS services was the primary source of revenue of the Group and accounted for 51.8% of the total revenues, representing a decrease of 1.9 percentage points from 53.7% in 2021. As to the customer structure of the TIS services, the Group's TIS revenue from domestic telecommunications operators amounted to RMB38,913 million and accounted for 53.4% of the total TIS revenues, representing a decrease of 1.5 percentage points from 2021. The aggregate TIS revenues from domestic non-operator customers and overseas customers amounted to RMB33,994 million and accounted for 46.6% of the total TIS revenues, representing an increase of 1.5 percentage points from 2021.

In 2022, the aggregate TIS revenues from domestic non-operator customers and overseas customers increased by 4.8% over 2021, in which the TIS revenue from domestic non-operator customers recorded a year-on-year growth of 4.2%, the TIS revenue from overseas customers recorded a year-on-year growth of 13.4%. As a result of the further implementation of Digital China Strategy, the acceleration in the construction of digital information infrastructure and the prosperous development of industrial digitalization, the Group embraced new growth opportunities in the domestic non-operator market and overseas market. The Group's TIS revenue from domestic telecommunications operator customers decreased by 1.4% as compared to 2021. Meanwhile, the Group maintained the market leading position by fully supporting the business demand of domestic telecommunications operator customers and supporting the construction of 5G networks and data centers in China. As domestic telecommunications operators continue to accelerate their digital transformation, increase their investment in new infrastructure such as data centers with a view to accelerating the transformation of cloud-network integration, the Group will further integrate itself into the ecosystem of operators and enhance its product and service capabilities, so as to cater for the integrated network construction services demand of domestic telecommunications operators and continue to maintain the stable development of business from domestic telecommunications operators.

Business Process Outsourcing Services

In 2022, the Group's revenue from BPO services amounted to RMB43,072 million, representing an increase of 6.0% as compared to RMB40,624 million in 2021, accounting for 30.6% of our total revenues, an increase of 0.3 percentage point as compared to 30.3% in 2021. In terms of customer structure of the BPO services, the BPO revenue from domestic telecommunications operators amounted to RMB27,919 million, representing an increase of 7.3% over 2021, and accounting for 64.8% of the total BPO revenues, representing an increase of 0.8 percentage point from 2021. The aggregate BPO revenues from the domestic non-operator customers and overseas customers amounted to RMB15,153 million, representing an increase of 3.7% over 2021, and accounting for 35.2% of the total BPO revenues, representing a decrease of 0.8 percentage point over 2021.

In 2022, among each of the businesses under the Group's BPO services, leveraging its "Maintenance Cloud" professional maintenance digital transformation platform, the revenue from the Network Maintenance business amounted to RMB18,158 million, representing an increase of 8.9% as compared to 2021. The Group set up China Comservice Smart Property Development Co., Ltd., to promote the optimization and consolidation of property management and enhance the capacity of synergistic operation while the revenue from property management business amounted to RMB7,740 million, representing an increase of 8.6% as compared to 2021. Revenue from the supply chain business amounted to RMB12,849 million, representing an increase of 7.4% as compared to 2021. The Group focused on the upstream and downstream customers, continuously leveraged its advantages in full-process and network-wide synergistic operation in supply chain to provide integrated and full life cycle supply chain services to domestic telecommunications operators, government and enterprise customers. In addition, revenue from the products distribution business amounted to RMB4,325 million, representing a decrease of 10.9% as compared to 2021, which was mainly due to the fact that the Group continued to adhere to high-quality development and proactively controlled the business of products distribution with low-efficiency.

Applications, Content and Other Services

In 2022, the Group's revenue from ACO services amounted to RMB24,767 million, representing an increase of 15.3% as compared to RMB21,478 million in 2021, making it the fastest-growing business segment and the main driver for the growth of total revenues for the year. The revenue from ACO services accounted for 17.6% of total revenues, representing an increase of 1.6 percentage points from 16.0% in 2021, and this proportion has been increasing consistently for several years. Among which, the system integration business recorded revenue of RMB15,211 million, representing an increase of 14.6% as compared to 2021, being the largest contributor to the growth of the total revenues. In addition, software development and systems support was the fastest growing segment of the Company's overall revenue, representing an increase of 31.6% as compared to 2021. In terms of the customer structure of ACO services, the Group's ACO revenue from domestic telecommunications operators amounted to RMB10,333 million and accounted for 41.7% of the total ACO revenues, representing an increase of 2.9 percentage points as compared to 2021. Aggregate ACO revenues from domestic non-operator customers and overseas customers amounted to RMB14,434 million, accounting for 58.3% of the total ACO revenues, representing a decrease of 2.9 percentage points over 2021.

In 2022, the Group's ACO revenue from domestic telecommunications operator customers and domestic non-operator customers grew rapidly by 23.9% and 10.7% respectively as compared with 2021. The growth was mainly attributable to the Group's efforts in leveraging its capabilities and strength in integrated services, system integration and software development, further expanding the ecological cooperation scale, and seizing the opportunities of digital economy, industrial digitalization and other aspects in China. By utilizing its proprietary core platforms and leading smart product series, the Group effectively satisfied the digitalization demand of its customers through vigorously expanding the businesses including 5G, data centers, smart city, transportation, electricity and emergency management, etc.

Cost of Revenues

The Group's cost of revenues in 2022 amounted to RMB124,765 million, representing an increase of 4.7% from 2021 and accounting for 88.6% of the total revenues.

The following table sets out a breakdown of the Group's cost of revenues in 2021 and 2022 and their respective changes:

	2022	2021	
	<i>RMB'000</i>	<i>RMB'000</i>	Change
Direct personnel costs	8,558,051	8,804,676	-2.8%
Depreciation and amortization	960,995	908,323	5.8%
Materials costs	21,657,339	19,166,225	13.0%
Direct costs of products distribution	4,065,197	4,614,143	-11.9%
Subcontracting charges	76,546,469	71,239,853	7.4%
Lease charges and others	<u>12,977,161</u>	<u>14,473,679</u>	-10.3%
Total cost of revenues	<u>124,765,212</u>	<u>119,206,899</u>	4.7%

Direct Personnel Costs

In 2022, direct personnel costs amounted to RMB8,558 million, representing a decrease of 2.8% from RMB8,805 million in 2021. Direct personnel costs accounted for 6.1% of our total revenues, representing a decrease of 0.5 percentage point from 2021. The Group kept a reasonable control over its total headcount, continued to optimize the employee structure and strictly controlled staff costs, which resulted in the continuous decrease of the proportion of direct personnel costs to total revenues.

Depreciation and Amortisation

In 2022, depreciation and amortisation amounted to RMB961 million, representing an increase of 5.8% from RMB908 million in 2021. Depreciation and amortisation cost accounted for 0.7% of our total revenues.

Materials Costs

In 2022, materials costs amounted to RMB21,657 million, representing an increase of 13.0% as compared to RMB19,166 million in 2021. Materials costs accounted for 15.4% of our total revenues, representing an increase of 1.1 percentage points from 2021. The increase was because the Group optimized its business model and undertook major projects in general contracting model proactively. In addition, the fast development of system integration business, which involved relatively more materials, also drove up materials costs. The Group further strengthened the management of general contracting projects and enhanced materials cost control by establishing an internal procurement system and carrying out centralized procurement.

Direct Costs of Products Distribution

In 2022, the direct costs of products distribution amounted to RMB4,065 million, representing a decrease of 11.9% as compared to RMB4,614 million in 2021. Direct costs of products distribution accounted for 2.9% of our total revenues, representing a decrease of 0.5 percentage point over 2021. The decrease of direct costs of products distribution was mainly attributable to the Group's initiative to control certain products distribution business with low operation efficiency.

Subcontracting Charges

In 2022, subcontracting charges amounted to RMB76,546 million, representing an increase of 7.4% as compared to RMB71,240 million in 2021. Subcontracting charges accounted for 54.4% of our total revenues, representing an increase of 1.2 percentage points from 2021. The Group continued its transformation towards a management and technology-intensive business model. It focused on the high-end businesses and increased its subcontracting of the low-end businesses. In addition, there was more demand for specialized subcontracting as the Group undertook more general contracting projects in the domestic non-operator market during the reporting period. 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 2022, lease charges and others were RMB12,978 million, representing a decrease of 10.3% over RMB14,474 million in 2021. Lease charges and others accounted for 9.1% of our total revenues, representing a decrease of 1.7 percentage points from 2021.

Gross Profit

In 2022, the Group recorded gross profit of RMB15,981 million, representing an increase of 8.1% over RMB14,784 million in 2021. The Group's gross profit margin in 2022 was 11.4%, representing an increase of 0.4 percentage point from 11.0% in 2021, and the gross profit margin has stabilized and rebounded. During the year, the Group focused on improving quality and efficiency while balancing its development scale, and guided the Group's subsidiaries to strictly select and develop high-margin projects through appraisal. At the same time, the Group continuously strengthened project management

and cost control and strived to enhance the value creation capability of its business. As a result of the above measures, gross profit margin reversed the declining trend for more than a decade and achieved significant improvement. With the Group's deepening deployment in digital economy, New Infrastructure and industrial digitalization areas, it is expected that the proportion of high-value businesses will gradually increase and thereby driving the Group's overall gross profit margin.

Selling, General and Administrative Expenses

In 2022, the selling, general and administrative expenses of the Group were RMB13,960 million, representing an increase of 7.8% as compared to RMB12,952 million in 2021. The selling, general and administrative expenses accounted for 9.9% of our total revenues, representing an increase of 0.2 percentage point from 2021. During the year, the Group proactively increased the investment in technology research. In the selling, general and administrative expenses, the research and development costs were RMB4,952 million, representing an increase of 17.0% as compared to RMB4,233 million in 2021, and accounted for 3.5% of our total revenues, representing an increase of 0.3 percentage point from 2021.

Finance Costs

In 2022, the finance costs of the Group were RMB91 million, representing an increase of 15.7% as compared to RMB79 million in 2021. The increase in finance costs was mainly due to the increase in interest expenses as a result of the growth in short-term borrowings required by certain member companies of the Group to carry out their business.

Income Tax

In 2022, the income tax of the Group was RMB356 million and its effective tax rate was 9.3%, representing a decrease of 1.7 percentage points from 11.0% in 2021. The decrease in the Group's effective tax rate and the difference between such effective tax rate and the statutory tax rate was mainly due to the increased investment in research and development by the Group. In accordance with the relevant national policies, the Group enjoyed more preferential income tax rate treatments as a high-technology enterprise and the preferential policy of tax deduction before income tax for research and development expenses. In 2022, certain subsidiaries of the Group that fell under the scope of high-technology enterprises were entitled to a preferential income tax rate of 15%. Certain enterprises in Western China benefited from the preferential policies for Western Development Program. Other than that, the Company and other domestic subsidiaries of the Group were mainly subject to an income tax rate of 25%. The overseas subsidiaries of the Group were subject to different tax rates in various countries.

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

In 2022, profit attributable to equity shareholders of the Company was RMB3,358 million, representing an increase of 6.4% over RMB3,157 million in 2021. Profit attributable to equity shareholders of the Company accounted for 2.4% of our total revenues, which maintained overall stability while showing improvement as compared to 2021. Basic earnings per share of the Company were RMB0.485 (2021: RMB0.456).

Capital Expenditure

The Group implements stringent budget management over capital expenditure and makes adjustment according to changes in market condition. In 2022, capital expenditure of the Group amounted to RMB921 million, representing a decrease of 14.2% from RMB1,074 million in 2021. The capital expenditure in 2022 accounted for 0.7% of the total revenues, representing a decrease of 0.1 percentage point from 2021. The Group's capital expenditure included the purchase of production equipment and tools, instrumentation, manufacture and office buildings, intangible assets and other operating assets.

Cash Flow

The Group recorded a net cash inflow of RMB875 million in 2022, representing an increase of RMB667 million from RMB208 million in 2021. As at the end of 2022, the balance of cash and cash equivalents of the Group amounted to RMB22,085 million, of which 97.1% was denominated in Renminbi.

The following table sets out our cash flow positions in 2021 and 2022, respectively:

	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Net cash generated from operating activities	4,908,283	4,505,957
Net cash used in investing activities	(2,289,201)	(3,669,549)
Net cash used in financing activities	<u>(1,743,877)</u>	<u>(628,351)</u>
Net increase in cash and cash equivalents	<u>875,205</u>	<u>208,057</u>

In 2022, net cash generated from operating activities of the Group was RMB4,908 million, representing an increase of RMB402 million from RMB4,506 million in 2021. The increase in operating cash flow was mainly due to the Group's persistence in value-driven approach, strengthening the integrated management of cash flow and carrying out the clearing and settlement of accounts receivable while developing its businesses.

In 2022, net cash used in investing activities of the Group was RMB2,289 million, representing a decrease of RMB1,381 million from RMB3,670 million in 2021. The decrease was mainly due to the reduction in the purchase of short-term banking wealth management products and the bank structured deposits after the Group's coordination and arrangement of its funds.

In 2022, net cash used in financing activities of the Group was RMB1,744 million, representing an increase of RMB1,116 million from RMB628 million in 2021. The increase was mainly because China Comservice Supply Chain Management Company Ltd. (subsidiary of the Group) introduced strategic investors with the capital injection of RMB900 million from minority shareholders in 2021.

Working Capital

As at the end of 2022, the Group's working capital (i.e. current assets net of current liabilities) was RMB17,606 million, representing a decrease of RMB3,356 million from RMB20,962 million as at the end of 2021. The decrease in working capital was mainly due to the Group's strengthening of overall management of working capital to support project operation.

Assets And Liabilities

The Group continued to maintain its solid financial position. As at the end of 2022, the Group's total assets was RMB110,264 million, representing an increase of RMB10,236 million from RMB100,028 million as at the end of 2021; and total liabilities was RMB68,641 million, representing an increase of RMB8,223 million from RMB60,418 million as at the end of 2021. The liabilities-to-assets ratio was 62.3%, representing an increase of 1.9 percentage points from 60.4% as at the end of 2021.

Indebtedness

As at the end of 2022, total indebtedness of the Group was RMB881 million, representing an increase of RMB68 million from RMB813 million as at the end of 2021. Indebtedness of the Group was mainly denominated in US dollar, of which Renminbi loan accounted for 10.6% and US dollar loan accounted for 79.6%; and of which 39.0% was the loans with a fixed interest rate and 61.0% was those with a floating interest rate.

As at the end of 2022, our gearing ratio was 2.1%, which was basically the same as at the end of 2021.

Contractual Obligations

The following table sets out our contractual commitments as at 31 December 2022:

	Total	2023	2024	2025	2026	2027
	<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	752,001	752,001	—	—	—	—
Long-term debt	129,120	—	20,058	20,058	20,058	68,946
Lease commitments	137,293	53,847	32,427	19,946	14,592	16,481
Contracted for but not provided capital commitments	<u>217,583</u>	<u>217,583</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total of contractual obligations	<u>1,235,997</u>	<u>1,023,431</u>	<u>52,485</u>	<u>40,004</u>	<u>34,650</u>	<u>85,427</u>

Exchange Rate

Most of the Group's revenues and expenses are denominated in Renminbi. As at the end of 2022, the balance of the Group's cash and cash equivalents in foreign currencies accounted for 2.9% of the balance of its total cash and cash equivalents, and 1.3% and 0.2% of the balance of its total cash and cash equivalents 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 2022, 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 auditor, PricewaterhouseCoopers, 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 results for the year ended 31 December 2022.

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. The Board believes that the Company complied with the code provisions as set out in the Corporate Governance Code in Appendix 14 to the Listing Rules for the year ended 31 December 2022.

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 during 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, 16 June 2023, from Tuesday, 13 June 2023 to Friday, 16 June 2023 (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 Monday, 12 June 2023. H share shareholders of the Company who are registered on the register of members held by Computershare Hong Kong Investor Services Limited on Friday, 16 June 2023 are entitled to attend the Annual General Meeting.

2. Proposed Final Dividend

The Board proposes a final dividend of RMB0.1939 per share (pre-tax) for the year ended 31 December 2022. 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 will be distributed to those shareholders whose names appear on the register of members of the Company on Monday, 10 July 2023. The register of members will be closed from Wednesday, 5 July 2023 to Monday, 10 July 2023 (both days inclusive). In order to be entitled to the final 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, 4 July 2023.

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 Stock Exchange through the Shanghai Stock Exchange or Shenzhen Stock Exchange (“the Southbound Trading”) (the “Southbound Shareholders”), and dividends for H share shareholders other than the Southbound Shareholders will be paid in Hong Kong dollars. The relevant exchange rate will be the average of the mid-point rates of Renminbi to Hong Kong dollars as announced by the People’s Bank of China for the week prior to the date of approval of declaration of dividends by the Annual General Meeting. The record date for entitlement to the shareholders’ rights and the relevant arrangements of dividend distribution for Southbound Shareholders are the same as those for the Company’s H share shareholders. The proposed dividends are expected to be paid on or about Friday, 18 August 2023 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, 10 July 2023 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 into a tax treaty with the PRC stipulating a dividend tax rate lower than 10%, the Company will withhold the individual income tax at a tax rate of 10%. The Company can process applications on behalf of those shareholders to seek entitlement of the relevant agreed preferential treatments pursuant to relevant regulations, and upon approval by the tax authorities,

the extra amount of tax withheld will be refunded. For individual H share shareholders receiving dividends whose country of domicile is a country which has entered into a tax treaty with the PRC stipulating a dividend tax rate higher than 10% but lower than 20%, the Company will withhold the individual income tax at the agreed-upon effective tax rate when distributing dividends and no application procedures will be necessary. For individual H share shareholders receiving dividends whose country of domicile is a country which has not entered into any tax treaty with the PRC or are under other situations, the Company will withhold the individual income tax at a tax rate of 20% when distributing dividends.

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

For the Southbound Shareholders of the Company, the Shanghai branch of China Securities Depository and Clearing Corporation Limited ("China Clear") and the Shenzhen branch of China Clear, as the nominees of the Southbound Shareholders, will receive all dividends distributed by the Company and will distribute the dividends to the Southbound Shareholders through its 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 investing in the H shares of the Company listed on Stock Exchange through the Southbound Trading, the tax levied on dividends derived from such investment shall be ascertained by reference to the rules applicable to the treatment of individual income tax. The Company is not required to withhold income tax on dividends derived by the Mainland enterprise investors under the Southbound Trading, and such enterprises shall report the income and make tax payment by themselves.

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

ANNUAL REPORT

The Annual Report for the year ended 31 December 2022 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, natural disaster, the growth of the relevant industries, 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 2023

As at the date of this announcement, our executive directors are Mr. Liu Guiqing, Mr. Yan Dong and Ms. Zhang Xu, our non-executive directors are Mr. Gao Tongqing and Mr. Huang Zhen, and our independent non-executive directors are Mr. Siu Wai Keung, Francis, Mr. Lv Tingjie, Mr. Wang Qi and Mr. Wang Chunge.