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 2017

HIGHLIGHTS

- The Group's value-driven principle led to high-quality development, the growth momentum was successfully transformed and the operating results achieved sustained solid growth.
  - Total revenues were RMB94,572 million, up by 6.9%; in which revenue from Core Businesses amounted to RMB87,617 million, up by 12.4%.
  - Profit attributable to equity shareholders of the Company was RMB2,714 million, up by 7.0%.
  - Free cash flow was RMB6,118 million, up by 40.3%.
  - Gross profit margin and net profit margin were 12.9% and 2.9%, respectively.
- The Board has proposed to distribute a final dividend of RMB0.1176 per share and a special dividend of RMB0.0235 per share. Total dividend for 2017 is RMB0.1411 per share, and dividend payout ratio is 36%.

CHAIRMAN'S STATEMENT

Dear Shareholders,

I am very glad to present the annual results of the Group. I have worked in the Company since 2006, when it was established and listed, till 2010 and have witnessed the important process from the establishment of the Group to its sustained growth and expansion. I am delighted to return to the Company. In the past 11 years, the Group adhered to its responsibilities of creating value for our shareholders, employees and the society, pushed forward the innovation and transformation and deepened the reform and development. As a result, the Group's revenue scale continued to enlarge, business and customer structure was further optimized, branding and products were further enhanced, and market competitiveness and social influence have been largely improved. Looking forward, the Group will strive to become the "leading provider of producer services in the informatization sector", and be committed to further supporting national "Cyberpower" strategy and serving better lives, with a view to growing the Company into a top-tier enterprise and promoting its high-quality development.

In 2017, facing a complicated economic environment, the Group adhered to its principal philosophy of "value-driven, seeking steady yet progressive growth and efficient development" and adapted to the development trend. Internally, we strove to promote integration of our professional businesses, strengthen synergistic operation and improve the ability to respond to market changes. Externally, we explored cooperation in wider aspects to broaden industry ecosystems, armed ourselves with the philosophy of supply-side reform in promoting development, thereby achieving favourable operating results, sustaining optimization of business and customer structure and steadily improving quality of development of the Company. In view of this, the Board continued to propose a special dividend for 2017 to enhance shareholders' return.

Operating Performance

In 2017, the Group gradually transformed its growth momentum from CAPEX[1]-driven businesses by the domestic telecommunications operators to both the domestic non-telecom operator market and OPEX[1]-driven businesses by domestic telecommunications operators, and also from business driven by traditional infrastructure construction to business driven by integrated services and smart-typed products. Amidst the continued control on its products distribution business with low efficiency and the adverse factors such as overall decline in network construction investment in the domestic telecommunications industry and intensified competition, the Company still achieved steady growth, with the total revenues of RMB94,572 million, representing a year-on-year increase of 6.9% and profit attributable to the shareholders of the Company of RMB2,714 million, representing a year-on-year increase of 7.0%. The Company's free cash flow[2] hit a record high at RMB6,118 million, representing a year-on-year increase of 40.3%. The favourable operating results and free cash flow have showcased robust development quality of the Group. With the transformation of the Company's growth momentum and gradual formation of its internal and external ecosystems, the Group's substantial development potential has been further demonstrated.

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

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

Dividend

The Board has proposed to distribute a final dividend of RMB0.1176 per share for the financial year ended 31 December 2017, representing a dividend payout ratio of 30%. Moreover, in view of the Group's outstanding operating results and free cash flow for the year, the Board has proposed to distribute a special dividend of RMB0.0235 per share for 2017. Taking into consideration of the above factors, the Company's total dividend for 2017 is RMB0.1411 per share, representing a total dividend payout ratio of 36%.

Market Expansion

In 2017, the Group captured the opportunities for its transformation and upgrade to expand external collaboration and accelerate the construction of the ecosystem and the series of our smart-typed products. On the basis of satisfying the informatization needs of domestic non-telecom operator customers such as government and enterprises, the Group created new demands, explored new models and created new momentum for growth. In 2017, the long-existing development pattern of the Group had been changed from being driven by domestic telecommunications operator customers to being driven by the domestic non-telecom operator market, and domestic non-telecom operator market became the largest contributor to the Group's incremental revenue, with its revenue increased rapidly by 12.4% as compared with the same period of the previous year[3], accounting for 28.2% of the Group's total revenues, representing an increase of 1.4 percentage points as compared with the same period of the previous year. Excluding the products distribution business in such market, the revenue from its Core Businesses[4] increased by 26.5% year-on-year, accounting for more than 80% of the revenue from that market, with the gross profit margin maintaining a stable-to-rising trend. At the same time, driven by smart-typed core products such as Smart City, the Group's domestic non-telecom operator market development continued to accelerate, with the newly-signed service contract value exceeding RMB30 billion, which has not only effectively enhanced the Group's branding and business value in the industry, but also demonstrated sound achievements in its innovation and transformation.

In 2017, leveraging its strengths in the integrated "construction & maintenance" and high-quality services, the Group supported its customers in constructing intelligent supreme network and seized the opportunities arising from the network construction and upgrade as well as the upgrade of fiber optic broadband networks by the domestic telecommunications operators, and the construction demand from China Tower. We persisted in prioritizing service quality, capitalized on the new centralized procurement trend of customers and maintained a favourable relationship with them, thereby consistently expanding our market share and effectively alleviating the impact of the decrease in the telecommunications operators' CAPEX on the development of the Company. Through diversified business development, the domestic telecommunications operator market continued to grow. During the year, the revenue from the domestic telecommunications operator market grew by 6.9% year-on-year, accounting for 68.8% of the Group's total revenues, which remained the same as compared

[3] The revenue from domestic non-telecom operator customers increased by 3.4% year-on-year in 2016.

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

with the same period of the previous year. The rapid growth in the revenues from China Tower and China Mobile drove the overall development of the domestic telecommunications operator market, and their aggregate incremental revenue accounted for more than 80% of the overall incremental revenue of that customer group.

Due to overseas projects' cyclical fluctuation and the Group's active control of certain overseas businesses with low efficiency, the Group's revenue from overseas market in 2017 decreased by 26.2% year-on-year, accounting for 3.0% of its total revenues. At the same time, the Group adjusted and optimized its overseas operational structure in a timely manner and new structures for marketing, management and technical support have been established. The large projects followed up by the Group in Cameroon, Ethiopia and Djibouti have also made progress.

Business Development

In 2017, the Group consolidated its strengths and mended its weaknesses, resulting in its business structure further optimized. The Group continued to strengthen its telecommunications infrastructure ("TIS") services, and steadily increased its market share among the domestic telecommunications operators through establishing standards, reinforcing quality, setting benchmarks and enhancing its brand influence. On such basis, the Group actively expanded the domestic non-telecom operator market through replicating its capabilities to support the overall encouraging development of its TIS services, resulting in a year-on-year increase of 10.1% in revenue. The Group focused on the OPEX-driven business and continued to expand its business process outsourcing ("BPO") services. Through enhancing its brand name, improving capabilities and further promoting the synergistic operation of maintenance, facilities management and supply chain services, the Group has successfully transformed its growth momentum, with the revenue from its Core BPO services[5] achieving a rapid year-on-year growth of 17.0%, which is 6.3 percentage points higher than that for the previous year. Meanwhile, the Group optimized its applications, content and other ("ACO") services through unleashing its advantages for complement of differences and mutual interaction between ACO services and TIS services in integrated solutions. The Group incubated smart-typed products and cooperated with the external ecosystems in Big Data, Cloud Computing and the Internet of Things ("IoT"), resulting in building up the Company's new capabilities, new image and promoting its overall business development and market expansion, and revenue from ACO services increased by 12.7% year-on-year.

In 2017, the Group continued to proactively control products distribution business with low efficiency, resulting in the revenue from such business decreased significantly by 33.6% year-on-year, and its proportion in total revenues decreased to 7.3%. During the year, the Group's revenue from the TIS services, Core BPO services, ACO services accounted for 92.7% of its total revenues, representing a year-on-year increase of 4.5 percentage points, and a continuously optimized business structure.

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

Reform and Innovation

In 2017, the Group focused on promoting development through continuously pushing forward the reform and innovation. The Group continuously improved its capabilities in professional operation and market expansion through internal synergistic integration and external collaboration. The Group improved its service delivery quality through holding the "Comservice Craftsmanship" competition and enhanced cross-region collaboration capabilities through the training camps for industry-leaders and talented staff in domestic non-telecom operator market. By taking the supply-side reform as the Group's guiding ideology, it attempted to make new breakthroughs in its business development pattern and cultivated smart-series products under the guidance of project-oriented R&D, product-oriented services and platform-oriented products. The Group strove to promote the integration of synergistic operation and established national supply chain logistics system which enhanced the competitive advantages of the Company. At the same time, leveraging on the strong financial position and the establishment of Comservice Capital Holding Company Limited (通服資本控股有限公司), the Group explored the integration of finance with industrial development as the new model to support its development, especially in the expansion of its domestic non-telecom operator business.

Corporate Governance

The Group has maintained its corporate governance at a high level and has long been recognized and rewarded by the capital market. In the voting for "The Asset Corporate Awards 2017" held by *The Asset*, an authoritative financial magazine, the Group was awarded the "Platinum Award – Excellence in Environmental, Social and Corporate Governance". In 2017 "13th Corporate Governance Asia Recognition Awards" held by *Corporate Governance Asia*, an authoritative journal on corporate governance in Asia, the Group was again granted the award of the "The Best of Asia – Icon on Corporate Governance". In addition, in the voting for 2017 "Golden Hong Kong Equities Awards", the Group was awarded the "Best Growth Value Listed Company" and the "Best Value TMT Company". In 2017, the Group ranked 79th in the "2017 FORTUNE China 500" published by *FORTUNE China*.

Mr. Si Furong, the President of the Company, won the "Outstanding Contribution to Management Excellence in 2017" award granted by *International Finance Magazine*, a UK-based financial magazine, and the "Asian Corporate Director" awarded by *Corporate Governance Asia*. Ms. Hou Rui, Chief Financial Officer of the Company, won the "Best CFO" award granted by *Corporate Governance Asia*.

The Group has maintained close and effective communication with the capital market. The Company's overseas roadshow, which was held in November 2017, facilitated the understanding by the capital market of the Company's development and transformation. The Group won important awards held by *Corporate Governance Asia* and *IR Magazine* for its outstanding investor relations management.

Social Responsibilities

The Group has always emphasized on the fulfillment of its corporate social responsibilities and made great efforts in providing communications support for disaster relief and large-scale conferences.

In 2017, the Group dispatched a total of approximately 19,500 person-times and 7,200 vehicle-times, with a total of approximately 61,500 working hours and spared no effort to repair the communications lines damaged by Typhoon Merbok, Hato and Pakhar as well as earthquakes and flooding. It repaired an aggregate of more than 34,000 damages in the communications facilities throughout the year.

In 2017, the Group undertook the communications network construction and maintenance projects for the "2017 Global Future Network Development Summit", the "Ninth BRICS Summit" and the "Fourth World Internet Conference (Wuzhen Summit)" and successfully completed all its tasks. Through its ingenious support and services in the construction and maintenance of communications facilities for large-scale conventions and exhibitions in recent years, the Group has established its brand name, accumulated customer resources and received high praise and recognition from the governments.

Future Outlook

In 2017, the Group achieved favourable results and stepped into a new level in its overall development by adhering to its principal philosophy of "value-driven, seeking steady yet progressive growth and efficient development". Looking forward, from the macro-economic perspective, China's economy has been transitioning from a phase of rapid growth to a stage of high-quality development. This is a pivotal stage for the transformation of growth model, improvement of economic structure, and the fostering of new drivers of growth. With the starting point of new economic cycle arriving, the digital economy will have a massive room for development and investment from industries will be dominating, and the digitalization needs for electricity, transportation, beautiful villages, utility tunnel system, logistics and information security will create a vast market. From the industrial trend perspective, the integration of information technology and traditional industries has become the new engine of the digital economy. New technologies such as Artificial Intelligence, Blockchain, Cloud Computing, Big Data, Smart Home, IoT and 5G will consecutively enter into periods of explosive development and bring us new business opportunities. Competition in platform ecosystems and online-offline integration have become the new trend in which the platform has become a new competition carrier of the three major elements, i.e. computing, data and industry. It is the key to the personalized and flexible application for the customers as well as scale and boundary breakthrough for the industries, which will bring new space and business ecosystems for the Group's accelerated development.

In response to changes in the internal and external environments, the Group will adhere to its overall roadmap of "value-driven, seeking steady yet progressive growth and high-quality development" in 2018, requiring itself with the standard as a top-tier enterprise, unleashing its accumulated experiences and strengths for many years in the field of new informatization services, insisting on product-oriented services and platform-oriented products. By targeting the digitalization and informatization transformation among the society and industries, the Group will continue to create a new value-sharing ecosystem that can satisfy the customers' needs while gathering industrial chain resources and improving service quality, assisting domestic telecommunications operators to build superior network for the country, fulfilling the intelligentization demand of domestic non-telecom operator customers, with a view to continuously creating new growth drivers for the Group's development. Focusing on the national "Belt and Road" Initiative, the Group will strengthen its cooperation with domestic telecommunications operators and the "Go Aboard" Chinese enterprises, accumulate and integrate resources, expedite the development of overseas turnkey projects, enhance its international operating capabilities, and make overseas market a new growth driver for the Group's business as early as possible. At the same time, the Group will accelerate the development of its financial segment, and capitalize on our financing ability and our traditional industrial resources to drive development. Facing the modern services industry, the Company will promote the industrial upgrading, so as to create greater value for its shareholders and customers with better development and more satisfactory performance.

Finally, on behalf of the Board, I would like to express my sincere gratitude to the shareholders, customers, and all sectors of society for their long-term concern and support as well as all our hard-working employees. On behalf of the Board, I would like to express my sincere gratitude to Mr. Sun Kangmin for his outstanding contribution to the development of the Group during his tenure as the Chairman and express my sincere welcome to Mr. Shao Guanglu for joining the Board.

Zhang Zhiyong
Chairman

Beijing, PRC
27 March 2018

PRESIDENT'S STATEMENT

Dear Shareholders,

I am very pleased to present the operating results of the Group in 2017.

Financial Performance

In 2017, while adhering to the principal philosophy of "value-driven, seeking steady yet progressive growth and efficient development", the Group vigorously developed the domestic non-telecom operator market and the OPEX market of the domestic telecommunications operators in order to reduce the reliance on the network investment of domestic telecommunications operators, and thereby optimized its business and customer structure, enhanced its overall efficiency, and achieved satisfactory operating results. Total revenues for the year amounted to RMB94,572 million, representing a year-on-year increase of 6.9%. The Group's overall gross profit margin for the year was 12.9%, representing a year-on-year decrease of 0.3 percentage point. The decline rate obviously moderated as compared with the same period of last year[6]. The selling, general and administrative expenses for the year accounted for 10.5% of the total revenues, representing a year-on-year decrease of 0.2 percentage point. Profit attributable to equity shareholders of the Company for the year amounted to RMB2,714 million, representing a year-on-year increase of 7.0%. The net profit margin was 2.9%, which remained the same as that of last year. In 2017, the Group's basic earnings per share was RMB0.392. As we constantly strengthened the management of our working capital and achieved solid results, our free cash flow amounted to RMB6,118 million, representing a year-on-year increase of 40.3%.

Business Development

As clearly indicated, while the Group's revenue scale in recent years has been constantly expanding, the dependence of its operations on the network investment of domestic telecommunications operators has been gradually weakening and the contribution from the Core BPO services and domestic non-telecom operator customers to the overall incremental revenue of the Group has been significantly increased as compared to the same period of last year, which broadly indicated the realization of the transformation of growth momentum.

In 2017, while continuing to control the development of its products distribution business with low efficiency proactively, the Group vigorously developed its TIS services, Core BPO services and ACO services, and recorded favourable revenue growth from these services with our business structure further optimized.

6 For 2016, the Group's overall gross profit margin was 13.2%, representing a year-on-year decrease of 0.9 percentage point.

Revenue from TIS services amounted to RMB50,511 million, representing a year-on-year increase of 10.1%, and accounting for 53.4% of the total revenues. We captured the important opportunities of the domestic telecommunications operators' network upgrade and the upgrade of fiber optic broadband networks as well as tower construction and the deployment of the IoT, and thereby reinforced our business from domestic telecommunications operators. Meanwhile, the Group continued to shift its products and capabilities to the domestic non-telecom operator customers market, resulting in the revenue of TIS services from this customer group growing at a significant year-on-year rate of 30.3%. The rapid growth of TIS services of the domestic non-telecom operator customers has greatly enhanced our ability to withstand the impact from the decline in the CAPEX of domestic telecommunications operators.

Revenue from BPO services amounted to RMB32,763 million, representing a year-on-year increase of 0.7% and accounting for 34.6% of the total revenues. The Group's insistence on value-driven principle and proactive control of its products distribution business with low efficiency were the main causes for the slow increase in the revenue from this segment, whereby revenue from products distribution business for the year reported a significant year-on-year decrease of 33.6%. Excluding this factor, revenue from its Core BPO services reported a rapid year-on-year increase of 17.0%, demonstrating the favourable results of the Group's transformation of its growth momentum. Revenue from the network maintenance business increased by 20.1% year-on-year, indicating a remarkable acceleration as compared with the same period of last year[7], and revenue from supply chain service increased by 16.8% year-on-year, demonstrating the sound results of synergistic business operation.

Revenue from ACO services amounted to RMB11,298 million, representing a year-on-year increase of 12.7%, accounting for 12.0% of the total revenues. We captured the business opportunities arising from the intelligentization transformation of domestic telecommunications operators as well as the flourishing demand of the domestic non-telecom operator customers for informatization construction and vigorously promoted our smart-typed products, thereby increasing the core competitiveness of this business segment. In 2017, the aggregate revenue from the Group's system integration, software development and system support businesses increased by 20.7% year-on-year, which is 6.8 percentage points higher than the "Revenue Growth Rate of National Software and Information Technology Service Industry"[8], i.e. the industry average level.

7 In 2016, the Group's revenue from network maintenance business reported a year-on-year increase of 9.5%.

8 In 2017, the revenue of the software and IT service industry in China increased by 13.9%. Source: Ministry of Industry and Information Technology of the People's Republic of China.

Customer Development

In 2017, the domestic non-telecom operator market was the fastest growing market of the Group and played an important role in propelling the overall sustainable development of the Group. The revenue from this market amounted to RMB26,656 million, representing a year-on-year increase of 12.4%, accounting for 28.2% of the total revenues of the Group. The revenue from the Core Businesses of this market increased by 26.5% year-on-year, accounting for 83.2% of its overall revenue, representing a year-on-year increase of 9.3 percentage points, which demonstrated the optimization of business structure. In the domestic non-telecom operator market, the Group focused on key areas such as government, electricity and transportation, reinforced its marketing team construction, enhanced the products enabling through training camps for industry-leaders and talented staff in domestic non-telecom operator market, broadened its external cooperation while constantly building up its product series, including Smart City, Smart Security, Smart Park, Smart Transportation, Smart Safety, Smart Town and Smart Grid, thereby progressing the cross-region promotion of its products and capabilities and boosting the Group's development. During the year, the Group continued to expand its businesses into the power sector effectively, where 49 business development units for the power sector have been established nationwide and 172 business licenses in the power sector have been obtained. The Group also achieved breakthroughs in the transportation sector with the official launch of our "Smart Highway" solution by means of holding a nationwide summit, and the summit has significantly enhanced the Group's influence in the industry and drove the development of the platform and related integrated businesses.

In 2017, for the domestic telecommunications operator market, the Group insisted on leveraging both the "CAPEX and OPEX-driven" businesses and "the priority of service quality", thus realised a revenue of RMB65,080 million, representing a year-on-year increase of 6.9% and accounting for 68.8% of the total revenues of the Group. Among that, the revenue from China Telecom amounted to RMB41,568 million, representing a year-on-year increase of 2.4% and accounting for 43.9% of the total revenues. The revenue from domestic telecommunications operators other than China Telecom reported a year-on-year increase of 15.9% and accounting for 24.9% of the total revenues, representing a year-on-year increase of 2.0 percentage points. Among that, the Group exploited the new characteristics of China Mobile's centralized procurement and emphasized on maintaining a positive cooperative relationship with China Tower, strived to expand new businesses and enhanced market share, thereby supported the rapid growth of the related businesses.

In 2017, affected by cyclical fluctuations of its overseas projects and the Group's proactive control of low efficiency businesses, revenue from overseas market recorded a year-on-year decrease of 26.2% and amounted to RMB2,836 million, accounting for 3.0% of the total revenues. We have strengthened our risk prevention measures in our overseas businesses, and actively adjusted our overseas business operation and management structure. At present, the new management structure for China Communications Services International Limited has been established, under which we have accelerated the building up of our marketing team, resulting in improved capabilities in marketing. Meanwhile, overseas market was divided into five major business regions geographically, which is managed dynamically in a more flattened manner for business development. An overseas technical support centre was also established to centralize the allocation of resources and provide support to the expansion of our overseas projects.

Development Deployment

The Group has constantly transformed its new growth momentum, mapped out new deployment and explored new rooms for expansion. In terms of market development, the Group's business focus has been shifted from the traditional CAPEX of domestic telecommunications operators to the OPEX of domestic telecommunications operators, domestic non-telecom operator customers and overseas customers. The Group has put greater efforts in product innovation to promote its branding in Smart Services of the Group, and shifted its capabilities from a traditional labour-intensive service to a technology-based and digital services. In terms of business model, we have striven to expand our external cooperation and build an ecosystem featuring win-win outcome while exploring business models such as PPP (Public-Private Partnership), BT (Building + Transfer) and BOT (Building + Operation + Transfer). In terms of new business segment, Comservice Capital Holding Company Limited was established to explore the integration of finance with industrial development.

The Group has accelerated the consolidation of its professional services and continued to push forward its integrated operations, embedding in the demand of product and service through our customers' full lifecycles, so as to get better and earlier preparation for future market demands in the era of 5G and IoT. Cross-province integration has been initiated for our distribution, facilities management and logistics businesses, in an attempt to promote the cross-region, cross-industry and cross-customer coverage of our traditional service capabilities and accelerate the convergence of upstream and downstream industries, with the brand influence of our "中通福"(ZhongTongFu), "中通服物業"(ZhongTongFu Wuye) and "中通服置業" (ZhongTongFu Zhiye) gradually emerged. We also accelerated the cross-profession collaboration such as capitalizing on design business to drive infrastructure business, so as to fulfilling the new demand for turnkey projects. For example, for the Qianbei Logistics Town project in Guizhou Province, the Group's Jiangsu Design Institute collaborated with our Zunyi Branch Company in Guizhou Province, and leveraged on the design business as entry point to drive multi-profession and cross-province cooperation, which helped build up our new capabilities in marketing. The synergistic management of resources was also strengthened to optimize the allocation of key resources and improve the efficiency of synergistic operations.

In terms of development of high-value business, the Company incubated a number of group-level products represented by Smart Highway and Smart Town with its innovation fund, which has enriched its product portfolio. We have noticed that, in view of the Group's unique integrated solution capabilities in the industry, the sound marketing efforts on our smart-typed products have also drastically promoted the development of our TIS services in which we have traditional strengths, and there was a noticeable effect on the ecological development of the Company. We closely monitored the development of frontier technologies, including entering into the quantum communications market in cooperation with CAS Quantum (國科量子), and cooperation with SAP in our public cloud business with a scale of hundred million renminbi. In addition, the Information Security Expert Committee and Big Data Expert Committee of the Group exerted positive impact in bringing talents together and supporting core product creation and key project development.

Prospects

In 2018, the Group will adhere to the overall roadmap of "value-driven, seeking steady yet progressive growth and high-quality development" and generate greater value for shareholders and customers with higher quality development and better efficiency.

Facing the massive market space brought by the digital economy, the Group will focus on the needs of informatization from the government and industries along the vertical chain, unleash our "Consultant + Staff" expertise advantage, in which we act as the consultant for the government and enterprises to coordinate upstream and downstream parties along the value chain, establish new industrial benchmarks and formulate solutions, while playing the role as their staff and better serving the customers, with the view to fulfilling our role as the prime contractor in the new era of informatization and constantly broadening the business opportunities for domestic non-telecom operator customers. We will fully leverage our strengths to centralize product research and development, support the building of product lines covering smart-typed products, IoT and Information Security, strengthen the delivery capabilities of our product centre, accelerate the convergence of our products to the front end of the market to form new synergy, thus achieving a complete alignment of our internal products and delivery capabilities with external customers and market demands to deliver new services externally. At the same time, we will strengthen the external cooperation to introduce the products and delivery capabilities from our external partners and integrate them into the Group's system, with a view to cultivating smart-typed products for better satisfying customers' demand and gradually achieving breakthroughs in key areas and industries.

The Group will continue to focus on both "CAPEX and OPEX-driven" businesses, and seize the opportunities in the transformation of domestic telecommunications operators. We will closely follow the needs of our operator customers along the national "Cyberpower" strategy and fully participate in the construction of 5G and IoT. While further penetrating the CAPEX-driven business to maintain the stable fundamentals of our operation, we will focus on the OPEX-driven business of our customers through further expansion of businesses in network integrated maintenance, Smart Home and IT operation and maintenance, in an attempt to establish a standardized service system for network maintenance, develop platform-oriented maintenance business and extend it to other customers.

The Group will strengthen the unified management of its overseas businesses and capitalize on its ICT core competence, accelerate its penetration into overseas electricity, education, healthcare and construction industries while maintaining the stability of its traditional telecommunications infrastructure businesses. The Group will strengthen its cooperation with domestic telecommunications operators and the "Go Abroad" Chinese enterprises, utilize the resources of all the relevant parties, and leverage its advantages in consultation planning, network construction and market deployment while continuing to follow up large-scale turnkey projects such as "China-Africa Partnership Program in Trans Africa Information Superhighway" Project and accelerating the transformation and upgrade of overseas businesses.

The Group will continue to deepen its reform and innovation, and further build up a production organization model that can better satisfy the demand of the market. In view of the new demand from IoT, the Group will promote professional integration, facilitate integration of finance with industrial development, explore its transition from product-oriented to platform-oriented operation model, in an attempt to create cross-profession, cross-region, internal-external collaboration capabilities. At the same time, we will accelerate the progress of our smart operations and optimise the unification of IT system so as to manage the operation in a more standardized manner and improve operational efficiency.

2018 marks the 40th anniversary of China's reform and opening up. We will adhere to our original aspiration and keep our mission firmly in mind. With the focus on the target of being a "leading provider of producer services in the informatization sector", we will expand our coverage to high-end services sector, forge the Group into a top-tier enterprise and open a new chapter in reform and development. We will be dedicated to our work with the spirit of "fully committed and waste no time", strive to start a new phase of high-quality development in a new era of the Company and make great strides toward a better future.

Si Furong
President

Beijing, PRC
27 March 2018

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 2017, extracted from the audited consolidated financial statements of the Group as set out in its 2017 annual report.

Consolidated Statement of Profit or Loss
For the year ended 31 December 2017

	Notes	**2017** *RMB'000*	2016 *RMB'000*
Revenues	*4*	**94,572,411**	88,449,356
Cost of revenues	*5*	**(82,360,051)**	(76,759,191)
Gross profit		**12,212,360**	11,690,165
Other operating income	*6*	**1,014,492**	943,021
Selling, general and administrative expenses		**(9,885,426)**	(9,501,481)
Other operating expenses		**(126,278)**	(95,232)
Finance costs	*7*	**(47,119)**	(46,667)
Share of profits of associates		**63,782**	66,095
Profit before tax	*8*	**3,231,811**	3,055,901
Income tax	*9*	**(482,733)**	(502,706)
Profit for the year		**2,749,078**	2,553,195
Attributable to:			
Equity shareholders of the Company		**2,714,213**	2,536,249
Non-controlling interests		**34,865**	16,946
Profit for the year		**2,749,078**	2,553,195
Basic earnings per share (RMB)	*12*	**0.392**	0.366

Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the year ended 31 December 2017

	Notes	**2017** **RMB'000**	2016 *RMB'000*
Profit for the year		**2,749,078**	2,553,195
Other comprehensive (expense)/income for the year (after tax)			
Items that may be subsequently reclassified to profit or loss (after tax):			
Exchange differences on translation of financial statements of subsidiaries outside Mainland China		**(33,083)**	38,268
Available-for-sale securities: net movement in the fair value reserve	*10*	**(12,603)**	2,392
		(45,686)	40,660
Total comprehensive income for the year		**2,703,392**	2,593,855
Attributable to:			
Equity shareholders of the Company		**2,668,640**	2,576,796
Non-controlling interests		**34,752**	17,059
Total comprehensive income for the year		**2,703,392**	2,593,855

Consolidated Statement of Financial Position
At 31 December 2017

	Notes	**31 December 2017**	31 December 2016
		RMB'000	*RMB'000*
Non-current assets			
Property, plant and equipment, net		**4,190,375**	4,215,616
Investment properties		**637,867**	607,923
Construction in progress		**539,359**	454,339
Lease prepayments		**738,886**	760,240
Goodwill		**103,005**	103,005
Other intangible assets		**325,690**	271,193
Interests in associates and joint ventures		**220,117**	144,405
Available-for-sale financial assets		**851,560**	866,386
Deferred tax assets		**542,672**	479,996
Other non-current assets		**240,523**	149,525
Total non-current assets		**8,390,054**	8,052,628
Current assets			
Inventories		**2,275,735**	2,221,334
Accounts and bills receivable, net	*13*	**30,370,500**	29,362,985
Prepayments and other current assets	*14*	**11,815,129**	6,740,547
Financial assets at fair value through profit or loss		**1,262,514**	–
Restricted deposits		**3,354,288**	2,892,408
Cash and cash equivalents		**13,266,631**	13,324,079
Total current assets		**62,344,797**	54,541,353
Total assets		**70,734,851**	62,593,981
Current liabilities			
Interest-bearing borrowings		**308,876**	46,697
Accounts and bills payable	*15*	**24,600,681**	20,399,409
Receipts in advance for contract work		**4,997,284**	4,046,097
Accrued expenses and other payables		**11,320,729**	9,730,662
Income tax payable		**339,393**	351,647
Total current liabilities		**41,566,963**	34,574,512
Net current assets		**20,777,834**	19,966,841
Total assets less current liabilities		**29,167,888**	28,019,469

Consolidated Statement of Financial Position ***(Continued)***
At 31 December 2017

	Notes	**31 December 2017** *RMB'000*	31 December 2016 *RMB'000*
Non-current liabilities			
Interest-bearing borrowings		**17,642**	17,343
Other non-current liabilities		**328,859**	942,076
Deferred tax liabilities		**1,736**	12,268
Total non-current liabilities		**348,237**	971,687
Total liabilities		**41,915,200**	35,546,199
Equity			
Share capital	*16*	**6,926,018**	6,926,018
Reserves		**21,403,080**	19,647,411
Equity attributable to equity shareholders of the Company		**28,329,098**	26,573,429
Non-controlling interests		**490,553**	474,353
Total equity		**28,819,651**	27,047,782
Total liabilities and equity		**70,734,851**	62,593,981

Notes:

1. STATEMENT OF COMPLIANCE

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

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

2. CHANGES IN ACCOUNTING POLICIES

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

Amendments to IAS 7	Disclosure Initiative
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to IFRS12	As part of the Annual Improvements to IFRSs 2014–2016 Cycle

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

Amendments to IAS 7 Disclosure Initiative

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

3. SEGMENT REPORTING

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

4. REVENUES

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

	2017	2016
	RMB'000	*RMB'000*
Revenue from telecommunications infrastructure services	**50,510,988**	45,886,950
Revenue from business process outsourcing services	**32,763,685**	32,533,602
Revenue from applications, content and other services	**11,297,738**	10,028,804
	94,572,411	88,449,356

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 2017 amounted to RMB41,568 million and RMB15,825 million, respectively (2016: RMB40,597 million and RMB13,888 million, respectively), being 43.9% and 16.7% of the Group's total revenues, respectively (2016: 45.9% and 15.7%, respectively). The revenues derived from areas outside Mainland China for the year ended 31 December 2017 amounted to RMB2,836 million (2016: RMB3,846 million).

For the year ended 31 December 2017, the Group's first three businesses that contributed to the overall revenues were construction, management of infrastructure for information technology and telecommunications infrastructure design, the revenues from which amounted to RMB36,668 million, RMB12,829 million and RMB10,239 million, respectively (2016: The Group's first three businesses that contributed to the overall revenues were construction, management of infrastructure for information technology and products distribution, the revenues from which amounted to RMB33,711 million, RMB10,685 million and RMB10,479 million, respectively).

5. COST OF REVENUES

	2017	2016
	RMB'000	*RMB'000*
Depreciation and amortisation	**472,621**	455,215
Direct personnel costs	**8,647,493**	8,316,693
Operating lease charges	**1,485,355**	1,381,599
Materials costs	**9,327,654**	8,281,024
Direct costs of products distribution	**6,594,772**	9,764,598
Subcontracting charges	**46,858,020**	41,016,647
Others	**8,974,136**	7,543,415
	82,360,051	76,759,191

6. OTHER OPERATING INCOME

	2017	2016
	RMB'000	*RMB'000*
Interest income	**202,679**	184,088
Dividend income from listed securities	**1,238**	94
Dividend income from unlisted securities	**76,494**	51,048
Government grants	**236,906**	277,348
Gain on disposal of subsidiaries	**11,759**	36,712
Gain on disposal of property, plant and equipment and other intangible assets	**24,644**	5,635
Penalty income	**2,731**	3,674
Management fee income	**328,523**	312,930
Write-back of non-payable liabilities	**23,698**	18,282
Investment income and fair value gains on wealth management products and structured deposits	**47,875**	–
Others	**57,945**	53,210
	1,014,492	943,021

7. FINANCE COSTS

	2017	2016
	RMB'000	*RMB'000*
Interest on bank and other borrowings	**12,411**	12,991
Interest for convertible preference shares and preference shares	**34,708**	33,676
	47,119	46,667

For the years ended 31 December 2017 and 2016, no borrowing costs were capitalised in relation to construction in progress.

8. PROFIT BEFORE TAX

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

		2017	2016
		RMB'000	*RMB'000*
(a)	Staff costs:		
	Salaries, wages and other benefits	**13,797,277**	13,100,419
	Contributions to defined contribution retirement schemes	**1,283,625**	1,190,891
		15,080,902	14,291,310
(b)	Other items:		
	Depreciation		
	– Property, plant and equipment	**669,760**	687,164
	– Investment properties	**43,595**	41,389
	Amortisation		
	– Lease prepayments	**26,416**	27,262
	– Other intangible assets	**88,670**	94,572
	Auditors' remuneration	**34,500**	35,100
	Materials costs	**9,327,654**	8,281,024
	Direct costs of products distribution	**6,594,772**	9,764,598
	Write-down of inventories	**41,442**	65,521
	Reversal of write-down of inventories	**(7,181)**	(7,570)
	Impairment losses on accounts and bills and other receivables	**453,963**	494,778
	Reversal of impairment losses on accounts and bills and other receivables	**(286,998)**	(175,162)
	Investment income and fair value (gains)/losses of financial instruments at fair value through profit or loss	**(17,362)**	1,650
	Operating lease charges	**1,775,369**	1,674,451
	Research and development costs	**2,554,834**	2,255,990

The selling expenses, general and administrative expenses and other expenses of the Group are RMB1,689 million, RMB7,576 million and RMB620 million (2016: RMB1,514 million, RMB7,286 million and RMB701 million), respectively for the year ended 31 December 2017. Research and development costs include RMB2,041 million (2016: RMB1,769 million) relating to staff costs, amount of which is also included in the staff cost disclosed in note 8(a).

9. INCOME TAX

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

	2017	2016
	RMB'000	*RMB'000*
Current tax		
PRC enterprise income tax	**536,514**	557,098
Overseas enterprise income tax	**17,204**	19,577
Deferred tax		
Origination and reversal of temporary differences	**(70,985)**	(73,969)
Total income tax	**482,733**	502,706

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

	2017	2016
	RMB'000	*RMB'000*
Profit before tax	**3,231,811**	3,055,901
Expected income tax expense at a statutory tax rate of 25% (2016: 25%) *(note (i))*	**807,953**	763,975
Differential tax rates on subsidiaries' income *(note (i))*	**(233,706)**	(266,932)
Non-deductible expenses *(note (ii))*	**140,874**	188,016
Non-taxable income	**(44,655)**	(49,281)
Tax losses not recognised	**52,450**	50,293
Utilisation of previously unrecognised tax losses	**(27,819)**	(13,628)
Over provision in respect of prior years	**(38,012)**	(8,686)
Effect of tax exemptions	**(1,454)**	(1,669)
Others *(note (iii))*	**(172,898)**	(159,382)
Income tax	**482,733**	502,706

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 2017 and 2016, except for certain domestic subsidiaries of the Group, which are taxed at preferential rates of 20%, 15% and 10%, where applicable; and for certain overseas subsidiaries of the Group, which are taxed at respective statutory rates.

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

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

10. OTHER COMPREHENSIVE INCOME

Available-for-sale securities

	2017 *RMB'000*	2016 *RMB'000*
Changes in fair value recognised during the year	**(14,826)**	2,814
Net deferred tax credited (debited) to other comprehensive income	**2,223**	(422)
Net movement in the fair value reserve during the year recognised in other comprehensive income	**(12,603)**	2,392

11. DIVIDENDS

(a) Dividends attributable to the year

	2017 *RMB'000*	2016 *RMB'000*
Final dividend proposed after the end of reporting period of RMB0.1176 per share (2016: RMB0.1098 per share)	**814,500**	760,477
Special dividend proposed after the end of reporting period of RMB0.0235 per share (2016: RMB0.0220 per share)	**162,761**	152,372
	977,261	912,849

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

	2017 *RMB'000*	2016 *RMB'000*
Final dividend in respect of the previous financial year, approved and paid during the year, of RMB0.1098 per share (2016: RMB0.1011 per share)	**760,477**	700,220
Special dividend in respect of the previous financial year, approved and paid during the year, of RMB0.0220 per share (2016: RMB0.0101 per share)	**152,372**	69,953
	912,849	770,173

12. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company for the year ended 31 December 2017 of RMB2,714,213 thousand (2016: RMB2,536,249 thousand) and number of shares in issue during the year ended 31 December 2017 of 6,926,018 thousand shares (2016: 6,926,018 thousand shares).

13. ACCOUNTS AND BILLS RECEIVABLE, NET

	2017	2016
	RMB'000	*RMB'000*
Bills receivable	**119,314**	74,620
Unbilled revenues for contract work	**7,615,867**	7,027,415
Trade receivables	**23,979,276**	23,587,948
	31,714,457	30,689,983
Less: impairment losses	**(1,343,957)**	(1,326,998)
	30,370,500	29,362,985

(a) Included in accounts and bills receivable are amounts due from CTC Group, associates of the Group and associates of CTC Group of RMB20,023 million (2016: RMB18,393 million) as at 31 December 2017. The amounts due from CTC Group, associates of the Group and associates of CTC Group are unsecured, interest-free and are expected to be recovered within one year.

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

	2017	2016
	RMB'000	*RMB'000*
Current *(note)*	**12,865,705**	12,914,339
Within 1 year	**15,273,116**	14,027,398
After 1 year but less than 2 years	**1,529,211**	1,545,520
After 2 years but less than 3 years	**488,983**	875,728
After 3 years	**213,485**	–
Amount past due	**17,504,795**	16,448,646
	30,370,500	29,362,985

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

(c) Impairment of accounts and bills receivable

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

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

	2017	2016
	RMB'000	*RMB'000*
At 1 January	**1,326,998**	1,081,377
Impairment loss recognised	**291,828**	416,452
Reversal of impairment loss previously recognised	**(244,957)**	(154,854)
Uncollectible amounts written off	**(29,912)**	(15,977)
At 31 December	**1,343,957**	1,326,998

At 31 December 2017, accounts and bills receivable of RMB1,448 million (2016: RMB1,322 million) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific impairment losses of RMB607 million (2016: RMB671 million) were recognised.

(d) Accounts and bills receivable that is not impaired

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

	2017	2016
	RMB'000	*RMB'000*
Neither past due nor impaired	**12,865,705**	12,914,339
Past due but not impaired		
Within 1 year	**13,628,836**	13,064,706
After 1 year but less than 2 years	**820,597**	917,257
After 2 years but less than 3 years	**286,870**	531,054
After 3 years	**187,959**	–
	27,789,967	27,427,356

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

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

14. PREPAYMENTS AND OTHER CURRENT ASSETS

	2017	2016
	RMB'000	*RMB'000*
Advances to staff	**111,689**	165,721
Amounts due from CTC Group, associates of the Group and associates of CTC Group	**1,825,722**	1,495,582
Prepayments in connection with construction work and equipment purchases	**2,582,519**	2,136,085
Prepaid expenses and deposits	**1,256,574**	995,378
Wealth management products and structured deposits	**3,750,000**	–
Others	**2,288,625**	1,947,781
	11,815,129	6,740,547

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.

The wealth management products and structured deposits are principal-protected within maturity of less than one year.

15. ACCOUNTS AND BILLS PAYABLE

Accounts and bills payable comprise:

	2017	2016
	RMB'000	*RMB'000*
Accounts payable	**23,723,340**	18,850,843
Bills payable	**877,341**	1,548,566
	24,600,681	20,399,409

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

	2017	2016
	RMB'000	*RMB'000*
Within 1 year	**22,989,350**	18,582,995
After 1 year but less than 2 years	**1,029,424**	1,172,268
After 2 years but less than 3 years	**308,399**	357,027
After 3 years	**273,508**	287,119
	24,600,681	20,399,409

Included in accounts and bills payable are amounts due to CTC Group, associates of the Group and associates of CTC Group of RMB1,146 million (2016: RMB1,034 million) as at 31 December 2017. 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.

16. SHARE CAPITAL

	2017	2016
	RMB'000	*RMB'000*
Registered, issued and fully paid:		
4,534,598,160 (31 December 2016: 4,534,598,160) domestic shares of RMB1.00 each	**4,534,598**	4,534,598
2,391,420,240 (31 December 2016: 2,391,420,240) H shares of RMB1.00 each	**2,391,420**	2,391,420
	6,926,018	6,926,018

	2017	2016
	Thousand shares	*Thousand shares*
At 1 January and 31 December	**6,926,018**	6,926,018

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

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

Overview

In 2017, the Group upheld the principal philosophy of “value-driven, seeking steady yet progressive growth and efficient development”, firmly captured the opportunities from the domestic telecommunications operators market in network construction and upgrade, optimization of broadband quality and speed, tower construction and maintenance, and also continued to focus on domestic non-telecom operator market, thereby achieving continuous growth in the total revenues and net profit. Our business saw a “steady yet progressive growth with quality enhancement”. Total revenues for the year amounted to RMB94,572 million, representing an increase of 6.9% as compared to 2016. Profit attributable to equity shareholders of the Company was RMB2,714 million, representing an increase of 7.0% as compared to RMB2,536 million in 2016. Basic earnings per share were RMB0.392. Free cash flow amounted to RMB6,118 million, representing an increase of 40.3% as compared to RMB4,361 million in 2016.

Total Revenues

The Group’s total revenues in 2017 amounted to RMB94,572 million, representing an increase of 6.9% as compared to 2016. Among that, the revenue from telecommunications infrastructure (“TIS”) services was RMB50,511 million, representing a year-on-year growth of 10.1%; the revenue from business process outsourcing (“BPO”) services was RMB32,763 million, representing a year-on-year increase of 0.7%, of which the revenues from Core BPO services (i.e. excluding products distribution business) was RMB25,808 million, representing a year-on-year increase of 17.0%. The revenue from applications, content and other (“ACO”) services was RMB11,298 million, representing a year-on-year growth of 12.7%. Core BPO services was the fastest-growing business of the Group. From business perspective, construction, management of infrastructure for information technology (“Network Maintenance”) and supply chain were the three major businesses that contributed most to the Group’s overall incremental revenues.

From customer perspective, the long-existing development pattern of the Group had been changed from being driven by domestic telecommunications operator customers to being driven by the domestic non-telecom operator market, and the business from the domestic non-telecom operator market grew at the fastest rate with its revenue increased by 12.4% year-on-year to RMB26,656 million in 2017. Revenues from the Core Businesses of such market had a rapid year-on-year increase by 26.5% to RMB22,185 million. The revenue from the domestic telecommunications operators (including China Tower) amounted to RMB65,080 million, representing a year-on-year growth of 6.9%; the revenue from the overseas customers amounted to RMB2,836 million, representing a year-on-year decrease of 26.2%. In 2017, the Group seized opportunities arising from digital economy and informatization construction to establish the series of our smart-typed products. On the basis of satisfying the informatization need of domestic non-telecom operator customers including government, enterprises, the Group created new demand and formed new growth drivers. Businesses from such market became the main growth momentum of the Group’s total revenues. At the same time, the Group captured the opportunities for network construction and upgrade as well as the upgrade of fiber optic broadband networks from domestic telecommunications operators and endeavoured to increase its market share. The Group also captured the opportunities arising from the construction and maintenance work of China Tower and the OPEX-driven businesses for telecommunications operators. As a result, the Group maintained favourable business development momentum in the domestic telecommunications operator market and effectively alleviated the impact brought by the decrease in the telecommunications operators' CAPEX on the development of the Group. The three major customers contributing to incremental revenue of such market were China Mobile, China Tower and China Telecom, respectively.

The following table sets forth a breakdown of our total revenues for 2016 and 2017, together with their respective changes:

	2017 *RMB'000*	2016 *RMB'000*	Change
Telecommunications Infrastructure Services			
Design services	**10,239,148**	9,071,584	12.9%
Construction services	**36,668,312**	33,710,753	8.8%
Project supervision and management services	**3,603,528**	3,104,613	16.1%
	50,510,988	45,886,950	10.1%
Business Process Outsourcing Services			
Management of infrastructure for information technology (Network Maintenance)	**12,829,513**	10,685,045	20.1%
General facilities management	**4,554,889**	4,160,068	9.5%
Supply chain	**8,424,053**	7,209,334	16.8%
Sub-total of Core BPO Services	**25,808,455**	22,054,447	17.0%
Products distribution	**6,955,230**	10,479,155	–33.6%
	32,763,685	32,533,602	0.7%
Applications, Content and Other Services			
System integration	**5,789,503**	4,808,799	20.4%
Software development and system support	**2,048,496**	1,687,084	21.4%
Value added services	**1,570,458**	1,654,394	–5.1%
Others	**1,889,281**	1,878,527	0.6%
	11,297,738	10,028,804	12.7%
Total	**94,572,411**	88,449,356	6.9%

Telecommunications Infrastructure Services

In 2017, the Group's revenue from TIS services amounted to RMB50,511 million, representing an increase of 10.1% as compared to RMB45,887 million in 2016. TIS services was the primary source of revenue and accounted for 53.4% of our total revenues, representing an increase of 1.5 percentage points from 51.9% in 2016. As to the customer structure of the TIS services, the Group's TIS revenue from domestic telecommunications operator customers amounted to RMB38,649 million and accounted for 76.5% of the total TIS revenues, representing a decrease of 1.6 percentage points from last year. The aggregate TIS revenues from domestic non-telecom operator customers and overseas customers amounted to RMB11,862 million and accounted for 23.5% of the total TIS revenues, representing an increase of 1.6 percentage points from last year, whereas the increase in proportion was driven by domestic non-telecom operator customers.

In 2017, the Group firmly captured the opportunities arising from the network construction and upgrade and the upgrade of fiber optic broadband networks of domestic telecommunications operators and the construction demand from China Tower, and endeavoured to increase its market share. The TIS revenue from domestic telecommunications operator customers increased by 7.9% over 2016. The aggregate TIS revenues from domestic non-telecom operator customers and overseas customers increased by 18.0% over 2016, in which the TIS revenue from domestic non-telecom operator customers recorded a significant year-on-year growth of 30.3%, showing a strong growth momentum. With the refinement of its sale and marketing mechanism and product and service portfolio, the Group's business development of domestic non-telecom operator market played a more significant role in accelerating the growth of TIS business, which effectively alleviated the impacts from changes in network investments of the domestic telecommunications operator customers.

Business Process Outsourcing Services

In 2017, the Group's revenue from BPO services amounted to RMB32,763 million, representing an increase of 0.7% as compared to RMB32,533 million in 2016. Excluding the products distribution business, revenue from the Core BPO businesses amounted to RMB25,808 million, representing a year-on-year growth of 17.0%. Core BPO businesses achieved rapid growth mainly because the Group focused on the OPEX-driven businesses of customers and successfully transformed the momentum of growth. The revenue from BPO services accounted for 34.6% of the total revenues, representing a decrease of 2.2 percentage points from 36.8% in 2016. As to the customer structure of BPO services, the Group's BPO revenue from the domestic telecommunications operator customers amounted to RMB21,372 million, representing an increase of 5.8% as compared to 2016, and accounted for 65.2% of the total BPO revenues, representing an increase of 3.1 percentage points from the corresponding period of last year. As the Group proactively scaled down the products distribution business for domestic non-telecom operator customers, the aggregate BPO revenues from domestic non-telecom operator customers and overseas customers amounted to RMB11,391 million, representing a decrease of 7.7% from 2016 and accounting for 34.8% of total BPO revenues, representing a decrease of 3.1 percentage points from the corresponding period of last year.

In 2017, the Group's revenue from Network Maintenance business amounted to RMB12,829 million, representing an increase of 20.1% as compared to 2016. The Group focused on opportunities arising from OPEX and continuous maintenance outsourcing from domestic telecommunications operators, and therefore Network Maintenance business maintained favourable growth and was the second largest contributor to total incremental revenues among all businesses. Besides, the Group's revenue from products distribution business amounted to RMB6,955 million, representing a decrease of 33.6% as compared to 2016, which was mainly because of the Group's principle of efficient development and proactive control of products distribution business with low efficiency. China Comservice Supply Chain Management Company Limited, established in 2016 by the Group, promoted the favourable development of the supply chain business. Revenue from supply chain business amounted to RMB8,424 million, representing an increase of 16.8% as compared to 2016 and was the third largest contributor to total incremental revenues among all businesses. The Group's revenue from general facilities management service amounted to RMB4,555 million, representing an increase of 9.5% as compared to 2016 and maintaining a favourable growth momentum.

Applications, Content and Other Services

In 2017, the Group's revenue from ACO services amounted to RMB11,298 million, representing an increase of 12.7% as compared to RMB10,029 million in 2016. The revenue from ACO services accounted for 12.0% of the total revenues, representing an increase of 0.7 percentage point from 11.3% in 2016. As to the customer structure of ACO services, the Group's ACO revenue from domestic telecommunications operator customers amounted to RMB5,059 million and accounted for 44.8% of the total ACO revenues, representing a decrease of 3.6 percentage points from the corresponding period of last year. Aggregate ACO revenues from domestic non-telecom operator customers and overseas customers amounted to RMB6,239 million, and accounted for 55.2% of the total ACO revenues, representing an increase of 3.6 percentage points from the corresponding period of last year, in which the increase in proportion was driven by domestic non-telecom operator customers.

In 2017, the Group continued to pursue innovative development and proactively capitalized on the domestic opportunities of "Internet +" and informatization construction. The Group strengthened its resources integration and product management and continued to promote competitive products and solutions focusing on key areas such as industrial applications, mobile applications, Cloud Computing, Big Data and Information Security. Aggregate ACO revenues from domestic non-telecom operator customers and overseas customers had a rapid increase of 20.7% over 2016. With the Group's greater effort in developing businesses from domestic non-telecom operator customers, both the revenue and the incremental revenue contribution of those customers surpassed those of the domestic telecommunications operator customers. ACO revenue from domestic telecommunications operator customers increased by 4.1% over 2016 and remained a steady growth.

Cost of Revenues

The Group's cost of revenues in 2017 amounted to RMB82,360 million, representing an increase of 7.3% from 2016 and accounting for 87.1% of the total revenues.

The following table sets out a breakdown of the Group's cost of revenues in 2016 and 2017 and their respective changes:

	2017	2016	
	RMB'000	*RMB'000*	Change
Direct personnel costs	**8,647,493**	8,316,693	4.0%
Depreciation and amortization	**472,621**	455,215	3.8%
Materials costs	**9,327,654**	8,281,024	12.6%
Direct costs of products distribution	**6,594,772**	9,764,598	–32.5%
Subcontracting charges	**46,858,020**	41,016,647	14.2%
Operating lease charges and others	**10,459,491**	8,925,014	17.2%
Total cost of revenues	**82,360,051**	76,759,191	7.3%

Direct Personnel Costs

In 2017, direct personnel costs amounted to RMB8,647 million, representing an increase of 4.0% from RMB8,317 million in 2016. Direct personnel costs as a proportion to our total revenues was 9.1%, representing a decrease of 0.3 percentage point from 2016. With the growth in business volume in 2017, the Group consistently applied reasonable control over its total headcount and subcontracted its low-end businesses, and thereby minimized the staff costs. The Group also strictly complied with the amended Labour Contract Law and employed dispatch workers in accordance with the relevant regulations to avoid related risks.

Depreciation and Amortisation

In 2017, depreciation and amortisation were RMB473 million, representing an increase of 3.8% from RMB455 million in 2016. Depreciation and amortisation as a proportion to our total revenues was 0.5%.

Materials Costs

In 2017, materials costs amounted to RMB9,328 million, representing an increase of 12.6% as compared to RMB8,281 million in 2016. Materials costs as a proportion to our total revenues was 9.9%, representing an increase of 0.5 percentage point from 2016. The increase in materials costs was mainly attributable to the increase in relevant material costs caused by the growth of our system integration and construction services.

Direct Costs of Products Distribution

In 2017, direct costs of products distribution amounted to RMB6,595 million, representing a decrease of 32.5% as compared to RMB9,764 million in 2016. Direct costs of products distribution as a proportion to our total revenues was 7.0%, representing a decrease of 4.0 percentage points over 2016. The significant decrease in the direct costs of products distribution was mainly because the Group effectively controlled the development of certain low efficiency products distribution business.

Subcontracting Charges

In 2017, subcontracting charges were RMB46,858 million, representing an increase of 14.2% as compared to RMB41,017 million in 2016 and a moderate growth[9] as compared to past years. Subcontracting charges as a proportion to our total revenues was 49.5%, representing an increase of 3.1 percentage points over 2016. The increase in subcontracting charges was mainly derived from the TIS and Network Maintenance businesses. Having considered its strategic development, effectiveness and efficiency, the Group continued to focus on high-end businesses and outsourced certain low-end tasks. Besides, as a result of the rapid growth in TIS business and the rapid development in Network Maintenance business, which are labour-intensive in nature and demand for more subcontracting, subcontracting charges grew rapidly during the year. As the scale of the Group's business continued to expand, the engagement of subcontractors enabled a more flexible utilization of external resources for the Group, and at the same time led to a more rapid growth in the Group's subcontracting charges.

Operating Lease Charges and Others

In 2017, operating lease charges and others were RMB10,459 million, representing an increase of 17.2% over RMB8,925 million in 2016. Operating lease charges and others as a proportion to our total revenues was 11.1%, representing an increase of 1.0 percentage point over 2016. The cost increase was mainly due to the Group's enhanced external cooperation for business development during the reporting period, and the corresponding increase of development and cooperation expenses in others.

9 The subcontracting charges of the Group increased by 28.9% year-on-year in 2016.

Gross Profit

The Group achieved a gross profit of RMB12,212 million in 2017, representing an increase of 4.5% over RMB11,690 million in 2016. The Group's gross profit margin in 2017 was 12.9%, representing a decrease of 0.3 percentage point from 13.2% in 2016 and a moderate decrease as compared with past years. In 2017, the decrease in gross profit margin of the Group was due to various factors, including the decrease in service charge in certain businesses, the increase in labour-related costs. At the same time, the Group strived to optimize its business and customer structure, and achieved remarkable results. Revenue from Core Businesses as a proportion to our total revenues was 92.7%, representing an increase of 4.5 percentage points and thereby alleviating the impacts brought by the external environment on gross profit margin to a certain extent.

Selling, General and Administrative Expenses

The selling, general and administrative expenses of the Group in 2017 were RMB9,885 million, representing an increase of 4.0% as compared to RMB9,501 million in 2016. Benefited from the economies of scale in business development and effective cost control, the selling, general and administrative expenses as a proportion of our total revenues was 10.5%, representing a decrease of 0.2 percentage point from 2016.

Finance Costs

In 2017, the Group's finance costs were RMB47 million (2016: RMB47 million), representing a similar level with 2016.

Income Tax

The income tax of the Group in 2017 was RMB483 million and our effective tax rate was 14.9%, representing a decrease of 1.6 percentage points from 16.5% in 2016. The difference between the Group's effective tax rate and the statutory tax rate was mainly due to the preferential income tax rate treatment enjoyed by certain subsidiaries, which are classified as new and high-technology enterprises, and the preferential policy of tax deduction before income tax for research and development expenses. In 2017, certain subsidiaries of the Group that fall under the scope of new and high-technology enterprises were entitled to a preferential income tax rate of 15%. Certain enterprises in the western China were entitled to the preferential policies for Western Development Program. Apart from these subsidiaries, the Company and other domestic subsidiaries of the Group were mainly subject to an income tax rate of 25%. The overseas subsidiaries of the Group were subject to different tax rates in various countries.

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

In 2017, profit attributable to equity shareholders of the Company was RMB2,714 million, representing an increase of 7.0% over RMB2,536 million in 2016. Profit attributable to equity shareholders of the Company accounted for 2.9% of our total revenues, which remained stable as compared to 2016. Basic earnings per share of the Company were RMB0.392 (2016: RMB0.366).

Capital Expenditure

The Group implemented stringent budget management over capital expenditure, and made adjustments according to changes in market condition. In 2017, capital expenditure amounted to RMB921 million, representing an increase of 27.7% over RMB721 million in 2016. The capital expenditure in 2017 accounted for 1.0% of the total revenues, representing an increase of 0.2 percentage point over 2016. 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 outflow in 2017 amounted to RMB21 million, and recorded a net cash inflow of RMB3,712 million in 2016. Such change was mainly due to the increase of cash used in investing activities in the reporting period. As at the end of 2017, the cash and cash equivalents of the Group amounted to RMB13,267 million, of which 94.7% was denominated in Renminbi.

The following table sets out our cash flow positions in 2016 and 2017, respectively:

	2017 ***RMB'000***	2016 *RMB'000*
Net cash generated from operating activities	**6,964,245**	5,265,248
Net cash used in investing activities	**(5,683,712)**	(604,352)
Net cash used in financing activities	**(1,301,884)**	(949,172)
Net increase in cash and cash equivalents	**(21,351)**	3,711,724

In 2017, net cash generated from operating activities was RMB6,964 million, representing an increase of RMB1,699 million from RMB5,265 million in 2016. The increase in net cash generated from operating activities was mainly attributable to the Group's value-driven principle and appraisal system, the strengthening of management of cash flow, accounts receivable and accounts payable, and effective accounts receivable settlement and collection work during the course of business expansion.

In 2017, net cash used in investing activities was RMB5,683 million, representing an increase of RMB5,079 million from RMB604 million in 2016. The increase was mainly attributable to the flexible utilization of part of the fund to purchase short-term principal-protected wealth management products and structured deposits issued by banks after considering the cash position and large projects development needs of the Group in that year.

In 2017, net cash used in financing activities was RMB1,302 million, representing an increase of RMB353 million from RMB949 million in 2016. The increase was mainly because one of the subsidiaries of the Group had redeemed the convertible preference shares.

Working Capital

As at the end of 2017, the Group's working capital (i.e. current assets net of current liabilities) was RMB20,778 million, increased by RMB811 million from RMB19,967 million in 2016. The increase in working capital was mainly due to the expansion of the Group's business and effective management of accounts receivable and accounts payable which led to an increase in net cash generated from operating activities and current assets.

Assets and Liabilities

The Group continued to maintain a solid financial position. As at the end of 2017, the Group's total assets was RMB70,735 million, representing an increase of RMB8,141 million from RMB62,594 million in 2016; total liabilities was RMB41,915 million, representing an increase of RMB6,369 million from RMB35,546 million in 2016. The liabilities-to-assets ratio was 59.3%, increased from 56.8% in 2016.

Indebtedness

As at the end of 2017, total indebtedness of the Group was RMB327 million, decreased by RMB431 million from RMB758 million as at the end of 2016. Indebtedness of the Group was mainly denominated in US dollar, of which Renminbi loan accounted for 4.1% and US dollar loan accounted for 92.4%, and of which 30.0% was fixed interest rate loans and 70.0% was floating interest rate loans.

As at the end of 2017, our gearing ratio[10] was 1.1%, representing a decrease of 1.7 percentage points from 2.8% as at the end of 2016.

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

Contractual Obligations

The following table sets out our contractual commitments as at 31 December 2017:

	Total	**2018**	**2019**	**2020**	**2021**	**2022 and after**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Short-term debt	308,876	308,876	–	–	–	–
Long-term debt	17,642	–	9,148	8,494	–	–
Operating lease commitments	963,125	430,716	222,424	103,917	68,868	137,200
Contracted for but not provided capital commitments	421,950	421,950	–	–	–	–
Total of contractual obligations	1,711,593	1,161,542	231,572	112,411	68,868	137,200

Exchange Rate

Most of the Group's revenues and expenses are denominated in Renminbi. As at the end of 2017, the balance of our cash and cash equivalents in foreign currencies accounted for 5.3% of the Group's total cash and cash equivalents, of which 2.9% 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 2017, 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 2017.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

As a company incorporated in the PRC and listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company has not only complied with the relevant provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") but also has abided by the PRC Company Law and the applicable laws, regulations and regulatory requirements of Hong Kong and the PRC as the basic guidelines for the Company's corporate governance. Throughout the year ended 31 December 2017, 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, 29 June 2018, from Wednesday, 30 May 2018 to Friday, 29 June 2018 (both days inclusive), during which period no transfer of H shares will be registered. In order to attend the Annual General Meeting, all transfer documents, accompanied by the relevant share certificates, must be lodged for registration with Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, not later than 4:30 p.m. on Tuesday, 29 May 2018. H share shareholders of the Company who are registered on the register of members held by Computershare Hong Kong Investor Services Limited on Friday, 29 June 2018 are entitled to attend the Annual General Meeting.

2. Proposed Final Dividend and Special Dividend

The Board proposes a final dividend of RMB0.1176 per share and a special dividend of RMB0.0235 per share, and the total dividend is RMB0.1411 per share (pre-tax) for the year ended 31 December 2017. The dividend proposal will be submitted for consideration at the Annual General Meeting. If such proposed dividend distribution is approved by the shareholders, the final dividend and special dividend will be distributed to those shareholders whose names appear on the register of members of the Company on Wednesday, 11 July 2018. The register of members will be closed from Friday, 6 July 2018 to Wednesday, 11 July 2018 (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 Thursday, 5 July 2018.

Dividends will be denominated and declared in Renminbi. Dividends will be paid in Renminbi for holders of domestic shares and holders of H shares (including enterprises and individuals) who invest in the H shares of the Company listed on the Hong Kong Stock Exchange through the Shanghai Stock Exchange or Shenzhen Stock Exchange ("the Southbound Trading") (the "Southbound Shareholders"), and dividends for H share shareholders other than the Southbound Shareholders will be paid in Hong Kong dollars. The relevant exchange rate will be the average of the mid-point rates of Renminbi to Hong Kong dollars as announced by the People's Bank of China for the week prior to the date of approval of declaration of dividends by the Annual General Meeting. The record date for entitlement to the shareholders' rights and the relevant arrangements of dividend distribution for Southbound Shareholders are the same as those for the Company's H share shareholders. The proposed dividends are expected to be paid on or about Friday, 17 August 2018 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 Wednesday, 11 July 2018 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 and the Shenzhen branch of China Securities Depository and Clearing Corporation Limited, as the nominees of the shareholders of the Southbound Trading, will receive all dividends distributed by the Company and will distribute the dividends to the relevant shareholders under the Southbound Trading through its depositary and clearing system. According to the relevant provisions under the "Notice on Tax Policies for Shanghai-Hong Kong Stock Connect Pilot Programme (Cai Shui [2014] No.81)" and "Notice on Tax Policies for Shenzhen-Hong Kong Stock Connect Pilot Programme (Cai Shui [2016] No.127)", the Company shall withhold individual income tax at the rate of 20% with respect to dividends received by the Mainland individual investors for investing in the H shares of the Company listed on the Hong Kong Stock Exchange through the Southbound Trading. In respect of the dividends for the investment of Mainland securities investment funds in the H shares of the Company listed on Hong Kong Stock Exchange through the Southbound Trading, the tax levied on dividends derived from such investment shall be ascertained by reference to the rules applicable to the treatment of individual income tax. The Company is not required to withhold income tax on dividends derived by the Mainland enterprise investors under the Southbound Trading, and such enterprises shall report the income and make tax payment by themselves.

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

ANNUAL REPORT

The Annual Report for the year ended 31 December 2017 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 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
27 March 2018

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