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 2019

HIGHLIGHTS

- Driven by the businesses related to digital services in the domestic non-telecom operator market, the OPEX business and the industry-oriented smart application businesses in the domestic telecommunications operator market, the Group's overall results maintained steady growth, with business value further manifested.
    - Total revenues were RMB117,413 million, up by 10.6%.
    - Profit attributable to equity shareholders of the Company was RMB3,049 million, up by 5.1%.
    - Free cash flow was RMB4,243 million, up by 17.4%.
    - Gross profit margin and net profit margin were 11.7% and 2.6%, respectively.
- The Board has proposed to distribute a final dividend of RMB0.1321 per share and a special dividend of RMB0.0264 per share. Total dividend for 2019 is RMB0.1585 per share, and the total dividend payout ratio is 36%.

CHAIRMAN'S STATEMENT

Dear Shareholders,

In 2019, against the backdrop where overall macro-economy faced downward pressure and domestic telecommunications industry witnessed slowdown in growth, the Group, with concerted efforts and strong determination, pinpointed the new position of "New Generation Integrated Smart Service Provider", adhered to the overall roadmap of "value-driven, seeking steady yet progressive growth and high-quality development", focused on opportunities including "Cyberpower", "Digital China", "Smart Society" and "Network Information Security" and vigorously penetrated into industrial ecosystems, thus achieving favourable development. During the year, the Group's total revenues, profit and free cash flow[1] achieved steady growth, overall efficiency remained robust, and customer and business structures were further optimized, which all enabled the Group's solid progression towards intelligent and digital transformation.

Operating Performance

In 2019, businesses related to digital services in domestic non-telecom operator (the "domestic non-operator") market served as the main growth driver of the Company. Meanwhile, OPEX[2] and intelligentization businesses in the domestic telecommunications operator market also provided sound support for the growth of the Group. Total revenues for the year amounted to RMB117,413 million, representing a year-on-year increase of 10.6%; profit attributable to equity shareholders of the Company was RMB3,049 million, representing a year-on-year increase of 5.1%. Free cash flow remained healthy and amounted to RMB4,243 million, representing a year-on-year increase of 17.4%. The favourable results of operations and free cash flow provided strong support for the Group's development, and laid a solid foundation for the Group's enterprise transformation and responses to changes in industry development.

Dividend

The Board has proposed to distribute a final dividend of RMB0.1321 per share for the financial year ended 31 December 2019, representing a dividend payout ratio of 30%. Moreover, in view of the Group's favourable operating results and free cash flow level for the year, the Board has proposed to distribute a special dividend of RMB0.0264 per share for 2019. Taking into consideration of the above factors, the Company's total dividend for 2019 is RMB0.1585 per share, representing a total dividend payout ratio of 36%.

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

2 OPEX refers to the operating expenditure of domestic telecommunications operators.

Market Development

In 2019, the Group adhered to the three main development tracks of the domestic non-operator market, the domestic telecommunications operator market and the overseas market, focused on the digitalization and intelligentization demands in society and industries, forged its integrated smart service capabilities and accelerated market development and deployment. As a result, we achieved satisfactory results with business and revenue structures continuously optimized and development quality noticeably enhanced.

In 2019, with the Group's long-term investment and devotion to the field of smart service, the domestic non-operator market sustained a rapid and healthy development trend in recent years, and customers in the market became the largest customer group[3] for the first time. The development quality of the domestic non-operator market was enhanced, which became increasingly significant to the profit growth of the Group. During the year, the revenue from such market increased by 25.2% year-on-year which mirrored the growth rate for the same period of last year[4]. The revenue from such market accounted for 35.5% of the total revenues, representing an increase of 4.1 percentage points compared with the same period of last year, of which, revenue from the Core Businesses[5] in the domestic non-operator market increased by 29.8% year-on-year, accounting for 92.4% of the revenue from such market, with development quality of the market further enhanced. In 2019, the amount of newly signed contracts in the domestic non-operator market increased by over 26% year-on-year, indicating a strong development momentum in the future.

In 2019, the Group firmly adhered to the "Dual Growth Drivers+" (i.e. CAPEX[6] and OPEX + Smart Applications) development strategy in the domestic telecommunications operator market. The revenue from such market increased by 3.9% year-on-year, and such growth echoed the growth of the annual CAPEX[7] of such customer group. Revenue from such market accounted for 61.7% of total revenues, and represented a decrease of 4.0 percentage points compared to the same period of last year. The Group proactively integrated into the domestic telecommunications operator customers' ecosystems to provide customers with high-quality services in the fields of 5G, Internet of Things ("IoT"), network security, cloud-network integration and other aspects, thus facilitating their transformation and upgrade. The demand for industrial digitalization and intelligentization from domestic telecommunications operators became a new growth driver from such customer group following the OPEX business. During the year, aggregate incremental revenue from business process outsourcing services and ACO Major businesses[8] of the domestic telecommunications operator market accounted for 69.9% of the incremental revenue of such market.

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

4 In 2018, the revenue from the domestic non-operator market reported a year-on-year growth rate of 25.0%.

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

6 CAPEX refers to the capital expenditure of domestic telecommunications operators.

7 In 2019, total capital expenditure from the three domestic telecommunications operators and China Tower increased by 4.3% year-on-year (source: disclosure by the three listed domestic telecommunications operators and China Tower).

8 ACO Major businesses include system integration, software development & system support and value-added services.

In 2019, the Group's revenue from the overseas market increased by 3.6% year-on-year, accounting for 2.8% of the total revenues. We focused on the opportunities from the "Belt and Road", and made important breakthroughs in relevant major projects in Nepal, Mali, Congo-Brazzaville, Saudi Arabia and other countries, with some projects gradually entering the stage of implementation and delivery since the second half of the year, which have served as an essential support for subsequent development of overseas business. Meanwhile, the Group continued to strengthen overseas operation and management by adopting financial, legal and many other measures to prevent relevant risks overseas.

Business Development

In 2019, the Group continued to strengthen its telecommunications infrastructure ("TIS") services business. Despite the fact that 5G construction by domestic telecommunications operators has yet to come into scale, the Group captured the demand for digital infrastructure from the domestic non-operator market against the backdrop of rapid development of Digital Economy, and took advantage of its integrated smart service capabilities to expedite the deployment in key regions and key industries. Through capabilities enabling and driven by smart businesses, we continued to make breakthroughs in large-scale turnkey projects and achieved favourable development in TIS business, which recorded a year-on-year increase of 12.8% in revenue for the year.

In 2019, the Group continued to expand its business process outsourcing ("BPO") services. We strengthened synergistic operation, promoted pilot operation of platform-oriented network maintenance and established a network-wide supply chain collaboration system. We also unified the IT systems, brands and standards of general facilities management service, in order to boost business development through enhancement of capabilities. During the year, revenue from the Core BPO services[9] increased by 6.9% year-on-year.

In 2019, the Group focused on the demands for industrial smart applications and digital services to constantly enrich smart products and industry solutions, so as to support the digital transformation of its customers. During the year, revenue from the applications, content and other ("ACO") services increased by 17.3% year-on-year, accounting for 13.7% of total revenues, of which the incremental revenue from ACO Major Businesses accounted for 19.5% of the overall incremental revenues. Since 2015, the compound annual growth rates of the revenue of ACO Major Businesses from the domestic telecommunications operator market and the domestic non-operator market reached 14.4% and 23.5%, respectively.

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

The Group continued to contain its products distribution business of low gross profit. Revenue from such business decreased by 11.5% year-on-year, accounting for 3.7% of the total revenues, representing a year-on-year decrease of 0.9 percentage point. Through the Group's persistent, effective management and control of the products distribution business, the proportion of revenue from such business to our total revenues decreased from 19.4% in 2014 to 3.7% in 2019, representing a decrease of approximately RMB10 billion, which demonstrated the Group's determination to accelerate enterprise transformation and to accumulate strength for further development.

Innovation and Transformation

In 2019, the Group deepened innovation and transformation continuously to ride on the new trend in Digital Economy era.

Construction of foundation platforms. The Group continued to promote the construction of "CCSYUN" (our cloud service) and "CCS Open IoT Platform" to drive transformation. Besides, the Group improved network and information security capabilities by the establishment of platforms including cloud security, cloud-based monitoring and content automated testing to satisfy market demand. Furthermore, the Group launched pilot maintenance platform to plan ahead for the new maintenance areas of the 5G and IoT era.

Enhancement of research and development capabilities. By focusing on social and industrial intelligentization demands, the Group increased investment in research and development by way of setting up a dispersed research and development system as well as capitalizing on its ecosystem alliances and research institutions. The Group converged capabilities based on its foundation platforms to accelerate the research and development and the iteration of its products, so as to respond to market demand in a rapid manner and support development through capabilities enabling.

Optimization of ecosystem. On one hand, the Group continuously established the middle platforms for capabilities accumulation and capabilities enabling to optimize internal ecosystem and enrich industrial ecosystem, thus bringing in new partners from government, industries and research and development institutions. On the other hand, the Group emphasized the construction of talent ecosystem by ceaselessly enhancing various expert teams and Comservice Craftsmanship systems, with the view to accumulating adequate reserves of diverse talents.

Corporate Governance

The Group has maintained its corporate governance at a high level, with its compliance management, transparency and completeness of information disclosure and safeguard of the interests and rights of the shareholders being widely recognized by the capital market.

The Group leaped to a hundred-billion enterprise in 2018, and in order to promote the Group's high-quality development at the new hundred-billion stage, the board of directors of the Company newly established the Strategy Committee in 2019 which reviewed the high-quality development plan for a hundred-billion enterprise, enabling the Group to enhance strategic analysis, promote the implementation of its strategies, and better steer the development direction to embrace the 5G-driven digital era.

Widely recognized for its constantly honest, prudent approach and satisfactory operating performance, the Group was well awarded in 2019. The Group ranked 86th in the "2019 FORTUNE China 500" published by *FORTUNE China*, and was listed among the "2019 Forbes Global 2000 — World's Largest Public Companies" by *Forbes*. In the voting for "The Asset ESG Corporate Awards 2019" held by the magazine *The Asset*, the Group was awarded "Gold Award — Corporate Governance, Social Responsibility and Investor Relations". The Group was also granted "The Best of Asia — Icon on Corporate Governance" in the 2019 "15th Asian ESG Awards" held by *Corporate Governance Asia*. In addition, the Group won the "Best TMT Company" and the "Most Socially Responsible Listed Company" awards in the voting of the 2019 "Golden Hong Kong Equities Awards". In 2019, I was again awarded the "Asian Corporate Director" in the 2019 "15th Asian ESG Awards" held by *Corporate Governance Asia*. Mr. Si Furong, the President, entered the 2019 *Forbes China* "Best Multinational CEO List" and won the "Best CEO" in the awards by *The Asset* and *Corporate Governance Asia*, respectively.

Social Responsibilities

As a responsible listed company, the Group has always emphasized on the fulfilment of social responsibilities. In the prevention and control of the novel coronavirus (the "COVID-19") epidemic, the Group courageously assumed its responsibility and proactively hastened to the frontline of the fight against the epidemic to provide communications support for local governments, designated hospitals, module hospitals and other enterprises combating at the frontline. In just three days, the Group rapidly completed the 4G/5G wireless network planning and construction for Huoshenshan Hospital and Leishenshan Hospital in Wuhan. Also, the Group provided various medical institutions, including Beijing Xiaotangshan Hospital, West China Hospital of Sichuan University, Xixi Hospital of Hangzhou and the temporary treatment base for COVID-19 patients in Jingzhou, with emergency communication construction and support, to ensure smooth communication at the frontline of the fight against the outbreak.

Meanwhile, more than 40 smart applications for epidemic prevention were swiftly developed and promoted by the Group based on Cloud, IoT, Big Data and other foundation platforms in response to the anti-epidemic demands from governments, communities, enterprises and relevant industries. Such applications were utilized in Sichuan, Chongqing, Anhui, Xinjiang, Gansu, Shanghai, Zhejiang etc. Among them, the "Health Declaration and Enquiry System for Migrant Workers of Sichuan Province" gained press coverage of and received recognition from the China Central Television of China Media Group. Confronted with the outbreak, the Group regarded crisis as opportunity and carried out practices on our own businesses and transformation capabilities. The valuable experience accumulated from the outbreak will enable the Group to be well positioned for future vast opportunities arising from the 5G era.

In smart services and communication support for key events, the Group provided integrated smart services for Beijing International Horticultural Exhibition as the general contractor for the "Smart Expo", and provided "Smart Game" integrated solutions for the 7th CISM Military World Games in 2019 as the general contractor for informatization construction. Acting as the essential support team, the Group also rendered informatization solutions and telecommunication support services to events such as Boao Forum for Asia and China International Import Expo and received recognition from government and relevant partners.

In poverty alleviation, the Group proactively devoted RMB14.79 million to carry out poverty alleviation missions in respect of employment, training, industry and public welfare.

In caring for employees, the Group contributed RMB24.13 million to improve the production and office environments of our frontline employees and resolved requests from them during the year. In addition, the Group contributed RMB5.82 million to the relief fund for supporting employees in need, which showed care for our employees in a practical manner.

Future Outlook

In 2019, the Group adhered to the overall roadmap of "value-driven, seeking steady yet progressive growth and high-quality development" and pinpointed its new position as "New Generation Integrated Smart Service Provider". By firmly capturing the changes in the market and adhering to the main development tracks, the Group achieved favourable results and made a solid step towards high-quality development.

Currently, the domestic and global economic environments are experiencing profound adjustment, and the COVID-19 epidemic has increased the downward pressure on the domestic and international economies, and put considerable pressure to the Group's operation and development during such period. At the same time, the COVID-19 epidemic has brought changes to the pattern of production, daily life and demand in the society, accelerating the digitalization progress of the society and industries, which has also brought the Group with rare opportunities. From the macro perspective, there is no change to the basic trend that the economy of China is still heading for long-term prosperity; there is no change to the development advantages accumulated since reform and opening up, including the technological base, the size of the market, and the domestic demand potential; there is no change to the regional economic development strategy and the trend of advancement of the "Belt and Road". From the perspective of industrial development and technological progress, the further advancement of "Cyberpower", "Network Information Security" and commercial use of 5G, as well as the deep integration of emerging technologies such as 5G, IoT, Artificial Intelligence, Blockchain with the real economy, will create booming demand for digitalization from society and industries. During the epidemic, cutting-edge technologies such as 5G have played an important role and fostered great market demand. "New Infrastructure" including data center and Industrial Internet, which is led by 5G infrastructure, will also be the critical foundation for digital transformation of the society and the construction of modern smart city. It will not only generate important driving force for future economic development, but also bring the Group with great potential for growth. In particular, the 5G infrastructure will give rise to application investment in the upstream and downstream of the industry value chain and various industries, which would facilitate the continuous emergence of new demand, new business forms and new applications, creating further growth potential in the domestic telecommunications operator market and the domestic non-operator market.

In the future, the Group will adhere to the overall roadmap and focus on the main development tracks based on its positioning of "New Generation Integrated Smart Service Provider" to fit into the overall development of China, the society and industries, with a view to further promoting value transformation and forming new development advantages.

In the domestic non-operator market, by focusing on opportunities arising from New Infrastructure such as 5G and riding on the accelerating trends of modern smart city upgrade, digital governance and industrial digitalization as the epidemic broke out, the Group will take various measures to continuously expand its business scale in such market and optimize its integrated smart service capabilities, including: speeding up its deployment in key regions such as Beijing-Tianjin-Hebei, Yangtze River Delta, Yangtze River Economic Belt, Guangdong-Hong Kong-Macao Greater Bay Area, intensifying its development in key sectors such as government, electricity and transportation as well as making breakthroughs in key fields such as Industrial Internet, emergency management and network information security.

In the domestic telecommunications operator market, the Group will uphold the "Dual Growth Drivers+" development strategy and take advantage of its advanced deployment in aspects including the 5G construction as well as the research and development for applications. We will also integrate into customers' ecosystem in light of the changing industrial development. Furthermore, the Group will further develop the 5G network construction and the OPEX business, while capturing the demand for smart applications and assisting customers in transformation. By taking all these efforts, the Group will secure the fundamentals of our operation while making new breakthroughs in development.

In overseas market, by grasping the opportunities arising from the advancement of "Belt and Road" and leveraging on its "EPC+F+I+O+S"[10] model, the Group will focus on the overseas demand for network infrastructure and digital services with the promotion of its smart products and services, thus realizing steady growth of overseas revenue. Meanwhile, the Group will strengthen collaboration with domestic telecommunications operators, "Go Abroad" Chinese enterprises, and local partners to expand overseas market and explore new development potential.

At the same time, we will allocate more resources to research and development in respect of 5G, Big Data and IoT, as well as improving our dispersed research and development based on our foundation platforms, with a view to enhancing the quality and quantity of smart products and facilitating capabilities enabling for social and industrial development. The Group will enhance its corporate governance by pushing forward the State-owned Enterprise Reform "Double-hundred Action", develop flexible mechanism that is adaptive to the changing market, talent team, innovative mechanism and symbiotic ecosystem, with a view to promoting value transformation and becoming an integrated smart service provider with cutting-edge technologies and supreme intelligence.

Finally, on behalf of the Board, I would like to express my sincere gratitude to our shareholders, customers and all sectors of society for their long-term attention and support, and deeply thank all our employees for their continued dedication and hard work. I would also like to express my sincere gratitude to Mr. Li Zhengmao and Mr. Shao Guanglu, who resigned as non-executive directors of the Company in March 2020, for their outstanding contributions to the development of the Group during their tenure.

Zhang Zhiyong
Chairman

Beijing, PRC
31 March 2020

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

PRESIDENT'S STATEMENT

Dear Shareholders,

I am very pleased to present the operating results of the Group in 2019.

Financial Performance

In 2019, by adhering to the overall roadmap of "value-driven, seeking steady yet progressive growth and high-quality development" and focusing on the main development tracks, the Group made good progress on its transformation and upgrade. Driven by the businesses related to digital services in the domestic non-operator market, the OPEX business and the industry-oriented smart application businesses in the domestic telecommunications operator market, the Group effectively coped with the adverse impact caused by the tempered growth of domestic telecommunications operators and downward pressure in the industry value chain. The Group reinforced its operation fundamentals, ensured steady development, and achieved solid operating results. In 2019, the Group's total revenues amounted to RMB117,413 million, representing a year-on-year increase of 10.6%. The Group's gross profit amounted to RMB13,687 million, representing a year-on-year increase of 6.2%, and gross profit margin was 11.7%, representing a year-on-year decrease of 0.4 percentage point, indicating a moderate decline[11]. While increasing the investment in research and development, the Group strengthened its synergistic management and used IT measures to improve management efficiency, and as a result, selling, general and administrative expenses amounted to RMB11,494 million, accounting for 9.8% of total revenues and representing a year-on-year decrease of 0.2 percentage point. Profit attributable to equity shareholders of the Company amounted to RMB3,049 million, representing a year-on-year increase of 5.1%, with a net profit margin of 2.6%. Basic earnings per share amounted to RMB0.440. Free cash flow was RMB4,243 million, with the cash conversion ratio[12] remaining at a healthy and relatively high level.

Business Development

In 2019, by focusing on digitalization and intelligentization businesses, the Group increased resources input to extend its integrated smart service capabilities centered on integrated solutions. New development features of the Group emerged with its consultation and planning businesses led the way and drove the development of software services and smart products, as well as the robust growth of digital infrastructure construction business. Meanwhile, the Group vigorously expanded the OPEX business of domestic telecommunications operators and paid close attention to the new business demand arising from the transformation of such customers, thus strengthening its customers' loyalty continuously to ensure the Group's stable fundamentals. Following the business transformation and upgrade of the Group in recent years, its revenue sources became more diversified and its business structure became healthier.

[11] In 2018, gross profit margin of the Group was 12.1%, decreased by 0.8 percentage point year-on-year.

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

In 2019, the Group's TIS services recorded a revenue of RMB64,689 million, representing a year-on-year increase of 12.8% and accounting for 55.1% of the total revenues. Capturing the domestic construction opportunities from Digital Economy and Smart Society, the Group has penetrated into the domestic non-operator market by adopting the "Consultant + Staff + Housekeeper" service model[13] and provided digital infrastructure construction related services to its customers. During the year, such revenue from the domestic non-operator market was RMB20,910 million, representing a rapid year-on-year increase of 42.8%, and was the largest revenue growth driver of TIS services. During the year, the Group built up its strength in 5G technologies and capabilities while proactively satisfying 5G network construction demand of the domestic telecommunications operators. However, as the investment of the domestic telecommunications operators in 5G network has yet to come into scale, the TIS revenue from the domestic telecommunications operator market experienced a stable year-on-year growth of 2.1%, amounting to RMB41,153 million.

Revenue from the BPO services amounted to RMB36,637 million, representing a year-on-year increase of 4.4% and accounting for 31.2% of the total revenues. Adhering to the value-driven principle, the Group continued to contain its products distribution business with low gross profit, as a result, revenue from products distribution business for the year reported a year-on-year decrease of 11.5%. Excluding the products distribution business, the Core BPO services progressed well with a year-on-year revenue increase of 6.9%. The Group continued to penetrate into the OPEX business of the domestic telecommunications operators and facilitated the quality improvement of their networks. Revenue from the network maintenance business for the year reported a year-on-year increase of 7.0%. In 2019, the Group continued to establish comprehensive and integrated capabilities for the property management. Leveraging on the "Hui Yun" (慧雲) platform, we enhanced synergistic operation and promoted intelligent transformation. Our property management business extended to fields such as high speed rail, airport and achieved favourable development results. Revenue from the general facilities management (property management) business reported a year-on-year increase of 16.9% and maintained a growth rate of over 15% for two consecutive years[14]. The Group established the supply chain digitalized procurement platform, which enhanced the unified storage capabilities and network-wide operation capabilities. However, revenue growth of the supply chain business slowed down and reported a year-on-year increase of 1.7%, mainly because of the subdued growth in marketing agent and after-sale businesses attributable to the marketing strategy adjustment of the domestic telecommunications operators.

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

14 In 2018, revenue from the general facilities management business reported a year-on-year increase of 15.9%.

Revenue from the ACO services amounted to RMB16,087 million, representing a rapid year-on-year increase of 17.3%, making it the fastest growing segment among the three major businesses. It accounted for 13.7% of the total revenues, which was 0.8 percentage point higher year-on-year. Through capturing the domestic opportunities arising from the digitalization construction by the government and industries, as well as the intelligent transformation of the domestic telecommunications operators, we provided smart products, smart services and industrial integrated solutions to customers. Currently, we have accelerated the promotion of over 30 smart applications among vertical industrial customers. In 2019, revenue from the Group's system integration, software development and system support businesses reported a year-on-year increase of 23.5% and 14.2% respectively. Revenue from the ACO Major businesses reported a year-on-year increase of 18.6%, surpassing the growth rate of the national software business revenue[15] and demonstrating a sound development result of such businesses.

Market Expansion

In 2019, the Group's domestic non-operator market continued to maintain a fast growth and recorded a revenue of RMB41,727 million, representing a year-on-year increase of 25.2% and accounting for 35.5% of the total revenues, 4.1 percentage points higher than last year. Of that, revenue from the Core Businesses in the domestic non-operator market reported a year-on-year increase of 29.8%, accounting for 92.4% of the overall revenue of such market. The development quality was further improved and the contribution to the Group's gross profit increased noticeably. By focusing on the intelligentization demand of the government, society and industries, in recent years, the Group has been constructing an industrial ecosystem and penetrating into key industries including electricity, transportation, airport and sport game, as well as increasing investment in research and development to accelerate the development and iteration of smart products. Driven by the development of smart products, the Group's has made remarkable achievements in the development of large-scale projects, including the "Smart Game" for the 7th CISM Military World Games which we provided comprehensive planning, integrated game management and command platform construction services; the Shanghai Lingang Data Center project which we provided "EPC + Operation and Maintenance" in the form of full-process BIM (Building Information Modeling) service; the Digital Government Project for Guangdong province in the form of "Consultation + Software (Smart Government Services) + Integration". Meanwhile, the Group has also accelerated deployment and looked for breakthroughs in the new fields of Industrial Internet, emergency management and network information security, and for instance, we have established the first provincial-level hazardous chemicals monitoring platform in Anhui and the Industrial Internet Big Data Platform in Chongqing.

[15] In 2019, the national software business revenue reported a year-on-year increase of 15.4% (source: the Ministry of Industry and Information Technology of the People's Republic of China ("MIIT")).

Upon the issuance of 5G licenses by MIIT in June 2019, the domestic telecommunications operators further accelerated their 5G deployment, of which the construction has yet to come into scale. The Group responded proactively to market changes, and made full use of the "Dual Growth Drivers+" (i.e. CAPEX and OPEX + Smart Applications) development strategy to expand the domestic telecommunications operator market, which realized a revenue of RMB72,420 million, representing a year-on-year increase of 3.9% and accounting for 61.7% of the total revenues. Of that, the revenue from China Telecom amounted to RMB40,633 million, representing a year-on-year decrease of 1.6% and accounting for 34.6% of the total revenues. The Group proactively supported the network construction of the operators, and the aggregate revenue from operators other than China Telecom reported a year-on-year increase of 11.8%, accounting for 27.1% of the total revenues.

In 2019, revenue from the Group's overseas market was RMB3,266 million, representing a year-on-year increase of 3.6% and accounting for 2.8% of the total revenues. The Group's overseas large-scale projects achieved continuous breakthroughs, such as the 4G network construction project in Nepal, the Digital Mali Project, the Ground and Submarine Cables Project in Congo-Brazzaville and the Power Communication Project in Saudi Arabia. In 2019, the Group was awarded the "Excellent Enterprise" for the "Belt and Road" 2019 Information Technology Industry by China Information Technology Industry Federation. The 4G Project in Nepal, the National Broadband Project in Saudi Arabia and the Optical Cable Backbone Network Project in Tanzania were awarded the Top 100 Outstanding "Belt and Road" Cases for the 2019 Information Technology Industry, demonstrating that the business strength and brand awareness of the Group have received wide recognition in the market.

Capabilities Enhancement

The Group believes it is hardly possible that "a single product, a single ability or a single service" could meet the needs of the society and industry in the future. In view of the new era of the Digital Economy, the Group pinpointed the new position as "New Generation Integrated Smart Service Provider" in 2019. Focusing on the demand of customers from the business sector, the Group accelerated innovation and transformation, kept improving capabilities and strengthening growth momentum.

In 2019, the Group continued to increase investment in research and development and expedited the construction of foundation platforms. The service capabilities of the Group's "CCSYUN" (our cloud service) Platform and "CCS Open IoT Platform" have been widely recognized. Among them, the "CCSYUN" Platform obtained Trusted Cloud Services Certification (TRUCS) and was awarded the "2019 Innovative Cloud Service Platform" by China Software Industry Association. The "CCS Open IoT Platform" also won "2019 GIOTC IoT Award", "OFweek 2019 Most Popular Development Platform in China IoT Industry". The technology support platform in "CCS Open IoT Platform" was connected to 33 million terminals as at the end of 2019.

The Group has continuously improved the dispersed research and development system based on foundation platforms and propelled the products' research and development as well as the migration of the products' iteration to such foundation platforms through various means, such as the organization of the contest of "Incubating Future from the Cloud". Meanwhile, subject to different industries and nature of the projects, the Group established various research institutions such as the CCS Industrial Internet (Big Data) Research Institute. By establishing ecosystem alliances to converge both internal and external research and development capabilities and resources, enhancing capabilities of its smart products, and enabling capabilities effectively within the Group for development, the Group's software development capabilities have been strengthened and recognized in the industry. We ranked 5th[16] in the "100 Most Competitive Software & IT Service Enterprises 2019" organized by China Information Technology Industry Federation and was awarded the title of "Leading Enterprises" in the voting for the Leading Enterprises for Information Technology Industry in 2019.

The Group has actively implemented the national strategy of "Invigorating China through Science and Education" by emphasizing the introduction and training of talents and providing a sound environment for them. In 2019, the Company pioneered in introducing the position of strategic ecology officer and engaged external expert to hold the office. The Group continued to optimize various professional and craftsmanship systems, for example, the "Comservice Craftsmanship Cup", a labour skill competition, has become an industry-recognized channel for talent selection. Through various activities, including the labour skill competitions and "Pioneer Training Camp for Non-operator Business", the Group could identify professionals and talents to hold key positions that would be suitable for its development and improve the capabilities of the whole team, which plays a crucial role for the Group to achieve a smooth transformation.

Focusing on the establishment of eco-competencies and ecosystems, the Group intensified synergistic management internally and promoted business collaboration externally to improve competitive edges. In 2019, the Group continued to improve the construction of industrial alliances to generate synergies thereof to expand ecological cooperation. Leveraging on the capital resources of Comservice Capital Holding Company Limited, a subsidiary of the Group, we also enriched the industrial ecosystem.

[16] The top four enterprises of the 100 Most Competitive Software & IT Service Enterprises 2019 included Huawei Technologies Co., Ltd., Alibaba (China) Co., Ltd., Beijing Baidu Netcom Science Technology Co., Ltd. and Tencent Technology (Shenzhen) Company Limited.

Prospects

Currently, COVID-19 epidemic has brought impact and effect to the Group's daily operation and business development during such period. Meanwhile, the Group will capture the new demand and opportunities arising from the epidemic. By leveraging on the Cloud, IoT and Big Data platforms, the Group will forge smart products for epidemic prevention which will enable us to secure our own operation and support intelligent prevention for epidemic, and assist in work and production resumption of the society. By turning the crisis into an opportunity, the Group will accelerate value transformation and promote high-quality development.

In 2020, positioned as a "New Generation Integrated Smart Service Provider", the Group will charge itself with the mission of being the Builder of Digital Infrastructure, Provider of Smart Products and Platforms, Service Provider of Data Production and Guard of Smart Operation, and adhere to the overall roadmap of "value-driven, seeking steady yet progressive growth and high-quality development" to further implement innovation and transformation with a more open-minded attitude. We will establish a platform-based symbiotic ecosystem, provide full life cycle integrated smart services to the society, industries and customers, with a view to creating higher values for shareholders and customers.

In the domestic non-operator market, given the strategic opportunities including "Cyberpower", "Digital China" and "Smart Society", together with the development opportunities from 5G-driven New Infrastructure, the Group will continue to increase investment in research and development, optimize ecosystems, accumulate strengths, accelerate the development of smart products and industrial solutions, improve capabilities of "cross-platform, cross-connection, cross-application, cross-region and cross-supplier" and fuel the digital transformation of the society and industries, thus boosting its image as a "New Generation Integrated Smart Service Provider". Meanwhile, with the focus on the construction of modern smart city, the Group will continue to penetrate further into key sectors including government, electricity, and transportation. Meanwhile, the Group will target on Industrial Internet, emergency management and network information security, with a view to expanding into new markets and capturing new development opportunities.

In the domestic telecommunications operator market, the Group will capture the opportunities arising from 5G network construction, co-build and co-share between operators, new ICT construction, and leverage on the "Dual Growth Drivers+" development strategy to support customers with supreme network construction and intelligent transformation. In the meantime, the Group will expedite the deployment of 5G-driven network construction in the vertical industries and smart application business, and strengthen collaboration with operators for joint development and ecosystem integration so as to maintain solid operating fundamentals.

In the overseas market, the Group will facilitate the transformation of overseas business with the "EPC +F+I+O+S" model, focus on the expansion of large-scale projects, and facilitate the launch of smart products and services in overseas market with reference to the demand for digitalization from overseas customers. At the same time, we will strengthen collaboration with the domestic telecommunications operators, the "Go Abroad" Chinese enterprises and local partners to synergistically expand overseas market and seek new development momentum and breakthroughs for the overseas businesses.

The Group will take the opportunities arising from the State-owned Enterprise Reform "Double-hundred Action" to further promote diversity of share ownership and improve corporate governance structure. Concurrently, in accordance with the development strategies and business deployment of the Group, we will continuously optimize the market-oriented operation mechanism and improve incentive mechanism, while attracting, reserving and training various types of experts and professionals. With a primary focus on "One CCS", the Group will enhance its research and development system, promote professional integration and synergistic operation, enhance core capabilities and resource allocation efficiency. By adhering to the new development principle of "innovation, coordination, green, openness and sharing", the Group is committed to building an ecosystem characterized by joint development, joint management and symbiotic relationship, and we will collaborate with all parties in the industry value chain to share one another's capabilities and create value together, thus enabling the Group to integrate into the development of the society, industry and customers and realizing a sustainable and healthy development.

2020 is the last year of the target for a moderately prosperous society in all respects and the 13th Five-Year Plan of China. As a "New Generation Integrated Smart Service Provider", we will follow the new development principle and take a bold step to promote the high-quality development and create a better future.

Si Furong
President

Beijing, PRC
31 March 2020

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 2019, extracted from the audited consolidated financial statements of the Group as set out in its 2019 annual report.

Consolidated Statement of Profit or Loss

For the year ended 31 December 2019

	Notes	**2019** *RMB'000*	2018 *RMB'000*
Revenues	*4*	**117,413,089**	106,176,637
Cost of revenues	*5*	**(103,726,130)**	(93,291,671)
Gross profit		**13,686,959**	12,884,966
Other operating income	*6*	**1,554,755**	1,244,889
Selling, general and administrative expenses		**(11,494,404)**	(10,611,071)
Other operating expenses	*7*	**(333,299)**	(173,722)
Finance costs	*8*	**(68,888)**	(25,179)
Share of profits of associates and joint ventures		**148,478**	105,421
Profit before tax	*9*	**3,493,601**	3,425,304
Income tax	*10*	**(463,802)**	(497,405)
Profit for the year		**3,029,799**	2,927,899
Attributable to:			
Equity shareholders of the Company		**3,049,229**	2,901,324
Non-controlling interests		**(19,430)**	26,575
Profit for the year		**3,029,799**	2,927,899
Basic earnings per share (RMB)	*13*	**0.440**	0.419

Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the year ended 31 December 2019

	Note	2019 RMB'000	2018 RMB'000
Profit for the year		**3,029,799**	2,927,899
Other comprehensive income/(expense) for the year (after tax)			
Item that will not be reclassified to profit or loss (after tax):			
Equity instruments at fair value through other comprehensive income:			
Net movement in the fair value reserve	*11*	**263,452**	(205,066)
Item that may be subsequently reclassified to profit or loss (after tax):			
Exchange differences on translation of financial statements of subsidiaries outside Mainland China		**(2,646)**	9,968
		260,806	(195,098)
Total comprehensive income for the year		**3,290,605**	2,732,801
Attributable to:			
Equity shareholders of the Company		**3,309,973**	2,706,214
Non-controlling interests		**(19,368)**	26,587
Total comprehensive income for the year		**3,290,605**	2,732,801

Consolidated Statement of Financial Position

At 31 December 2019

	Notes	**31 December 2019 RMB'000**	31 December 2018 RMB'000
Non-current assets			
Property, plant and equipment, net		**4,369,251**	4,384,700
Right-of-use assets		**1,895,996**	–
Investment properties		**563,820**	606,065
Construction in progress		**282,365**	342,427
Lease prepayments		**–**	722,672
Goodwill		**103,005**	103,005
Other intangible assets		**505,278**	355,339
Interests in associates and joint ventures		**418,336**	318,059
Financial assets at fair value through profit or loss		**818,268**	–
Equity instruments at fair value through other comprehensive income		**4,088,204**	3,737,553
Deferred tax assets		**690,341**	622,202
Other non-current assets		**553,819**	1,220,145
Total non-current assets		**14,288,683**	12,412,167
Current assets			
Inventories		**1,974,150**	2,253,027
Accounts and bills receivable, net	*14*	**19,092,825**	18,668,024
Contract assets, net	*15*	**17,153,529**	15,664,758
Prepayments and other current assets	*16*	**8,771,768**	8,646,123
Financial assets at fair value through profit or loss		**4,567,824**	5,046,898
Restricted deposits		**2,471,515**	2,128,757
Cash and cash equivalents		**19,220,764**	16,106,246
Total current assets		**73,252,375**	68,513,833
Total assets		**87,541,058**	80,926,000
Current liabilities			
Interest-bearing borrowings		**511,234**	462,003
Accounts and bills payable	*17*	**30,674,619**	28,279,533
Current portion of lease liabilities		**343,281**	–
Contract liabilities	*18*	**10,087,102**	8,648,060
Accrued expenses and other payables		**8,730,235**	9,017,427
Income tax payable		**337,372**	323,514
Total current liabilities		**50,683,843**	46,730,537
Net current assets		**22,568,532**	21,783,296
Total assets less current liabilities		**36,857,215**	34,195,463

Consolidated Statement of Financial Position (Continued)
At 31 December 2019

	31 December 2019 *RMB'000*	31 December 2018 *RMB'000*
Non-current liabilities		
Interest-bearing borrowings	**–**	8,922
Lease liabilities	**690,172**	–
Other non-current liabilities	**295,527**	617,488
Deferred tax liabilities	**833,744**	740,192
Total non-current liabilities	**1,819,443**	1,366,602
Total liabilities	**52,503,286**	48,097,139
Equity		
Share capital	**6,926,018**	6,926,018
Reserves	**27,637,892**	25,405,305
Equity attributable to equity shareholders of the Company	**34,563,910**	32,331,323
Non-controlling interests	**473,862**	497,538
Total equity	**35,037,772**	32,828,861
Total liabilities and equity	**87,541,058**	80,926,000

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 consolidated financial statements.

2. CHANGES IN ACCOUNTING POLICIES

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

IFRS 16	Leases
IFRIC 23	Uncertainty over Income Tax Treatments
Amendments to IFRS 9	Prepayment Features with Negative Compensation
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to IFRSs	Annual Improvements to IFRS Standards 2015–2017 Cycle

Except for IFRS 16 Leases as described below, the application of the new and amendments to IFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

2.1 IFRS 16 Leases

The Group has applied IFRS 16 for the first time in the current year. IFRS 16 superseded IAS 17 *Leases* and the related interpretations.

As a lessee

The Group has applied IFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019.

As at 1 January 2019, the Group recognised additional lease liabilities and measured right-of-use assets at the carrying amounts as if IFRS 16 had been applied since commencement dates, but discounted using the incremental borrowing rates of the relevant group entities at the date of initial application by applying IFRS 16 transition. Any difference at the date of initial application is recognised in the opening retained earnings and comparative information has not been restated.

As a lessor

In accordance with the transitional provisions in IFRS 16, except for sub-leases in which the Group acts as an intermediate lessor, the Group is not required to make any adjustment on transition for leases in which the Group is a lessor but account for these leases in accordance with IFRS 16 from the date of initial application and comparative information has not been restated. These changes has had no material impact on the consolidated financial statements of the Group.

The net effects arising from the initial application of IFRS 16 resulted in a decrease in the opening balance of retained earnings at an amount of approximately RMB33 million.

As a result of the changes in the Group's accounting policies above, the consolidated statement of financial position at 1 January 2019 had to be restated. The following table shows the adjustments recognised for each of the line items affected.

	31 December 2018	**Adjustments**	**1 January 2019**
	RMB'000	*RMB'000*	*RMB'000*
	(audited)		(restated)
Non-current Assets			
Lease prepayments	722,672	(722,672)	–
Right-of-use assets	–	1,659,581	1,659,581
Deferred tax assets	622,202	3,482	625,684
Current Assets			
Prepayments and other current assets	8,646,123	(22,578)	8,623,545
Current liabilities			
Current portion of lease liabilities	–	269,303	269,303
Non-current liabilities			
Lease liabilities	–	681,605	681,605
Equity			
Equity attributable to equity shareholders of the Company	32,331,323	(32,754)	32,298,569
Non-controlling interests	497,538	(341)	497,197

3. SEGMENT REPORTING

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

4. REVENUES

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

Disaggregation of revenue

	2019	2018
	RMB'000	*RMB'000*
Revenue from telecommunications infrastructure services	**64,688,815**	57,359,436
Revenue from business process outsourcing services	**36,637,180**	35,102,822
Revenue from applications, content and other services	**16,087,094**	13,714,379
	117,413,089	106,176,637

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 2019 amounted to RMB40,633 million and RMB23,881 million, respectively (2018: RMB41,279 million and RMB21,219 million, respectively), being 34.6% and 20.3% of the Group's total revenues, respectively (2018: 38.9% and 20.0%, respectively). The revenues derived from areas outside Mainland China for the year ended 31 December 2019 amounted to RMB3,266 million (2018: RMB3,155 million).

For the year ended 31 December 2019, the Group's first three businesses that contributed to the overall revenues were construction, management of infrastructure for information technology and supply chain, the revenues from which amounted to RMB50,735 million, RMB15,827 million and RMB10,320 million, respectively (2018: The Group's first three businesses that contributed to the overall revenues were construction, management of infrastructure for information technology and telecommunications infrastructure design, the revenues from which amounted to RMB42,863 million, RMB14,793 million and RMB10,605 million, respectively).

The Group's rental income for the year ended 31 December 2019 amounted to RMB714 million (2018: RMB691 million).

5. COST OF REVENUES

	2019	2018
	RMB'000	*RMB'000*
Depreciation and amortisation	**756,976**	466,096
Direct personnel costs	**9,111,016**	8,747,317
Lease charges (2018: Operating lease charges)	**1,117,275**	1,603,223
Materials costs	**12,838,003**	9,783,239
Direct costs of products distribution	**4,167,579**	4,629,177
Subcontracting charges	**64,462,508**	57,555,216
Others	**11,272,773**	10,507,403
	103,726,130	93,291,671

6. OTHER OPERATING INCOME

	2019	2018
	RMB'000	*RMB'000*
Interest income	**245,370**	181,612
Dividend income from equity instruments	**143,868**	1,575
Government grants	**283,910**	279,285
Gain on disposal of associates and subsidiaries	**687**	20,206
Gain on disposal of property, plant and equipment, other intangible assets, leasehold lands, construction in progress and termination of lease	**61,295**	78,641
Penalty income	**3,001**	3,929
Management fee income	**370,324**	329,335
Write-back of non-payable liabilities	**54,806**	37,184
Investment income and fair value gains on wealth management products and structured deposits	**216,349**	252,609
Others	**175,145**	60,513
	1,554,755	1,244,889

7. OTHER OPERATING EXPENSES

	2019	2018
	RMB'000	*RMB'000*
Loss on disposal of property, plant and equipment, construction in progress and other intangible assets	**16,450**	30,053
Donations	**2,430**	1,264
Penalty charge and compensation	**199,790**	33,780
Net foreign exchange loss	**11,944**	23,899
Others	**102,685**	84,726
	333,299	173,722

8. FINANCE COSTS

	2019	2018
	RMB'000	*RMB'000*
Interest on bank and other borrowings	**32,478**	25,179
Interest on lease liabilities	**36,410**	–
	68,888	25,179

For the years ended 31 December 2019 and 2018, no borrowing costs were capitalised in relation to construction in progress.

9. PROFIT BEFORE TAX

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

		2019	2018
		RMB'000	*RMB'000*
(a)	Staff costs:		
	Salaries, wages and other benefits	**14,948,888**	14,213,728
	Contributions to defined contribution retirement schemes	**1,708,579**	1,395,705
		16,657,467	15,609,433
(b)	Other items:		
	Depreciation		
	– Property, plant and equipment	**682,691**	659,181
	– Right-of-use assets	**388,392**	–
	– Investment properties	**43,585**	44,355
	Amortisation		
	– Lease prepayments	**–**	26,727
	– Other intangible assets	**136,950**	107,874
	Auditors' remuneration	**34,695**	34,495
	Materials costs	**12,838,003**	9,783,239
	Direct costs of products distribution	**4,167,579**	4,629,177
	Write-down of inventories	**56,174**	30,819
	Reversal of write-down of inventories	**(18,186)**	(2,875)
	Impairment losses on accounts receivable, other receivables and contract assets	**560,178**	611,430
	Reversal of impairment losses on accounts receivable, other receivables and contract assets	**(295,548)**	(321,438)
	Investment income and fair value gains of financial instruments at fair value through profit or loss	**(220,203)**	(252,058)
	Lease charges (2018: Operating lease charges)	**1,329,436**	1,905,172
	Research and development costs	**3,275,915**	2,798,327

The selling expenses, general and administrative expenses and other expenses of the Group are RMB2,306 million, RMB8,482 million and RMB706 million (2018: RMB2,071 million, RMB7,818 million and RMB722 million), respectively for the year ended 31 December 2019. Research and development costs include RMB2,604 million (2018: RMB2,290 million) relating to staff costs, amount of which is also included in the staff costs disclosed in note 9(a).

10. INCOME TAX

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

	2019	2018
	RMB'000	*RMB'000*
Current tax		
PRC enterprise income tax	**466,882**	521,154
Overseas enterprise income tax	**55,224**	34,782
Deferred tax		
Origination and reversal of temporary differences	**(58,304)**	(58,531)
Total income tax	**463,802**	497,405

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

	2019	2018
	RMB'000	*RMB'000*
Profit before tax	**3,493,601**	3,425,304
Expected income tax expense at a statutory tax rate of 25% (2018: 25%) *(note (i))*	**873,400**	856,326
Differential tax rates on subsidiaries' income *(note (i))*	**(203,262)**	(214,189)
Non-deductible expenses *(note (ii))*	**137,586**	132,397
Non-taxable income	**(73,091)**	(58,741)
Tax losses not recognised	**93,957**	51,879
Utilisation of previously unrecognised tax losses	**(25,231)**	(4,719)
Over provision in respect of prior years	**(30,567)**	(28,737)
Others *(note (iii))*	**(308,990)**	(236,811)
Income tax	**463,802**	497,405

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 2019 and 2018, except for certain domestic subsidiaries of the Group, which are taxed at preferential rates of 15% and 10%, where applicable; and for certain overseas subsidiaries of the Group, which are taxed at respective statutory rates.

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

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

11. OTHER COMPREHENSIVE INCOME/(EXPENSE)

	2019	2018
	RMB'000	*RMB'000*
Changes in fair value of equity instruments at FVTOCI recognised during the year	**350,651**	(271,052)
Net deferred tax (charged)/credited to other comprehensive income	**(87,199)**	65,986
Net movement in the fair value reserve during the year recognised in other comprehensive income/(expense)	**263,452**	(205,066)

12. DIVIDENDS

(a) Dividends attributable to the year

	2019	2018
	RMB'000	*RMB'000*
Final dividend proposed after the end of reporting period of RMB0.1321 per share (2018: RMB0.1257 per share)	**914,927**	870,601
Special dividend proposed after the end of reporting period of RMB0.0264 per share (2018: RMB0.0251 per share)	**182,847**	173,843
	1,097,774	1,044,444

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

	2019	2018
	RMB'000	*RMB'000*
Final dividend in respect of the previous financial year, approved and paid during the year, of RMB0.1257 per share (2018: RMB0.1176 per share)	**870,601**	814,500
Special dividend in respect of the previous financial year, approved and paid during the year, of RMB0.0251 per share (2018: RMB0.0235 per share)	**173,843**	162,761
	1,044,444	977,261

13. 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 2019 of RMB3,049,229 thousand (2018: RMB2,901,324 thousand) and number of shares in issue during the year ended 31 December 2019 of 6,926,018 thousand shares (2018: 6,926,018 thousand shares).

14. ACCOUNTS AND BILLS RECEIVABLE, NET

	2019	2018
	RMB'000	*RMB'000*
Bills receivable	**363,350**	276,034
Accounts receivable	**20,287,259**	19,806,523
	20,650,609	20,082,557
Less: allowance for credit losses	**(1,557,784)**	(1,414,533)
	19,092,825	18,668,024

(a) Included in accounts and bills receivable are amounts due from CTC Group, associates of the Group and associates of CTC Group of RMB9,286 million (2018: RMB10,620 million) as at 31 December 2019. The amounts due from CTC Group, associates of the Group and associates of CTC Group are unsecured, interest-free and are expected to be recovered within one year.

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

	2019	2018
	RMB'000	*RMB'000*
Current	**844,908**	1,736,665
Within 1 year	**15,413,416**	14,839,588
After 1 year but less than 2 years	**2,038,087**	1,376,626
After 2 years but less than 3 years	**454,502**	435,583
After 3 years	**341,912**	279,562
	19,092,825	18,668,024

15. CONTRACT ASSETS, NET

	2019	2018
	RMB'000	*RMB'000*
Telecommunications infrastructure services	**14,540,160**	13,219,615
Business process outsourcing services	**671,738**	647,111
Applications, content and other services	**2,201,628**	2,028,796
	17,413,526	15,895,522
Less: allowance for credit losses	**(259,997)**	(230,764)
	17,153,529	15,664,758

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

16. PREPAYMENTS AND OTHER CURRENT ASSETS

	2019	2018
	RMB'000	*RMB'000*
Advances to staff	**97,340**	86,002
Amounts due from CTC Group, associates of the Group and associates of CTC Group	**1,960,684**	1,726,998
Prepayments in connection with construction work and equipment purchases	**2,665,403**	2,722,854
Prepaid expenses and deposits	**1,399,747**	1,397,136
Others	**2,648,594**	2,713,133
	8,771,768	8,646,123

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.

17. ACCOUNTS AND BILLS PAYABLE

Accounts and bills payable comprise:

	2019	2018
	RMB'000	*RMB'000*
Accounts payable	**28,773,659**	27,067,452
Bills payable	**1,900,960**	1,212,081
	30,674,619	28,279,533

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

	2019	2018
	RMB'000	*RMB'000*
Within 1 year	**28,596,463**	25,945,423
After 1 year but less than 2 years	**1,363,485**	1,651,120
After 2 years but less than 3 years	**433,210**	364,176
After 3 years	**281,461**	318,814
	30,674,619	28,279,533

Included in accounts and bills payable are amounts due to CTC Group, associates of the Group and associates of CTC Group of RMB1,447 million (2018: RMB1,118 million) as at 31 December 2019. 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.

18. CONTRACT LIABILITIES

	2019	2018
	RMB'000	*RMB'000*
Telecommunications infrastructure services	**7,286,501**	6,865,112
Other services	**2,800,601**	1,782,948
	10,087,102	8,648,060

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

19. EVENT AFTER THE REPORTING PERIOD

As most of the Group's operations are located in China, the outbreak of the 2019 Novel Coronavirus ("COVID-19") in China and the subsequent quarantine measures imposed by the Chinese government, the Group complied with government policy guidelines and stopped certain of its operation activities, which have had an impact on the Group's business to a certain extent. With the adjustment of government quarantine measures, the Group had resumed operation activities successively since March 2020.

The Group will keep continuous attention on the developments of and changes in this situation, timely assess and actively respond to its impacts on the financial position, operating results and other aspects of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

Overview

In 2019, the Group continued to adhere to its overall roadmap of "value-driven, seeking steady yet progressive growth and high-quality development" and pinpointed its new position of "New Generation Integrated Smart Service Provider" by adapting to the development trend of the industry. The Group's operations remained stable, with total revenues for the year amounted to RMB117,413 million, representing an increase of 10.6% as compared to 2018; profit attributable to the equity shareholders of the Company was RMB3,049 million, representing an increase of 5.1% as compared to RMB2,901 million in 2018, with basic earnings per share amounted to RMB0.440; free cash flow was RMB4,243 million, representing an increase of 17.4% as compared to RMB3,613 million in 2018. Cash conversion ratio was 157.8%, which continued to remain at a healthy and relatively high level.

Total Revenues

The Group's total revenues in 2019 amounted to RMB117,413 million, representing an increase of 10.6% as compared to 2018. From the business perspective, the revenue from telecommunications infrastructure ("TIS") services was RMB64,689 million, representing a year-on-year growth of 12.8%; the revenue from business process outsourcing ("BPO") services was RMB36,637 million, representing a year-on-year increase of 4.4%, of which the revenues from Core BPO services (i.e. excluding products distribution business) was RMB32,315 million, representing a year-on-year increase of 6.9%; and the revenue from applications, content and other ("ACO") services was RMB16,087 million, representing a year-on-year growth of 17.3%. Taking full advantage of the opportunities arising from the construction of Digital Economy and Smart Society in China, the Group improved its integrated smart service capabilities to drive rapid growth of businesses relating to digitalization construction, thus TIS services became the major driver of its overall revenue growth. Meanwhile, the Group consolidated the capabilities of research and development and products by increasing its investment in research and development, which in turn stimulated the growth of its businesses such as system integration and software development, making the ACO services continued to be the fastest growing business segment. The Group continued to take advantage of the opportunities arising from the OPEX business of domestic telecommunications operators, so the continuous growth of its Core BPO services provided important support to the overall growth of the Group. Construction, system integration and management of infrastructure for information technology (Network Maintenance) were the three largest contributors to the total incremental revenues of the Group.

From the market perspective, the incremental revenue from the domestic non-operator market surpassed those generated from the domestic telecommunications operator market in 2019, and the revenue from such market amounted to RMB41,727 million, representing a year-on-year increase of 25.2%, in which, revenue from the Core Businesses of such market amounted to RMB38,544 million, representing a rapid year-on-year increase of 29.8%. Revenue from the domestic telecommunications operator market amounted to RMB72,420 million, representing a year-on-year growth of 3.9%; and revenue from the overseas market amounted to RMB3,266 million, representing a year-on-year increase of 3.6%. In

2019, the Group continued to cultivate and upgrade various smart applications in key industries, focused on the development of integrated smart solutions and accelerated the deployment in fields such as Industrial Internet, emergency management and network information security, thus the businesses from the domestic non-operator market sustained a rapid growth and continued to contribute the largest incremental revenue to the Group. Meanwhile, the Group effectively implemented "Dual Growth Drivers+" (i.e. CAPEX and OPEX + Smart Applications) development strategy in the domestic telecommunications operator market. The Group not only fully exploited the traditional infrastructure businesses and continued to vigorously develop OPEX business, but also paid close attention to the demand for transformation and upgrade from domestic telecommunications operators to provide them with informatization support services, thus driving the further increase in contribution from the ACO services. All the above measures enabled the Group to realize steady development in the domestic telecommunications operator market.

The following table sets forth a breakdown of our total revenues for 2018 and 2019, together with their respective changes:

	2019	2018	
	RMB'000	*RMB'000*	Change
Telecommunications Infrastructure Services			
Design services	**10,239,043**	10,605,020	–3.5%
Construction services	**50,734,438**	42,862,805	18.4%
Project supervision and management services	**3,715,334**	3,891,611	–4.5%
	64,688,815	57,359,436	12.8%
Business Process Outsourcing Services			
Management of infrastructure for information technology (Network Maintenance)	**15,826,644**	14,793,165	7.0%
General facilities management (Property Management)	**6,168,074**	5,277,821	16.9%
Supply chain	**10,320,178**	10,148,648	1.7%
Sub-total of Core BPO Services	**32,314,896**	30,219,634	6.9%
Products distribution	**4,322,284**	4,883,188	–11.5%
	36,637,180	35,102,822	4.4%

	2019 *RMB'000*	2018 *RMB'000*	Change
Applications, Content and Other Services			
System integration	**9,108,195**	7,372,535	23.5%
Software development and system support	**2,856,311**	2,501,901	14.2%
Value added services	**2,035,012**	1,934,382	5.2%
Others	**2,087,576**	1,905,561	9.6%
	16,087,094	13,714,379	17.3%
Total	**117,413,089**	106,176,637	10.6%

Telecommunications Infrastructure Services

In 2019, the Group's revenue from TIS services amounted to RMB64,689 million, representing an increase of 12.8% as compared to RMB57,359 million in 2018. Of which, the construction services recorded revenue of RMB50,735 million, representing an increase of 18.4% as compared to 2018, being the largest contributor to the overall incremental revenues. TIS services was the primary source of revenue of the Group and accounted for 55.1% of our total revenues, representing an increase of 1.1 percentage points from 54.0% in 2018. As to the customer structure of the TIS services, the Group's TIS revenue from domestic telecommunications operators amounted to RMB41,153 million and accounted for 63.6% of the total TIS revenues, representing a decrease of 6.7 percentage points from last year. The aggregate TIS revenues from domestic non-operator customers and overseas customers amounted to RMB23,536 million and accounted for 36.4% of the total TIS revenues, representing an increase of 6.7 percentage points from last year, whereas the increase in proportion was driven by domestic non-operator customers.

In 2019, the Group's TIS revenue from domestic telecommunications operators increased by 2.1% over 2018. The Group took advantage of the opportunities arising from the gradually increasing investment in the construction of 5G network by the domestic telecommunications operators, coordinated the allocation of resources and improved delivery capability and service quality, and therefore maintained market share. However, the domestic telecommunications operators have not yet invested in 5G network in scale while adjusting their investment structure at the same time, the Group's TIS revenue from the domestic telecommunications operator customers maintained a steady growth. Meanwhile, the aggregate TIS revenues from domestic non-operator customers and overseas customers increased by 38.2% over 2018, in which the TIS revenue from domestic non-operator customers recorded a significant year-on-year growth of 42.8%, showing a remarkably enhanced growth momentum. With the Group's further penetration into key industries and the enhancement on its integrated smart service capabilities, the business development in the domestic non-operator market played an increasingly prominent role in driving the TIS business.

Business Process Outsourcing Services

In 2019, the Group's revenue from BPO services amounted to RMB36,637 million, representing an increase of 4.4% as compared to RMB35,103 million in 2018, accounting for 31.2% of our total revenues, a decrease of 1.9 percentage points as compared to 33.1% in 2018. Excluding the products distribution business, revenue from the Core BPO services amounted to RMB32,315 million, representing a year-on-year growth of 6.9%. In terms of customer structure of the BPO services, the BPO revenue from the domestic telecommunications operators amounted to RMB24,454 million, representing an increase of 4.0% over 2018, and accounting for 66.7% of the total revenues from the BPO services, representing a decrease of 0.3 percentage point over 2018. The aggregate BPO revenues from the domestic non-operator customers and overseas customers amounted to RMB12,183 million, representing an increase of 5.1% over 2018, accounted for 33.3% of the total revenues from the BPO services, representing an increase of 0.3 percentage point over 2018.

In 2019, among each of the business under the Group's BPO services, revenue from the Network Maintenance business maintained a favourable growth and amounted to RMB15,827 million, representing an increase of 7.0% as compared to 2018. The Network Maintenance business was the third largest contributor to the overall incremental revenues, which was primarily the result of the Group's focus on the OPEX business and continuous maintenance outsourcing demand of domestic telecommunications operators. Revenue from the Property Management business amounted to RMB6,168 million, representing an increase of 16.9% as compared to 2018, maintaining a favourable growth momentum. Revenue from the supply chain business amounted to RMB10,320 million, representing an increase of 1.7% as compared to 2018. The slowdown in growth of the supply chain business was mainly due to the adjustment of marketing strategy by domestic telecommunications operators which led to the subdued growth in marketing agent and after-sale businesses of the Group. Besides, revenue from the products distribution business amounted to RMB4,322 million, representing a decrease of 11.5% as compared to 2018, mainly due to the fact that the Group adhered to the principle of efficient development and continued to proactively contain products distribution business with relatively low efficiency.

Applications, Content and Other Services

In 2019, the Group's revenue from ACO services amounted to RMB16,087 million, representing an increase of 17.3% as compared to RMB13,715 million in 2018, making it the fastest-growing business segment for the year. Of which, the system integration business recorded revenue of RMB9,108 million, representing an increase of 23.5% as compared to 2018, being the second largest contributor to the overall incremental revenues. The revenue from ACO services accounted for 13.7% of the Group's total revenues, representing an increase of 0.8 percentage point from 12.9% in 2018, and such proportion has been constantly growing in the past five consecutive years. In terms of the customer structure of ACO services, the Group's ACO revenue from domestic telecommunications operators amounted to RMB6,813 million and accounted for 42.4% of the total ACO revenues, representing a decrease of 0.4 percentage point from the corresponding period of last year. Aggregate ACO revenues from domestic non-operator customers and overseas customers amounted to RMB9,274 million, accounting for 57.6% of the total ACO revenues, representing an increase of 0.4 percentage point from the corresponding period of last year, which was driven by the domestic non-operator customers.

In 2019, the development of 5G, Cloud, IoT, Big Data, and Artificial Intelligence further integrated with various industries. The Group took full advantage of such window of opportunities, accelerated deployment in industries to improve its capability to create digital assets. The Group proactively adapted to the national strategies, including “Cyberpower”, “Digital China” and “Smart Society”, as well as the “Belt and Road” Initiative, and the aggregate ACO revenues from the domestic non-operator customers and overseas customers maintained a rapid growth of 18.2% over 2018. The domestic non-operator customers were the key development focus for the Group, and both the revenue and incremental revenue contribution of such customers from ACO services have surpassed those of the domestic telecommunications operators. The Group’s ACO revenue from domestic telecommunications operators increased by 16.2% over 2018, continuing to maintain a rapid growth.

Cost of Revenues

The Group’s cost of revenues in 2019 amounted to RMB103,726 million, representing an increase of 11.2% from 2018 and accounting for 88.3% of the total revenues.

The following table sets out a breakdown of the Group’s cost of revenues in 2018 and 2019 and their respective changes:

	2019 *RMB’000*	2018 *RMB’000*	Change
Direct personnel costs	**9,111,016**	8,747,317	4.2%
Depreciation and amortization	**756,976**	466,096	62.4%
Materials costs	**12,838,003**	9,783,239	31.2%
Direct costs of products distribution	**4,167,579**	4,629,177	–10.0%
Subcontracting charges	**64,462,508**	57,555,216	12.0%
Lease charges and others	**12,390,048**	12,110,626	2.3%
Total cost of revenues	**103,726,130**	93,291,671	11.2%

Direct Personnel Costs

In 2019, direct personnel costs amounted to RMB9,111 million, representing an increase of 4.2% from RMB8,748 million in 2018. Direct personnel costs accounted for 7.8% of our total revenues, representing a decrease of 0.5 percentage point from 2018. The Group kept a reasonable control over its total headcount and continued to optimize the employee structure to strictly control staff costs. With the growth in its business volume, the Group made use of outsourcing resources reasonably to enhance operating efficiency.

Depreciation and Amortisation

In 2019, depreciation and amortisation amounted to RMB757 million, representing an increase of 62.4% from RMB466 million in 2018. Depreciation and amortisation cost accounted for 0.6% of our total revenues. Significant increase in depreciation and amortisation was due to the application of IFRS 16 (Leases) that certain costs originally credited to lease charges was credited to depreciation and amortisation.

Materials Costs

In 2019, materials costs amounted to RMB12,838 million, representing an increase of 31.2% as compared to RMB9,783 million in 2018. Materials costs accounted for 10.9% of our total revenues, representing an increase of 1.7 percentage points from 2018. The increase in materials costs was mainly attributable to the increase in relevant materials costs caused by the growth of our construction and system integration businesses.

Direct Costs of Products Distribution

In 2019, the direct costs of products distribution amounted to RMB4,168 million, representing a decrease of 10.0% as compared to RMB4,629 million in 2018. Direct costs of products distribution accounted for 3.5% of our total revenues, representing a decrease of 0.9 percentage point over 2018. The decrease in the direct costs of products distribution was mainly because the Group proactively contained certain relatively low efficiency products distribution business.

Subcontracting Charges

In 2019, subcontracting charges were RMB64,462 million, representing an increase of 12.0% as compared to RMB57,555 million in 2018. Subcontracting charges accounted for 54.9% of our total revenues, representing an increase of 0.7 percentage point over 2018. In 2019, the growth of subcontracting charges slowed down significantly as compared to 2018[17]. The Group continued to transform to technology-intensive operation model and focus on high-end businesses, and promoted subcontracting of low-end businesses. In addition, during the reporting period, the Group undertook more turnkey projects in the domestic non-operator market, which have more needs for subcontracting for certain professional work. Business transformation of the Group instigated the company to have stricter control over the subcontracting costs. Through analysis of data on subcontractors, the Group intensified management and supervision of subcontractors throughout the whole process.

[17] In 2018, the Group's subcontracting charges were RMB57,555 million, representing an increase of 22.8% year-on-year, and the proportion to our total revenues increased by 4.7 percentage points over 2017.

Lease Charges and Others

In 2019, lease charges and others were RMB12,390 million, representing an increase of 2.3% over RMB12,111 million in 2018. Lease charges and others accounted for 10.6% of our total revenues, representing a decrease of 0.8 percentage point over 2018. The decrease in proportion over total revenues was mainly due to the application of IFRS 16 (Leases) that certain costs from lease charges were credited to depreciation and amortisation and finance costs.

Gross Profit

In 2019, the Group recorded gross profit of RMB13,687 million, representing an increase of 6.2% over RMB12,885 million in 2018. The Group's gross profit margin in 2019 was 11.7%, representing a decrease of 0.4 percentage point from 12.1% in 2018. Comparing to 2018, the decrease in gross profit margin in 2019 narrowed[18]. In 2019, the Group continued to face downward pressure on gross profit margin due to various factors, including the general decrease in unit service prices of businesses from domestic telecommunications operators and the increase in certain costs that were characterized as fixed in nature, such as labour-related costs. However, the Group continued to optimize its business and customer structure in 2019, and revenue from the Core Businesses as a proportion to our total revenues was 96.3%, representing an increase of 0.9 percentage point as compared to the previous year. In addition, business value from the domestic non-operator market manifested and the gross profit contribution from such market increased during the year as a result of the synergies achieved through the development of smart businesses in such market and the related businesses growth led by the smart businesses. The above factors alleviated the impacts on gross profit margin brought by the factors of external environment to a certain extent. Through various measures such as transformation and upgrade as well as the synergistic use of resources, the Group will strive to improve its gross profit margin by enhancing its service value and competitiveness.

Selling, General and Administrative Expenses

In 2019, the selling, general and administrative expenses of the Group were RMB11,494 million, representing an increase of 8.3% as compared to RMB10,611 million in 2018. The selling, general and administrative expenses accounted for 9.8% of our total revenues, representing a decrease of 0.2 percentage point from 2018. Of which, the research and development costs were RMB3,276 million, representing an increase of 17.1% as compared to RMB2,798 million in 2018, and accounted for 2.8% of our total revenues, representing an increase of 0.2 percentage point from 2018. The main reasons for the increase in selling, general and administrative expenses were the increase in labour costs characterized as fixed in nature and the proactive increase in investment on research and development from the Group during the year.

18 In 2018, the Group's gross profit margin was 12.1%, representing a decrease of 0.8 percentage point as compared to 2017.

Finance Costs

In 2019, the finance costs of the Group were RMB69 million, representing a significant increase of 173.6% as compared to RMB25 million in 2018. It was mainly due to additional interest expenses on lease liabilities of RMB36 million resulting from the application of IFRS 16 (Leases).

Income Tax

In 2019, the income tax of the Group was RMB464 million and its effective tax rate was 13.3%, representing a decrease of 1.2 percentage points from 14.5% in 2018. 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 2019, certain subsidiaries of the Group that fall under the scope of new and high-technology enterprises were entitled to a preferential income tax rate of 15%. Certain enterprises in Western China benefited from the preferential policies for Western Development Program. Apart from these subsidiaries, the Company and other domestic subsidiaries of the Group were mainly subject to an income tax rate of 25%. The overseas subsidiaries of the Group were subject to different tax rates in various countries.

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

In 2019, profit attributable to equity shareholders of the Company was RMB3,049 million, representing an increase of 5.1% over RMB2,901 million in 2018. During the year, in order to reinforce its operation fundamentals, the Group made provision based on a prudent principle for two contractual disputes occurred in previous years according to the progress of the events, which impacted profit attributable to equity shareholders of the Company by RMB86 million. Profit attributable to equity shareholders of the Company accounted for 2.6% of our total revenues, which slightly decreased as compared to 2018. Basic earnings per share of the Company were RMB0.440 (2018: RMB0.419).

Capital Expenditure

The Group implemented stringent budget management over capital expenditure, and made adjustments according to changes in market condition. In 2019, capital expenditure amounted to RMB946 million, representing an increase of 14.9% over RMB824 million in 2018. The capital expenditure in 2019 accounted for 0.8% of the total revenues, which remained at approximately the same level as compared to 2018. The capital expenditure of the Group included the purchases of production facilities and equipment, machinery and meters, plant and office buildings, intangible assets and other operating assets.

Cash Flow

The Group recorded a net cash inflow of RMB3,115 million in 2019, representing an increase of RMB291 million from RMB2,824 million in 2018. Such change was mainly due to the increase of cash generated from operating activities during the reporting period. As at the end of 2019, the balance of cash and cash equivalents of the Group amounted to RMB19,221 million, of which 95.8% was denominated in Renminbi.

The following table sets out our cash flow positions in 2018 and 2019, respectively:

	2019	2018
	RMB'000	*RMB'000*
Net cash generated from operating activities	**4,811,651**	4,260,971
Net cash used in investing activities	**(311,316)**	(550,886)
Net cash used in financing activities	**(1,385,133)**	(885,710)
Net increase in cash and cash equivalents	**3,115,202**	2,824,375

In 2019, net cash generated from operating activities was RMB4,811 million, representing an increase of RMB550 million from RMB4,261 million in 2018. Other than the changes due to the classification of cash outflow in certain leasing activities resulting from the adoption of IFRS 16 (Leases), the increase in operating cash flow was mainly due to the fact that the Group persisted in value-driven principle and put more efforts on management of cash flow, accounts receivable and accounts payable with effective clearing and settlement of accounts receivable while expanding business.

In 2019, net cash used in investing activities was RMB311 million, representing a decrease of RMB240 million from RMB551 million in 2018. The decrease was mainly attributable to the decrease in the fund for purchasing short-term wealth management products and structured deposits at banks after considering the Group's overall funding arrangement.

In 2019, net cash used in financing activities was RMB1,385 million, representing an increase of RMB499 million from RMB886 million in 2018. The increase was mainly due to an additional repayment of principal of lease liabilities of RMB350 million resulting from the application of IFRS 16 (Leases).

Working Capital

As at the end of 2019, the Group's working capital (i.e. current assets net of current liabilities) was RMB22,569 million, representing an increase of RMB786 million from RMB21,783 million at the end of 2018. The increase in working capital was mainly due to the expansion of the Group's business and effective fund management which led to an increase in operating cash flow and current assets.

Assets and Liabilities

The Group continued to maintain its solid financial position. As at the end of 2019, the Group's total assets was RMB87,541 million, representing an increase of RMB6,615 million from RMB80,926 million in 2018. Total liabilities was RMB52,503 million, representing an increase of RMB4,406 million from RMB48,097 million in 2018. The liabilities-to-assets ratio was 60.0%, which was slightly higher than 59.4% at the end of 2018.

As at the end of 2019, right-of-use assets amounting to RMB1,896 million were included in non-current assets upon the application of IFRS 16 (Leases) by the Group, among which, leased buildings, motor vehicles and other equipment amounted to RMB1,024 million and leasehold lands amounted to RMB872 million. As at the end of 2018, leasehold lands amounting to RMB723 million were classified as lease prepayments.

As at the end of 2019, current portion of lease liabilities of RMB343 million and lease liabilities of RMB690 million were included in current liabilities and non-current liabilities, respectively, upon the application of IFRS 16 (Leases) by the Group. According to the liquidity, lease liabilities were classified as current and non-current.

Indebtedness

As at the end of 2019, total indebtedness of the Group was RMB511 million, representing an increase of RMB40 million from RMB471 million as at the end of 2018. Indebtedness of the Group was mainly denominated in US dollar, of which Renminbi loan accounted for 2.6% and US dollar loan accounted for 68.6%; and of which 24.9% was the loans with a fixed interest rate and 75.1% was those with a floating interest rate.

As at the end of 2019, our gearing ratio[19] was 1.5%, which remained at approximately the same level of 1.4% as at the end of 2018.

[19] 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 2019:

	Total	2020	2021	2022	2023	2024 and after
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Short-term debt	511,234	511,234	–	–	–	–
Long-term debt	–	–	–	–	–	–
Lease commitments	1,519,118	601,725	336,263	163,993	131,018	286,119
Contracted for but not provided capital commitments	543,676	543,676	–	–	–	–
Total of contractual obligations	2,574,028	1,656,635	336,263	163,993	131,018	286,119

Exchange Rate

Most of the Group's revenues and expenses are denominated in Renminbi. As at the end of 2019, the balance of the Group's cash and cash equivalents in foreign currencies accounted for 4.2% of the balance of its total cash and cash equivalents, of which 2.3% and 0.3% 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 2019, 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 2019.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

As a joint stock limited company incorporated in the PRC with limited liability and listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company has not only complied with the relevant provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") but also has abided by the PRC Company Law and the applicable laws, regulations and regulatory requirements of Hong Kong and the PRC as the basic guidelines for the Company's corporate governance. Throughout the year ended 31 December 2019, 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 Monday, 15 June 2020, from Saturday, 16 May 2020 to Monday, 15 June 2020 (both days inclusive), during which period no transfer of H shares will be registered. In order to attend the Annual General Meeting, all transfer documents, accompanied by the relevant share certificates, must be lodged for registration with Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, not later than 4:30 p.m. on Friday, 15 May 2020. H share shareholders of the Company who are registered on the register of members held by Computershare Hong Kong Investor Services Limited on Monday, 15 June 2020 are entitled to attend the Annual General Meeting.

2. Proposed Final Dividend and Special Dividend

The Board proposes a final dividend of RMB0.1321 per share and a special dividend of RMB0.0264 per share, and the total dividend is RMB0.1585 per share (pre-tax) for the year ended 31 December 2019. 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, 8 July 2020. The register of members will be closed from Friday, 3 July 2020 to Wednesday, 8 July 2020 (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, 2 July 2020.

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 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 at 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, 14 August 2020 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, 8 July 2020 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 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 the 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 2019 will be dispatched to shareholders and made available on the HKExnews website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (www.chinaccs.com.hk) in due course.

FORWARD-LOOKING STATEMENTS

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

Beijing, PRC
31 March 2020

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