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中国通信服务
CHINA COMSERVICE

中國通信服務股份有限公司

CHINA COMMUNICATIONS SERVICES CORPORATION LIMITED

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

(Stock Code: 552)

**ANNOUNCEMENT OF INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2021**

HIGHLIGHTS

- The Group's results achieved double-digit growth by seizing the opportunities arising from economic recovery in the first half of the year, New Infrastructure and digital transformation in society.
 - Total revenues were RMB64,099 million, up by 19.1%.
 - Profit attributable to equity shareholders of the Company was RMB1,811 million, up by 14.1%.
- The Group's revenue from the domestic non-operator market maintained a strong growth momentum with a 34.0% increase, and such market achieved development efficiency enhancement.
- The Group's revenue from the domestic telecommunications operator market resumed growth and grew by 9.5%.
- The Group continued to invest in technological innovation as well as research and development to drive the rapid growth of its businesses, including the applications, content and other services.
- The Group has successfully introduced strategic shareholders and continued to promote comprehensive enterprise reform and high-quality development.
- The Group will continue to leverage its strategic advantages as a "New Generation Integrated Smart Service Provider" to grasp the vast opportunities brought by the digital economy.

CHAIRMAN'S STATEMENT

Dear Shareholders,

In the first half of 2021, the Group seized the favourable opportunities arising from significant strategic achievements in pandemic prevention and control initiatives of China. While further advancing the resumption of work and production, the Group continued to adhere to the overall roadmap of “value-driven, seeking steady yet progressive growth and high-quality development”, as well as focusing on the important opportunities brought by New Infrastructure, digital economy and smart society. By leveraging the edges as a “New Generation Integrated Smart Service Provider”, the Group has accelerated market expansion and strategic deployment, thus achieving favourable operating results. Among which, the domestic non-telecom operator (“domestic non-operator”) market achieved enhancement in both development speed and efficiency, domestic telecommunications operator market resumed growth, whilst the corporate technological innovation capabilities were further elevated. Meanwhile, the Group expedited the pace of State-owned Enterprise Reform and achieved significant breakthroughs in introducing strategic investors, thereby adding new impetus to the subsequent corporate development.

Operating Performance

In the first half of 2021, the Group's total revenues were RMB64,099 million, representing a year-on-year increase of 19.1%. Cost of revenues was RMB57,266 million, representing a year-on-year increase of 19.5%. Gross profit was RMB6,833 million, representing a year-on-year increase of 15.8%. Gross profit margin was 10.7%, representing a year-on-year decrease of 0.3 percentage point. Having considered the needs for both the pandemic prevention and control and its business development, the Group applied digital measures to conduct external marketing and optimize internal operation efficiency. Therefore, selling, general and administrative expenses were RMB5,497 million, accounting for 8.6% of the total revenues, representing a year-on-year decrease of 0.3 percentage point. Profit attributable to equity shareholders of the Company was RMB1,811 million, representing a year-on-year increase of 14.1%. Net profit margin was 2.8%, representing a year-on-year decrease of 0.1 percentage point. Basic earnings per share were RMB0.262, representing a year-on-year increase of 14.1%. Free cash flow¹ was RMB-1,515 million, indicating a year-on-year improvement.

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

Market Expansion

In the first half of 2021, domestic non-operator customers, being the Group's largest customer group², sustained a strong growth momentum and was the leading growth driver of the Group's results. Revenue from such market was RMB29,270 million, representing a year-on-year robust growth of 34.0%, and accounted for 45.7% of the total revenues, representing an increase of 5.1 percentage points year-on-year. The rapid growth of the domestic non-operator market effectively safeguarded the overall sound development of the Group. In the first half of 2021, the Group further stepped up investment in technological research and development as well as iterative development of smart products, underscoring the advantages of the "Consultant + Staff + Housekeeper"³ service model and the "Platform + Software + Service"⁴ comprehensive capabilities. The Group focused on key sectors such as government, electricity, transportation and construction, and endeavoured to expand key projects such as smart industrial application, dedicated network construction, data centers, urban rail transit, Industrial Internet, etc. The amount of new contracts in domestic non-operator market increased by approximately 20% year-on-year, indicating sufficient momentum for the Group's subsequent development in such market.

In the domestic telecommunications operator market, the Group seized the market opportunities arising from 5G, data centers, cloud-network integration and network information security. By persisting in "CAPEX and OPEX + Smart Applications"⁵ development strategy and supporting customers' transformation with the Group's multi-scenario informatization services, the revenue from domestic telecommunications operator market resumed growth and recorded RMB33,452 million in the first half of 2021, representing a year-on-year increase of 9.5% and accounting for 52.2% of the total revenues. Among which, revenue from China Telecom was RMB19,121 million, representing a year-on-year increase of 11.4% and accounting for 29.8% of the total revenues; revenue from domestic telecommunications operator customers other than China Telecom was RMB14,331 million, representing a year-on-year increase of 7.1% and accounting for 22.4% of the total revenues.

² Customers here are classified into four categories, including the domestic non-operator customers, China Telecom, other domestic telecom operator customers and overseas customers.

³ "Consultant + Staff + Housekeeper" service model is a unique business model adopted by the Group in recent years. "Consultant" means that the Group acts as the "Consultant" to help its customers through leveraging its talents and product advantages, so as to turn customers' needs into feasible solutions or projects. "Staff" means that the Group, as appointed by its customers, assists them in the capacity of "Staff" in coordinating other stakeholders of the project, so as to promote the smooth implementation of the project and ensure that its customers' expectation could be achieved. "Housekeeper" means the Group provides full life cycle management and accompanying service of the relevant business and creates values for customers.

⁴ "Platform + Software + Service" capabilities: utilize core foundation platforms, including Cloud and IoT, focus on the various smart applications for customer scenarios and the integrated service capabilities covering consultation and planning, project construction, operation and maintenance, to provide customers with customized integrated solutions.

⁵ "CAPEX and OPEX + Smart Applications": CAPEX refers to the capital expenditure of domestic telecommunications operators while OPEX refers to the operating expenditure of domestic telecommunications operators.

Due to the continuous pandemic outbreak worldwide, the commencement and work progress of the Group's certain overseas projects were behind schedule. Revenue from overseas market was RMB1,377 million, representing a year-on-year decrease of 4.2% and accounting for 2.1% of the total revenues. Though the development of its overseas businesses was affected to a greater extent by the pandemic, the Group adopted various digital "remote" and "online" measures to conduct marketing activities for overseas projects and developed major general contracting projects in regions such as Southeast Asia, the Middle East and Africa. Once the overseas pandemic situation starts to improve, the Group will gradually push ahead with the commencement of projects in reserve.

Business Development

In the first half of 2021, the Group's revenue from telecommunications infrastructure ("TIS") services was RMB34,547 million, representing a year-on-year increase of 19.0% and accounting for 53.9% of the total revenues. Among which, TIS revenue from domestic non-operator customers was RMB15,849 million, representing a rapid year-on-year growth of 41.7%. TIS revenue from domestic telecommunications operator customers was RMB17,583 million, representing a year-on-year growth of 5.0%. TIS revenue from overseas customers was RMB1,115 million, representing a year-on-year growth of 0.6%. Through innovation and transformation, along with resolute efforts to develop the domestic non-operator market, the Group has developed a new growth driver for the TIS business.

Revenue from business process outsourcing ("BPO") services was RMB19,787 million, representing a year-on-year increase of 16.7% and accounting for 30.9% of the total revenues. The Group continued to further develop the OPEX business of domestic telecommunications operators by supporting the maintenance of new information infrastructure network with 5G and cloud as the core technologies, and revenue from the network maintenance business increased by 8.1% year-on-year. When the pandemic situation was brought under effective control in China, the Group seized the opportunities arising from modern supply chain industry development and strengthened market expansion. Revenue from the supply chain business experienced rapid growth of 29.1% year-on-year, accounting for 51.3% of the increment in revenue from the BPO services. Revenue from the general facilities management (property management) business increased by 16.8% year-on-year. Revenue from the products distribution business increased by 16.9% year-on-year, accounting for 3.3% of the total revenues, representing a year-on-year decrease of 0.1 percentage point.

The Group has made notable achievements in business development through technological innovation. Revenue from applications, content and other ("ACO") services was RMB9,765 million, representing a rapid year-on-year growth of 24.6%, and the contribution to the total revenues was 15.2%, representing an increase of 0.6 percentage point compared with the same period of last year. By leveraging its advantages of software development capability and talent, the Group seized the opportunities arising from digital transformation of society and its year-on-year revenue growth from ACO Major businesses⁶ was 2.1 percentage points higher than that of the national software business⁷. Among

⁶ ACO Major businesses include system integration, software development and system support as well as value-added services.

⁷ In the first half of 2021, the national software business revenue increased by 23.2% year-on-year. (Data source: Ministry of Industry and Information Technology of the PRC).

which, revenue from the system integration business increased by 27.0% year-on-year, while revenue from the businesses of software development and system support as well as value-added service also increased by 22.8% and 19.8% year-on-year respectively.

Technological Innovation

The Group has pressed on with the technological innovation and continued to step up investment in research and development. Through the adoption of the “Synergistic + Dispersed” mechanism for research and development, the Group has accelerated the construction and implementation of core platforms and products, which facilitated business expansion and its own digital transformation. The Group has garnered resources to forge core platforms in the fields of network security, Internet of Things (“IoT”) and innovation middle platform. Among which, the self-developed network security core platform has been adopted in multiple projects by operators and customers in key industry sectors such as governments. Relevant products and services have been shortlisted into the Leader Matrix of “AQNIU”⁸, and the Group’s industrial presence and influence in the network security sector are further elevated. The innovation middle platform and IoT platform self-developed by the Group have been officially deployed among subsidiaries at all levels, thus supporting the Group’s cloud migration of maintenance business digitalization and research and development results, as well as the continuous innovation of service model and enhancement in operation efficiency. The IoT platform of the Group was selected as one of the IoT Demonstration Projects for the year of 2020–2021 by the Ministry of Industry and Information Technology, and was shortlisted in the “2021 China AIoT Industry Panoramic Map Report”. Meanwhile, the Group has kept abreast of the latest development of new technologies, undertook in-depth research in the field of “Carbon Peak, Carbon Neutrality” and supported businesses such as the construction of data centers and 5G network to be green, energy-saving and environmental-friendly.

State-owned Enterprise Reform

The Group has been proactively pursuing enterprise reform and has been included in the list of “Double-hundred Enterprise” for State-owned Enterprise Reform since 2018. Confronting a new development stage, the Group has actively sought strategic investors with strategic synergy and business complementarity in the past three years in order to formulate new development landscape. Through the coordination with and the support by its controlling shareholder, China Telecommunications Corporation, the Group achieved significant breakthroughs in the first half of 2021.

⁸ “AQNIU” is an influential third-party professional media and flagship think-tank in the domestic cybersecurity sector.

In June 2021, the Group received a notification issued by China Telecommunications Corporation in relation to the gratuitous transfer of its 166,000,000 domestic shares of the Group (representing 2.40% of the total issued share capital of the Group) to State Grid Information & Telecommunication Technology Group Co., Ltd. (“State Grid ITT Group”). Upon completion of the relevant procedures of the share transfer, State Grid ITT Group will officially become a strategic shareholder of the Group. The Group has also entered into a Digital New Infrastructure Strategic Cooperation Framework Agreement with State Grid ITT Group.

The Group holds the view that the introduction of State Grid ITT Group as a strategic shareholder of the Company and entering into the Strategic Cooperation Agreement are beneficial to both parties by capitalizing on each other’s advantages and resources as well as strengthening the strategic cooperation in the fields of informatization and intelligentization of the power industry, thus promoting the Group’s development in vertical industries including power industry and new businesses, along with accelerating the Group’s development in the domestic non-operator market. The introduction of a strategic shareholder could help the Company in optimizing the governance structure and raising the standard of corporate governance. In addition, the Strategic Cooperation Agreement is beneficial to the cultivation and development of the long-term strategic cooperative relationship, active exploration of effective cooperation mechanism, improvement of regular communication and cooperation mechanism between both parties, deepening in the cooperation, further promotion of the sustained, healthy and rapid development of both parties, and thus creating greater value for the shareholders.

Besides, the wholly-owned subsidiary of the Group, China Comservice Supply Chain Management Company Ltd. (“Supply Chain Company”), introduced four strategic investors⁹ successfully in June 2021 and the strategic investors have injected a total of RMB900 million into the Supply Chain Company. After the completion of the capital injection, the aggregate equity interest held by strategic investors is approximately 26.015% of the enlarged share capital in the Supply Chain Company. The Supply Chain Company is the only integrated logistics enterprise in the domestic telecommunications industry with a “5A” qualification and takes the lead in promoting the development of supply chain business of the Group. The introduction of strategic investors with synergistic effect by the Supply Chain Company and building the Supply Chain Company into a leading enterprise of smart supply chain integrated services in the domestic ICT industry are beneficial to the strengthening of the Group’s capabilities for professional operations and competitiveness in the supply chain business and fostering the Group’s capabilities in general contracting for digital infrastructure. It could also facilitate the strategic deployment of the Group as a “New Generation Integrated Smart Service Provider”, thereby achieving high-quality corporate development.

⁹ The four strategic investors are COSCO SHIPPING (Tianjin) Company Limited, Zhilian Shenzhen International Smart Logistics (Shenzhen) Co., Ltd., Guoxin Shuangbai No. 1 (Hangzhou) Equity Investment Partnership (Limited Partnership) and Gongqingcheng Orient Securities Sucheng Investment Partnership (Limited Partnership).

Corporate Governance

The Group attaches great importance to corporate governance and its high standard of corporate governance is well recognized by the capital market. In the first half of 2021, the Group ranked the 87th in *Fortune China's* “2021 Fortune China 500” and ranked the 1,337th in *Forbes' “2021 Forbes Global 2000”*. The Group was awarded the accolades of “Asia’s Icon on ESG”, “ESG Influencer” and “Asian Corporate Director” in the “16th Asian ESG Award” held by *Corporate Governance Asia*, and was honored with “Honored Company” in “2021 All-Asia Executive Team” rankings by *Institutional Investor* again.

Social Responsibilities

The Group has high regard for fulfilling its social responsibilities. In the first half of 2021, the Group hastened to the frontline of pandemic combat and emergency rescue, contributing great effort to ensure smooth communication network. The Group provided emergency communication construction for the Huangzhuang Apartment Quarantine Center in Zhengding, Hebei and the explosion accident in Shiyan, Hubei.

In July 2021, Henan experienced extremely rare and severe rainstorm, serious flood overflowing in various places led to large area of traffic congestion and disrupted communication network. The Group responded promptly and insisted on fighting on the front line of affected sites, and adopted a number of high-tech measures for emergency repair to ensure the safety and smooth operation of the communication network in the affected areas. At the same time, leveraging the advantages of network-wide warehouse resource distribution as well as coordinating with national and social efforts, the Group delivered emergency rescue equipment and supplies to the disaster-stricken sites within eight hours, efficiently linking up the “lifeline” for disaster relief supplies. Such deeds were reported by Xinhua News Agency and other official media.

As Typhoon “In-fa” caused serious damage to communication facilities, the Group immediately joined the frontline rescue tasks, quickly carried out inspection, troubleshooting and equipment repair procedures, and ensured smooth operation of communication network during the typhoon, shouldering the responsibilities as a state-owned enterprise.

Outlook

2021 marks the first year of the “14th Five-Year Plan” and China will enter into a new chapter of development. As a “New Generation Integrated Smart Service Provider”, the Group will seize the opportunities brought by the robust development of digital economy, acceleration of digital transformation in society and the fulfillment of national objectives such as “Carbon Peak, Carbon Neutrality”, on the condition that sound pandemic prevention and control measures are in place. The Group will increase investment in research and development in the relevant areas, leverage the advantages as a “New Generation Integration Smart Service Provider”, and will continue to promote its high-quality development by implementing the strategy of both organic growth and external development.

In the domestic non-operator market, the Group will penetrate key sectors, including government, electricity, transportation, construction and Internet, as well as key regions, namely the Yangtze River Delta, the Guangdong-Hong Kong-Macao Area and the Beijing-Tianjin-Hebei Area, and will continue to develop New Infrastructure businesses represented by 5G, data centers, IoT and Industrial Internet by leveraging its smart product portfolio. Riding on years of established relationship with telecommunications operators, the Group will capitalize on the synergistic advantages to jointly provide more premium services for customers in society. The Group will continue to expand the revenue scale of the domestic non-operator market and enhance its development quality, so as to maintain sufficient and stable momentum for the corporate development in the future.

In the domestic telecommunications operator market, the Group will persist in the “CAPEX and OPEX + Smart Applications” development strategy and seize the opportunities arising from 5G, big data, cloud-network integration, etc. The Group will endeavour to develop the traditionally advantageous businesses by assisting customers to construct the new network infrastructure facilities featuring cloud-network integration. The Group will also provide customers with “Cloud + 5G + DICT” multi-scenario products and services to meet customers’ business development needs and their digital transformation requirements. By virtue of years of experience and adopting the motto of “the highest excellence is like that of water” in its corporate culture, the Group will identify and evaluate new customer demand on service quality in the new era and promptly respond to their new requirements, with an aim of demonstrating its value, integrating itself into the industry’s ecosystem, and maintaining the Group’s fundamentals for stable operation.

In the overseas market, the Group is fully aware that the pandemic prevention and control situation overseas is severe, complex as well as long-standing, and so it will build the baseline of overseas pandemic risk prevention in a consistent and careful manner. Meanwhile, the Group will seize opportunities brought by the advancement of “Belt and Road” and the “new development paradigm of dual-circulation with domestic and international development reinforcing each other”. While focusing on the implementation of existing major general contracting projects, the Group will leverage the “EPC +F+I+O+S”¹⁰ model to seek further breakthroughs in the fields of electricity, transportation, smart city and operators’ OPEX business. The Group will continue to strengthen cooperation with domestic telecommunications operators and those “Go Abroad” Chinese enterprises, leverage complementary advantages, and constantly develop new income sources in overseas markets. The Group will adopt a variety of financial and IT measures to forecast and prevent business risks overseas.

The Group will utilize digital transformation as an entry point, and launch the digital and smart cloud-based procurement platform to achieve the transparent operation in respect of subcontractor selection and material procurement. The Group will enhance the research and evaluation of customer demand on service quality in the new era, optimize the delivery model, improve customer satisfaction level and continue to enhance business value and overall profitability.

¹⁰ “EPC+F+I+O+S”: EPC (Engineering, Procurement, Construction)+ Finance + Investment + Operation + Solution

Capitalizing on the opportunity of the introduction of strategic shareholders, the Group will utilize industry capital as the growth multiplier for corporate development, and start a new phase of its sustainable and healthy development. The Group will keep an open mind and continue to seek strategic investors with synergy that could support its deepened reform, innovation and transformation as well as sustainable development, thus creating greater value for shareholders, customers and employees.

Last but not least, on behalf of the Board, I would like to express my sincere gratitude to our shareholders, customers and all sectors of society for their long-term attention and support, and to all of our employees for their continued dedication and hard work.

Zhang Zhiyong

Chairman

Beijing, PRC

30 August 2021

GROUP RESULTS

China Communications Services Corporation Limited (the “Company”) is pleased to announce the consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2021 extracted from the unaudited financial information of the Group as set out in its 2021 Interim Report.

Condensed Consolidated Statement of Profit or Loss

For the six months ended 30 June 2021

		Six months ended 30 June	
		2021	2020
	Notes	RMB'000	RMB'000
		(unaudited)	(unaudited)
Revenues	4	64,099,151	53,834,218
Cost of revenues	5	<u>(57,266,212)</u>	<u>(47,931,179)</u>
Gross Profit		6,832,939	5,903,039
Other income	6	842,304	742,241
Selling, general and administrative expenses		(5,496,844)	(4,785,261)
Other expenses		(64,766)	(63,108)
Finance costs	7	(33,761)	(31,524)
Share of profits of associates and joint ventures		<u>34,370</u>	<u>62,464</u>
Profit before tax	8	2,114,242	1,827,851
Income tax	9	<u>(291,795)</u>	<u>(239,235)</u>
Profit for the period		<u>1,822,447</u>	<u>1,588,616</u>
Attributable to:			
Equity shareholders of the Company		1,811,462	1,588,031
Non-controlling interests		<u>10,985</u>	<u>585</u>
Profit for the period		<u>1,822,447</u>	<u>1,588,616</u>
Basic/diluted earnings per share (RMB)	12	<u>0.262</u>	<u>0.229</u>

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2021

		Six months ended 30 June	
		2021	2020
	Notes	RMB'000	RMB'000
		(unaudited)	(unaudited)
Profit for the period		<u>1,822,447</u>	<u>1,588,616</u>
Other comprehensive expense (after tax)			
Item that will not be reclassified to profit or loss (after tax):			
Equity instruments at fair value through other comprehensive income:			
Net movements in the fair value reserve	10	(158,839)	(322,849)
Item that may be subsequently reclassified to profit or loss (after tax):			
Exchange differences on translation of financial statements of subsidiaries outside Mainland China		<u>(7,444)</u>	<u>(15,353)</u>
		<u>(166,283)</u>	<u>(338,202)</u>
Total comprehensive income for the period		<u><u>1,656,164</u></u>	<u><u>1,250,414</u></u>
Attributable to:			
Equity shareholders of the Company		1,645,209	1,249,872
Non-controlling interests		<u>10,955</u>	<u>542</u>
Total comprehensive income for the period		<u><u>1,656,164</u></u>	<u><u>1,250,414</u></u>

Condensed Consolidated Statement of Financial Position

At 30 June 2021

	<i>Notes</i>	30 June 2021 RMB'000 (unaudited)	31 December 2020 RMB'000 (audited)
Non-current assets			
Property, plant and equipment, net		7,370,552	4,330,733
Right-of-use assets		2,473,710	2,046,005
Investment properties		534,334	550,022
Construction in progress		311,802	3,468,094
Goodwill		103,005	103,005
Intangible assets		575,124	535,710
Interests in associates and joint ventures		1,321,738	1,351,368
Financial assets at fair value through profit or loss		91,132	64,567
Equity instruments at fair value through other comprehensive income		4,150,814	4,362,469
Deferred tax assets		703,372	700,738
Other non-current assets		<u>669,505</u>	<u>713,639</u>
Total non-current assets		<u>18,305,088</u>	<u>18,226,350</u>
Current assets			
Inventories		1,742,480	1,676,943
Accounts and bills receivable, net	13	22,575,838	18,208,251
Contract assets, net	14	20,480,315	19,786,576
Prepayments and other current assets		11,238,164	9,618,272
Financial assets at fair value through profit or loss		5,353,678	3,098,634
Restricted deposits		1,892,149	2,865,265
Cash and cash equivalents		<u>17,842,241</u>	<u>21,008,490</u>
Total current assets		<u>81,124,865</u>	<u>76,262,431</u>
Total assets		<u>99,429,953</u>	<u>94,488,781</u>
Current liabilities			
Interest-bearing borrowings		764,901	704,401
Accounts and bills payable	15	36,696,893	33,363,786
Current portion of lease liabilities		427,596	400,627
Contract liabilities	16	9,805,146	10,977,645
Accrued expenses and other payables		10,323,864	9,499,772
Income tax payable		<u>285,124</u>	<u>282,597</u>
Total current liabilities		<u>58,303,524</u>	<u>55,228,828</u>
Net current assets		<u>22,821,341</u>	<u>21,033,603</u>
Total assets less current liabilities		<u>41,126,429</u>	<u>39,259,953</u>

Condensed Consolidated Statement of Financial Position (Continued)*At 30 June 2021*

	30 June 2021 RMB'000 (unaudited)	31 December 2020 RMB'000 (audited)
Non-current liabilities		
Lease liabilities	1,231,060	768,662
Other non-current liabilities	409,923	408,405
Deferred tax liabilities	<u>852,120</u>	<u>895,912</u>
Total non-current liabilities	<u>2,493,103</u>	<u>2,072,979</u>
Total liabilities	<u>60,796,627</u>	<u>57,301,807</u>
Equity		
Share capital	6,926,018	6,926,018
Reserves	<u>30,512,518</u>	<u>29,791,666</u>
Equity attributable to equity shareholders of the Company	37,438,536	36,717,684
Non-controlling interests	<u>1,194,790</u>	<u>469,290</u>
Total equity	<u>38,633,326</u>	<u>37,186,974</u>
Total liabilities and equity	<u><u>99,429,953</u></u>	<u><u>94,488,781</u></u>

Notes:

1. BASIS OF PREPARATION

The condensed consolidated interim financial information contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2020 annual financial statements. The condensed consolidated financial statements and notes thereof do not include all of the information required for a full set of financial statements prepared in accordance with International Financial Reporting Standards (“IFRSs”). IFRSs include all applicable IFRSs, International Accounting Standards (“IASs”) and related interpretations.

This condensed consolidated interim financial information has been prepared in accordance with the applicable disclosure provisions of the Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, and IAS 34, Interim Financial Reporting.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated interim financial information has been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values.

The condensed consolidated interim financial information has been prepared in accordance with the same accounting policies and methods of computation adopted in the consolidated financial statements of the Group for the year ended 31 December 2020, except as described below.

In the current interim period, the Group has applied the following amendments to IFRSs, for the first time:

Amendments to IFRS 9, IAS 39, IFRS 7,
IFRS 4 and IFRS16

Interest Rate Benchmark Reform Phase 2

In addition, the Group has early applied the Amendment to IFRS 16, “Covid-19-Related Rent concessions beyond 30 June 2021”.

The adoption of above amendments in the current period has had no material effect on the Group’s condensed consolidated interim financial information.

3. SEGMENT REPORTING

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

4. REVENUES

Revenues are derived from the provision of integrated comprehensive smart solutions. The Group's revenues by business nature can be summarised as follows:

Disaggregation of revenue

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
Revenue from telecommunications infrastructure services	34,547,384	29,036,839
Revenue from business process outsourcing services	19,787,107	16,959,567
Revenue from applications, content and other services	9,764,660	7,837,812
	<u>64,099,151</u>	<u>53,834,218</u>

The Group's major customers are telecommunications operators which include China Telecommunications Corporation and its subsidiaries (excluding the Group) ("CTC Group") and China Mobile Communications Group Co., Ltd. and its subsidiaries ("CM Group"). Revenues from the provision of integrated telecommunications support services to CTC Group and CM Group for the six months ended 30 June 2021 amounted to RMB19,121 million and RMB9,481 million, respectively (six months ended 30 June 2020: RMB17,162 million and RMB9,286 million, respectively), being 29.8% and 14.8% of the Group's total revenues, respectively (six months ended 30 June 2020: 31.9% and 17.2%, respectively). The revenues derived from areas outside Mainland China for the six months ended 30 June 2021 amounted to RMB1,377 million (six months ended 30 June 2020: RMB1,437 million).

For the six months ended 30 June 2021, the Group's top three businesses that contributed to the overall revenues were construction under telecommunications infrastructure services, management of infrastructure for information technology and supply chain service under business process outsourcing services, the revenues derived from which amounted to RMB27,480 million, RMB7,914 million and RMB6,433 million, respectively (six months ended 30 June 2020: RMB22,610 million, RMB7,320 million and RMB4,984 million, respectively).

The Group's rental income for the six months ended 30 June 2021 amounted to RMB344 million (six months ended 30 June 2020: RMB291 million).

5. COST OF REVENUES

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
Subcontracting charges	34,747,460	30,126,247
Materials costs	8,830,182	6,155,087
Direct personnel costs	4,123,111	3,670,291
Direct costs of products distribution	2,026,751	1,718,323
Lease charges	550,050	491,617
Depreciation and amortisation	428,022	395,003
Others	6,560,636	5,374,611
	<u>57,266,212</u>	<u>47,931,179</u>

6. OTHER INCOME

Six months ended 30 June

2021 2020

RMB'000 *RMB'000*

Interest income	164,260	132,930
Dividend income from equity instruments	161,695	161,106
Management fee income	152,906	124,462
Government grants	116,117	119,252
Investment income and fair value gains on wealth management products and structured deposits	82,545	99,395
Gain on disposal of property, plant and equipment, other intangible assets and termination of lease contracts	5,755	1,144
Penalty income	1,821	1,575
Others	157,205	102,377
	<u>842,304</u>	<u>742,241</u>

7. FINANCE COSTS

Six months ended 30 June

2021 2020

RMB'000 *RMB'000*

Interest on bank and other borrowings	9,310	12,751
Interest on lease liabilities	24,451	18,773
	<u>33,761</u>	<u>31,524</u>

For the six months ended 30 June 2021, no borrowing costs were capitalised in construction in progress (six months ended 30 June 2020: nil).

8. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
(a) Staff costs:		
Salaries, wages and other benefits	7,071,360	6,452,296
Contributions to defined contribution retirement schemes	<u>794,734</u>	<u>463,139</u>
	<u>7,866,094</u>	<u>6,915,435</u>
(b) Other items:		
Amortisation	81,519	70,662
Depreciation	647,712	578,834
Materials costs	8,830,182	6,155,087
Direct costs of products distribution	2,026,751	1,718,323
Inventory write-down and losses, net of reversals	21,885	15,362
Impairment losses on accounts receivable, other receivables and contract assets	177,536	165,181
Reversal of impairment losses on accounts receivable, other receivables and contract assets	(129,813)	(84,766)
Investment income and fair value gains of financial instruments at fair value through profit or loss	82,545	99,285
Lease charges	632,176	582,448
Research and development costs	<u>1,622,577</u>	<u>1,387,407</u>

The selling expenses, general and administrative expenses and other expenses of the Group are RMB1,132 million, RMB4,142 million and RMB223 million (six months ended 30 June 2020: RMB915 million, RMB3,652 million and RMB218 million) respectively for the six months ended 30 June 2021. Research and development costs include staff costs of RMB1,319 million (six months ended 30 June 2020: RMB1,111 million), which is also included in the staff costs disclosed in note 8(a).

9. INCOME TAX

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

	Six months ended 30 June	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Current tax	285,405	268,295
Deferred tax	6,390	(29,060)
	<u>291,795</u>	<u>239,235</u>
Total income tax	<u>291,795</u>	<u>239,235</u>

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

	Six months ended 30 June	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Profit before tax	<u>2,114,242</u>	<u>1,827,851</u>
Expected income tax expense at a statutory tax rate of 25% (six months ended 30 June 2020: 25%)	528,561	456,963
Differential tax rates on subsidiaries' profits (<i>note (i)</i>)	(143,929)	(137,365)
Non-deductible expenses (<i>note (ii)</i>)	59,641	79,906
Non-taxable income	(68,144)	(77,965)
Tax losses not recognised	62,471	30,169
Utilisation of previously unrecognised tax losses	(21,006)	(6,955)
Over provision in respect of prior years	(16,476)	(14,024)
Others (<i>note (iii)</i>)	(109,323)	(91,494)
Income tax	<u>291,795</u>	<u>239,235</u>

Notes:

- (i) The provision for income tax of the Group is calculated based on a statutory rate of 25% of the assessable profit of the Group as determined in accordance with the relevant PRC income tax rules and regulations for the six months ended 30 June 2021 and 2020, except for certain domestic subsidiaries of the Group, which are taxed at a preferential rate of 15% and 10%, where applicable; and for certain overseas subsidiaries of the Group, which are taxed at their respective statutory rates.
- (ii) The amounts represent staff costs and miscellaneous expenses in excess of the statutory deductible limits for tax reporting purposes.
- (iii) The amounts primarily represent the effect of additional deductions of research and development expenses.

10. OTHER COMPREHENSIVE EXPENSE

Six months ended 30 June

2021 2020

RMB'000 RMB'000

Changes in fair value of equity instruments at fair value through other comprehensive income recognised during the period	(211,655)	(429,969)
Net deferred tax credited to other comprehensive income	<u>52,816</u>	<u>107,120</u>
Net movements in the fair value reserve during the period recognised in other comprehensive expense	<u>(158,839)</u>	<u>(322,849)</u>

11. DIVIDENDS

(a) Dividends attributable to the period

The Board of Directors did not propose the payment of an interim dividend for the six months ended 30 June 2021 (six months ended 30 June 2020: nil).

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

Six months ended 30 June

2021 2020

RMB'000 RMB'000

Final dividend in respect of the previous financial year, approved during the period of RMB0.1335 per share (2020: RMB0.1321 per share)	924,623	914,927
Special dividend in respect of the previous financial year, approved during the period of RMB0.0267 per share (2020: RMB0.0264 per share)	<u>184,925</u>	<u>182,847</u>
	<u>1,109,548</u>	<u>1,097,774</u>

No final dividend or special dividend was paid during the six months ended 30 June 2021 and 2020.

12. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company for the six months ended 30 June 2021 of RMB1,811 million (six months ended 30 June 2020: RMB1,588 million) and the number of shares in issue during the six months ended 30 June 2021 of 6,926,018 thousand shares (six months ended 30 June 2020: 6,926,018 thousand shares).

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

13. ACCOUNTS AND BILLS RECEIVABLE, NET

	At 30 June 2021 RMB'000	At 31 December 2020 RMB'000
Bills receivable	569,574	264,802
Accounts receivable	<u>23,701,619</u>	<u>19,610,315</u>
	24,271,193	19,875,117
Less: allowance for credit losses	<u>(1,695,355)</u>	<u>(1,666,866)</u>
	<u><u>22,575,838</u></u>	<u><u>18,208,251</u></u>

- (a) Included in accounts and bills receivable are amounts due from CTC Group, associates of the Group and associates of CTC Group of RMB8,882 million as at 30 June 2021 (31 December 2020: RMB8,040 million), which are unsecured, interest-free and they 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:

	At 30 June 2021 RMB'000	At 31 December 2020 RMB'000
Current	1,948,799	852,540
Within 1 year	17,929,730	14,743,770
After 1 year but less than 2 years	2,084,717	2,016,517
After 2 years but less than 3 years	441,161	430,743
After 3 years	<u>171,431</u>	<u>164,681</u>
	<u><u>22,575,838</u></u>	<u><u>18,208,251</u></u>

14. CONTRACT ASSETS, NET

	At 30 June 2021 RMB'000	At 31 December 2020 RMB'000
Telecommunications infrastructure services	16,554,191	16,499,707
Business process outsourcing services	1,319,890	983,032
Applications, content and other services	<u>2,823,806</u>	<u>2,523,856</u>
	20,697,887	20,006,595
Less: allowance for credit losses	<u>(217,572)</u>	<u>(220,019)</u>
	<u><u>20,480,315</u></u>	<u><u>19,786,576</u></u>

14. CONTRACT ASSETS, NET (Continued)

The contract assets relate to the rights of the Group to considerations receivable for work completed and not billed because the rights are conditional upon the Group's future performance in achieving specified milestones 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.

15. ACCOUNTS AND BILLS PAYABLE

Accounts and bills payable comprise:

	At 30 June 2021 RMB'000	At 31 December 2020 RMB'000
Accounts payable	33,884,919	30,987,698
Bills payable	<u>2,811,974</u>	<u>2,376,088</u>
	<u><u>36,696,893</u></u>	<u><u>33,363,786</u></u>

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

	At 30 June 2021 RMB'000	At 31 December 2020 RMB'000
Within 1 year	34,450,286	30,759,309
After 1 year but less than 2 years	1,375,686	1,769,256
After 2 years but less than 3 years	466,885	428,587
After 3 years	<u>404,036</u>	<u>406,634</u>
	<u><u>36,696,893</u></u>	<u><u>33,363,786</u></u>

Included in accounts and bills payable are amounts due to CTC Group, associates of the Group and associates of CTC Group of RMB1,917 million as at 30 June 2021 (31 December 2020: RMB1,187 million), which are unsecured, interest-free and are expected to be settled within one year.

16. CONTRACT LIABILITIES

	At 30 June 2021 RMB'000	At 31 December 2020 RMB'000
Telecommunications infrastructure services	6,841,784	8,124,136
Other services	<u>2,963,362</u>	<u>2,853,509</u>
	<u><u>9,805,146</u></u>	<u><u>10,977,645</u></u>

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

FINANCIAL REVIEW

Total Revenues

In the first half of 2021, the Group continued to adhere to the overall roadmap of “value-driven, seeking steady yet progressive growth and high-quality development” and positioned itself as a “New Generation Integrated Smart Service Provider”. By seizing opportunities from economic recovery in the first half of the year, New Infrastructure and digital transformation in society, the Group achieved double-digit growth in results and recorded total revenues of RMB64,099 million, representing an increase of 19.1% compared to RMB53,834 million in the first half of 2020.

Revenue by Business

In the first half of the year, the revenue from telecommunications infrastructure (“TIS”) services was RMB34,547 million, representing a year-on-year increase of 19.0%. Revenue from business process outsourcing (“BPO”) services was RMB19,787 million, representing a year-on-year increase of 16.7%. Revenue from applications, content and other (“ACO”) services was RMB9,765 million, representing a year-on-year increase of 24.6%.

Revenue from TIS services and BPO services overcame the pandemic impact in last year with notable business recovery. Besides, the Group increased investment in research and development, consolidated the capabilities on its research and development as well as product, paid close attention to opportunities arising from digital transformation of enterprises, and informatization construction from emergency management, smart city upgrade, etc, which drove our business development, such as system integration and software development businesses. Therefore, ACO services continued to be the fastest-growing business, of which, revenue from system integration business amounted to RMB6,215 million, representing a rapid year-on-year increase of 27.0%; revenue from software development and system support business amounted to RMB1,569 million, representing a rapid year-on-year increase of 22.8% and maintaining a more than 20% growth for two consecutive years.

Revenue by Market

In the first half of the year, the revenue from the domestic non-telecom operator (the “domestic non-operator”) market amounted to RMB29,270 million, representing a year-on-year increase of 34.0%. Revenue from the domestic telecommunications operator market amounted to RMB33,452 million, representing a year-on-year increase of 9.5%. Revenue from the overseas market amounted to RMB1,377 million, representing a year-on-year decrease of 4.2%.

During the first half of 2021, the Group persisted in the “CAPEX and OPEX + Smart Applications” development strategy and proactively seized market share. While capturing the network construction demand of operators, the Group vigorously expanded businesses in the OPEX market and paid close attention to the transformation demand of operators to provide informatization supporting services, thus driving the Group to achieve favourable growth in the domestic telecommunications operator market. Meanwhile, the Group continued to advance on the expansion of domestic non-operator market, seize

the opportunities from New Infrastructure and informatization construction, enhance research and development and innovation, keep iterating and upgrading industrial solutions as well as accelerating deployment, hence revenue from such market maintained a strong growth momentum.

Cost of Revenues

In the first half of 2021, the cost of revenues of the Group amounted to RMB57,266 million, representing a year-on-year increase of 19.5%. Among which, direct personnel costs amounted to RMB4,123 million, representing an increase of 12.3% from RMB3,670 million in the first half of 2020; subcontracting charges amounted to RMB34,747 million, representing an increase of 15.3% from RMB30,126 million in the first half of 2020; materials costs amounted to RMB8,830 million, representing an increase of 43.5% from RMB6,155 million in the first half of 2020. The Group strictly controlled its costs by proactively and reasonably allocating controllable costs with its business development needs, enhanced effectiveness and efficiency with the same amount of resources input. The relatively fast increase in materials costs was mainly because the Group optimized its business model and undertook major projects in general contracting model proactively. Besides, the businesses of construction, supply chain and system integration involved relatively more materials, so the fast growth of those businesses also drove the rise of materials costs.

Gross Profit

In the first half of 2021, the Group recorded gross profit of RMB6,833 million, representing an increase of 15.8% from RMB5,903 million in the first half of 2020. The Group's gross profit margin in the first half of 2021 was 10.7%, representing a decrease of 0.3 percentage point from 11.0% in the first half of 2020. As affected by multiple factors, including the decrease of business unit price due to continuous cost control by domestic telecommunications operators and increase of rigid costs of the Group, gross profit margin of the Group in the first half of the year decreased. Meanwhile, the Group endeavoured to improve its gross profit margin through continuous enhancement of project management and cost control as well as enhancing our capability for business value creation. In the first half of 2021, the gross profit margin of domestic non-operator market realized a transitory stabilization and increased slightly. With the Group's deployment in digital economy, smart society and new infrastructure areas starting to bear fruit, the Group expects that the proportion of high-value businesses will gradually increase and the gross profit margin of the domestic non-operator market could stabilize and even further improve in the future, thereby driving the Group's overall gross profit margin. In fact, the domestic non-operator market has continued to be the largest contributor to the increase in gross profit of the Group.

Selling, General and Administrative Expenses

In the first half of 2021, the selling, general and administrative expenses of the Group were RMB5,497 million, representing an increase of 14.9% from RMB4,785 million in the first half of 2020. The growth rate of selling, general and administrative expenses was lower than the growth rate of the cost

of revenues since the Group undertook effective management measures to control costs and enhance efficiency. The selling, general and administrative expenses of the group accounted for 8.6% of the total revenues, representing a decrease of 0.3 percentage point over the same period of the last year.

Profit Attributable to Equity Shareholders of the Company

In the first half of 2021, profit attributable to equity shareholders of the Company was RMB1,811 million, representing an increase of 14.1% from RMB1,588 million in the first half of 2020.

Cash Flow

The Group recorded a net cash outflow of RMB3,154 million in the first half of 2021, as compared to a net cash outflow of RMB3,773 million in the first half of 2020. The net cash outflow in the first half of the year was mainly affected by the cyclical cash flow pattern of the Group in the first half and second half of the year. Excluding the balance payment (approximately RMB663 million) made in the first half of 2021 for the property acquisition in 2020 to serve as the bases for the smart production, operation as well as research and development, cash flow in the first half of the year improved over the same period of last year, and such change was mainly because the Group persisted in being value-driven, enhanced working capital management with effective clearing and settlement of accounts receivable while expanding business.

Assets and Liabilities

The Group continued to maintain its solid financial position. As of 30 June 2021, the Group's total assets was RMB99,430 million, representing an increase of RMB4,941 million from RMB94,489 million as of 31 December 2020. Total liabilities was RMB60,797 million, representing an increase of RMB3,495 million from RMB57,302 million as of 31 December 2020. The liabilities-to-assets ratio was 61.1%, which slightly increased compared with that at 31 December 2020.

AUDIT COMMITTEE

The audit committee has reviewed with management and the Company's international auditor, PricewaterhouseCoopers, the accounting principles and practices adopted by the Group and discussed the risk management, internal control and financial reporting matters including the review of the Interim Report for the six months ended 30 June 2021.

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 six months ended 30 June 2021, 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 for the six months ended 30 June 2021.

COMPLIANCE WITH APPENDIX 16 TO THE LISTING RULES

According to paragraph 40 of Appendix 16 to the Listing Rules, save as disclosed in this announcement, the Company confirms that the Company's current information in relation to those matters set out in paragraph 32 of Appendix 16 has not been changed significantly from the information disclosed in the Company's 2020 Annual Report.

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

During the six months ended 30 June 2021, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

INTERIM REPORT

The Interim Report for the six months ended 30 June 2021 will be despatched to shareholders and made available on the "HKExnews" website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (www.chinaccs.com.hk) in due course.

FORWARD-LOOKING STATEMENTS

The Company would also like to caution readers about the forward-looking nature of certain of the above statements. These forward-looking statements are subject to risks, uncertainties and assumptions, which are beyond our control. Potential risks and uncertainties include those concerning, among others, the change of macroeconomic environment, natural disaster, the growth of the relevant industries 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

30 August 2021

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