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 2018

HIGHLIGHTS

- The Group has continued to transform its growth momentum and accelerated the transformation towards the direction of digital services, and drove total revenues to exceed hundred-billion, taking a leap forward from a ten-billion enterprise to a hundred-billion enterprise.

  - Total revenues were RMB106,177 million, up by 12.3%; in which revenue from Core Businesses amounted to RMB101,294 million, up by 15.6%.

  - Profit attributable to equity shareholders of the Company was RMB2,901 million, up by 6.9%.

  - Free cash flow was RMB3,613 million, and cash conversion ratio continued to maintain at a healthy level.

  - Gross profit margin and net profit margin were 12.1% and 2.7%, respectively.

- The Board has proposed to distribute a final dividend of RMB0.1257 per share and a special dividend of RMB0.0251 per share. Total dividend for 2018 is RMB0.1508 per share, and the total dividend payout ratio is 36%.

CHAIRMAN'S STATEMENT

Dear Shareholders,

Facing a complicated and volatile economic environment and ever-changing industrial trends in 2018, the Group adhered to the overall roadmap of "value-driven, seeking steady yet progressive growth and high-quality development" and adapted to the informatization development trend of "Cyberpower", "Digital China" and "Smart Society". Through deepening reform and innovation, strengthening technology-driven development, the Group started the voyage along the main development tracks and strove to forge the new brand of "Smart Comservice", so as to accelerate the Company's transformation towards the direction of digital services. During the year, with its growth drivers continuing to grow stronger, the Group continued to deliver promising operating performance and achieved a double-digit growth in total revenues, with which we leaped from a ten-billion enterprise to a hundred-billion enterprise. Profit of the Company maintained a steady growth with free cash flow[1] remaining healthy, customer and business structures continuously optimized and the enterprise value remarkably elevated.

Operating Performance

In 2018, the Group deepened the internal and external collaboration, improved its business ecosystem, and continued to transform growth drivers for its markets and businesses. During the year, driven by the domestic non-telecom operator market and the OPEX[2] business of the domestic telecommunications operators, the Group successfully overcame the adverse impacts such as the reduced investment in network construction, intensified market competition and declining value of the domestic telecommunications sector, with the overall operating performance remaining stable. The Group's total revenues amounted to RMB106,177 million, representing a year-on-year increase of 12.3%, and profit attributable to the equity shareholders of the Company amounted to RMB2,901 million, representing a year-on-year increase of 6.9%. Free cash flow remained healthy at RMB3,613 million, which basically matched with the profit level. The favourable operating results and free cash flow level have laid a solid foundation for the Group's high-quality development.

Dividend

The Board has proposed to distribute a final dividend of RMB0.1257 per share for the financial year ended 31 December 2018, representing a dividend payout ratio of 30%. Moreover, in view of the Group's outstanding operating results and free cash flow level for the year, the Board has proposed to distribute a special dividend of RMB0.0251 per share for 2018. Taking into consideration of the above factors, the Company's total dividend for 2018 is RMB0.1508 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 Expansion

In 2018, the Group pinpointed the main development tracks for the domestic non-telecom operator market, the domestic telecommunications operator market and the overseas market, with its market expansion continuing to make progress and its customer structure constantly optimized with satisfactory results. Among that, the domestic non-telecom operator market was an important driving force for the growth of the Group, and its revenue continued to remain a rapid double-digit growth. The domestic telecommunications operator market remained stable and its revenue achieved a high single-digit growth. The overseas market stabilized and recovered with breakthroughs achieved in large-scale projects, and its revenue achieved a double-digit growth. With its in-depth penetration in the domestic non-telecom operator market and effective extension to the overseas market, the Group's customer structure is further diversified.

In 2018, by focusing on the digitalization and intelligentization demand of the society and the industries, the Group continuously satisfied the needs of its customers such as government and enterprises through leveraging on its edges in informatization sector, and the number of partners in domestic non-telecom operator market steadily increased with the business scope continuing to expand. During the year, the revenue from such market increased by 25.0% year-on-year, representing a much higher growth rate as compared with the same period of last year[3]. The revenue from such market accounted for 31.4% of the total revenues, representing an increase of 3.2 percentage points compared with the same period of last year. The revenue from the Core Businesses[4] in such market increased by 33.9% as compared with the corresponding period of last year, accounting for 89.1% of the revenues from this market. Meanwhile, the Group increased its investment in research and development, released and kept optimizing the Smart Society Product Portfolio, and strove to build a "Smart Service Industrial Ecosystem Alliance", as a result of which the brand image of "Smart Comservice" and industrial influence have been effectively improved, with our image as an industry expert gradually taking shape. In 2018, the value of the new contracts from domestic non-telecom operator market secured by the Group exceeded RMB40 billion, maintaining a good development momentum.

In 2018, the Group successfully overcame the impact of the decline in the CAPEX[5] of the domestic telecommunications operators on its development, and the development of such market remained stable. During the year, the revenue from such market increased by 7.1% year-on-year, accounting for 65.7% of the total revenues, slightly decreased as compared with the same period of last year. The Group actively adapted to the ecosystem of the domestic telecommunications operators, and kept abreast of the development trend of 5G and Internet of Things ("IoT") to support the transformation and upgrade of the domestic telecommunications operators. While ensuring the stability of the CAPEX business from the domestic telecommunications operators, the Group vigorously developed the OPEX business, which became an important driver for the stable growth of the domestic telecommunications operator market. At the same time, the Group fully leveraged the differentiated advantages of its integrated services and smart applications, strengthened the cooperation in the emerging areas such as Smart Family, Cloud Computing and Big Data to promote the rapid growth of relevant businesses.

3 In 2017, the Group's revenue from the domestic non-telecom operator market reported a year-on-year growth rate of 12.4%.

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

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

In 2018, the Group's revenue from the overseas market stabilized and recovered, representing a year-on-year increase of 11.2%, accounting for 2.9% of the total revenues. The Group actively explored the transformation and upgrade of its overseas businesses while strengthening the coordination of the domestic and overseas market, as well as establishing a foundation for overseas products, so as to promote the external expansion of its mature domestic products and businesses. In the meantime, we strengthened the development of customers from overseas governments and enterprises, optimized the overseas customer structure continuously, and focused on expansion of large-scale overseas projects, with key projects such as Digital Mali, ITC National Broadband Network Project in Saudi Arabia, and Nepal 4G Project continuing to be successfully launched, which supported the overseas market to make a breakthrough.

Business Development

In 2018, while actively exploring and building a business ecosystem that is able to satisfy the market needs, the Group leveraged on its planning and consultation together with its smart products, and effectively enhanced the capabilities for integrated service and managing sizable turnkey projects, with business structure being continuously optimized. The Group persisted in strengthening its telecommunications infrastructure ("TIS") services and enhancing its overall delivery capabilities. Through establishing industry standards and giving full play to the leading role of its consultation and planning services, the Group transferred its competitive industrial capacity to the domestic non-telecom operator market while fully exploiting the potential of the domestic telecommunications operator market, resulting in the stable revenue growth with a year-on-year growth of 13.6%. The Group vigorously expanded its business process outsourcing ("BPO") services, and strove to improve customer loyalty and develop sustainable and recurrent businesses such as network maintenance, supply chain and general facilities management through synergistic operation, unified platforms, network-wide collaboration and standard exports, while extending to high-end value and other businesses of the customers. Revenue from the Core BPO services[6] increased by 17.1% year-on-year. The Group accelerated the cultivation of smart products and their iterative upgrades and promoted the launching of smart applications by leveraging the complementary advantages of the applications, content and other ("ACO") services with services such as the TIS services, and promoted the overall business development of the Company through internal collaboration and external ecological cooperation. The revenue from the ACO services achieved a rapid year-on-year growth of 21.4%, accounting for 12.9% of the total revenues, with the proportion continuously increased for three consecutive years.

The Group continued to control its products distribution business of low gross profit. Revenue from such business decreased by 29.8% year-on-year, accounting for 4.6% of the total revenues. During the year, the Group's revenue from Core Businesses accounted for 95.4% of its total revenues, representing a year-on-year increase of 2.7 percentage points. The enhancement of capabilities for integrated service and managing sizable turnkey projects, and the continuous optimization of the Group's business structure have laid a solid foundation for the Group's continuously deepening transformation, further penetration into the needs of industries and integration with the informatization of the society.

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

Innovation and Transformation

In 2018, the Group continued to deepen its reform and innovation and promoted its system and mechanism optimization. We enhanced the construction of "One CCS" while giving full play to the synergy and economics of scale within the whole Group. We expedited the development of our strengths, promoted cross-province and cross-profession internal collaboration, built up integrated service capabilities and optimized resource allocation, so as to achieve the matching of our businesses and capabilities with the market demand and enhance our competitiveness. We constantly strengthened our ecological cooperation, and our list of partners continued to grow, including the Chinese Academy of Sciences and numerous innovative technology enterprises. We have effectively expanded our business scope to cover provincial, municipal and county governments, and our businesses covered various fields such as transportation, water conservancy and government services. We persisted in the way of product-oriented services and platform-oriented products, resulting in continuous improvement in the foundation platforms such as CCSYUN (our cloud service), Open IoT Platform and the Big Smart City IT Structure, with new products such as Smart Justice and Smart Procuratorial Services kept emerging. We promoted the integration of financial solutions with industrial development, and made use of Comservice Capital Holding Company Limited, a subsidiary of the Group, as the carrier to support the new business deployment and development model for the Company. Meanwhile, in August 2018, the Company has been included in the list of State-owned Enterprise Reform "Double-hundred Action" by the State-owned Assets Supervision and Administration Commission of the State Council, and is making steady progress in the formulation of relevant proposals and working on the related tasks.

Corporate Governance

The Group has maintained its corporate governance at a high level, ensuring regulated operation, effective management, complete and transparent information disclosure of the Company so as to maximize the interests of its shareholders, which has been widely recognized by the capital market.

In the voting for "The Asset Corporate Awards 2018" held by *The Asset*, an authoritative financial magazine, the Company was awarded the highest honour, i.e. the "Platinum Award – Excellence in Environmental, Social and Corporate Governance" for three consecutive years, and won the "Best Investor Relations Team Award" for the first time. In 2018 "14th Corporate Governance Asia Recognition Awards" held by *Corporate Governance Asia*, an authoritative journal on corporate governance in Asia, the Company was again granted the "The Best of Asia – Icon on Corporate Governance" and "Asian Corporate Director".

The Group ranked 81st in the "2018 FORTUNE China 500" published by *FORTUNE China*. The Group ranked 6th in "China's Top 100 Software Enterprises 2018". In the voting for the Leading Enterprises for Information Technology Industry in 2019, the Company was awarded the title of "Leading Enterprises". In the 2018 "Golden Hong Kong Equities Awards", the Company was awarded the "Golden Hong Kong Equities Grand Award" and the "Best Value TMT Company".

Social Responsibilities

The Group has always emphasized on the fulfilment of its social responsibilities and made due contributions in poverty alleviation, natural disaster relief and communication support. In 2018, the Group carried out its poverty alleviation missions in regions such as Xinjiang, Sichuan and Tibet in respect of employment, training, industry and public welfare, which has improved the conditions of communication, employment and living of the local people, and received wide recognition. In 2018, the Group dispatched more than 10,000 person-times and 6,000 vehicle-times to repair the communications network damaged by Typhoon Ewiniar, Mangkhut and Maria as well as the heavy rainstorms, ensuring that the network communication in the disaster-stricken areas were restored in the first instance. We repaired more than 10,000 communication failures throughout the year and actively participated in post-disaster epidemic prevention and disinfection and environmental cleaning. The Group undertook the communications network construction and maintenance projects for "Boao Forum for Asia Annual Conference 2018", "Shanghai Cooperation Organization Qingdao Summit", the "Fifth World Internet Conference (Wuzhen Summit)", "China International Import Expo" and the "Hong Kong-Zhuhai-Macao Bridge", during which the Group successfully completed all its tasks and received wide recognition from the government authorities and customers, thus building up an excellent brand image in the industry.

Future Outlook

In 2018, the Group adhered to the overall roadmap of "value-driven, seeking steady yet progressive growth and high-quality development" while clearly pinpointed the main development tracks and actively transformed growth momentum. The Group's innovation and transformation efforts has shown initial effects and the Group successfully leaped from a ten-billion enterprise to a hundred-billion enterprise, and now heads into a new stage of high-quality development. Although the Group is now facing a complex and volatile domestic and global environment with new challenges, our transformation and development is now at the precious moment that is full of strategic opportunities. From the macro perspective, China's economy has shifted from high-speed growth to high-quality development, with supply-side structural reform further advanced, and expansion and upgrade of industry structure and consumption accelerated. From the perspective of the industry, the new generation of information technology has been deeply integrated with traditional industries and social governance, and Digital Economy has become the core engine of economic development, creating huge market for the development of government services, electricity, transportation, etc. From the perspective of industrial value, 5G and the IoT will change the business model and operation model of the industry, while smart applications and foundation platforms will become high-value hotspots and business-end market will become the key area for competition with the industrial boundaries broken up, thus bringing us new business opportunities.

In 2019, we will adhere to our overall roadmap, draw a new development blueprint based on our main development tracks, and accelerate the deployment of our ecological platforms. In the domestic non-telecom operator market, we will seize the rare window of opportunity arising from the development of "Digital China" and "New Smart City", focus on the key industries, integrate internal and external resources while accelerating market penetration. We will continue to invest on research and development and optimize our integrated solutions for smart products and industries, thus realizing a rapid deployment of ecological platforms for markets and industries. In the domestic telecommunications operator market, we will keep abreast of the 5G development, transformation and upgrade of domestic telecommunications operators, fully exploit the traditional CAPEX and OPEX businesses, expand to emerging businesses such as smart applications and smart services, and explore new cooperation mechanisms at the ecological level to promote sustainable business growth. In the overseas market, we will seize the opportunities arising from the "Belt and Road" Initiative, strengthen collaboration between the domestic and overseas markets and cooperation with external partners, focus on the demand for overseas network infrastructure construction and digital service, with a view to accelerating project expansion. Meanwhile, we will take full advantage of the opportunities arising from the State-owned Enterprise Reform, actively push ahead the "Double-hundred Action" to promote transformation and development and further improve our corporate governance. We will promote efficient allocation of resources, bolster the propelling force of high-technology and high-intelligence innovation, enhance the cultivation of our talent teams, and build an open and synergistic organization to promote the Company's high-quality development. We will enhance the Company's vitality, capabilities and energy, with a view to creating greater value for our shareholders and customers.

Finally, on behalf of the Board, I would like to express my sincere gratitude to the shareholders, customers, and all sectors of society for their long-term care and support as well as our hard-working employees. On behalf of the Board, I would also like to express my sincere gratitude to Ms. Hou Rui, who resigned as an Executive Director, and Mr. Zhao Chunjun, who resigned as an Independent Non-executive Director, for their outstanding contribution to the development of the Group during their tenure and express my sincere welcome to Ms. Zhang Xu for joining the Board.

Zhang Zhiyong
Chairman

Beijing, PRC
28 March 2019

PRESIDENT'S STATEMENT

Dear Shareholders,

I am very pleased to present the operating results of the Group in 2018.

Financial Performance

In 2018, the Group adhered to the overall roadmap of "value-driven, seeking steady yet progressive growth and high-quality development" and persisted in the transformation of growth momentum. Driven by the domestic non-telecom operator market and the OPEX business of the domestic telecommunications operators, the Group successfully overcame the adverse effect of CAPEX decrease of domestic telecommunications operators and the declining industry value while constantly solidifying its development quality, thus achieving favourable operating results. During the year, the Group's total revenues amounted to RMB106,177 million, representing a year-on-year increase of 12.3%; in which revenue from the Core Businesses amounted to RMB101,294 million, representing a year-on-year increase of 15.6%, both of which have crossed the threshold of hundred-billion. The Group's gross profit amounted to RMB12,885 million, representing a year-on-year increase of 5.5%, and gross profit margin was 12.1%, representing a year-on-year decrease of 0.8 percentage point. The Group continued to control its selling, general and administrative expenses, which amounted to RMB10,611 million, with its proportion to the total revenues continued to decline to 10.0%. Profit attributable to equity shareholders of the Company amounted to RMB2,901 million, representing a year-on-year increase of 6.9%, with a net profit margin of 2.7%. Basic earnings per share amounted to RMB0.419. Free cash flow was RMB3,613 million, with the cash conversion ratio[7] remaining at a healthy and relatively high level.

Business Development

In 2018, the Group sought further development for TIS services and raised it delivery quality, aiming to expand its market share and grow stronger consistently; we vigorously expanded Core BPO services and broadened its capabilities coverage, aiming to grow bigger continuously; we also enhanced the core capabilities of ACO services and focused on the cultivation of smart products, aiming to grow better by synergistic operation. The Group's three major business segments all achieved faster development as compared with the same period of last year, with their business structure being continuously optimized.

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

The Group's TIS services recorded a revenue of RMB57,359 million, representing a year-on-year increase of 13.6%, and accounting for 54.0% of the total revenues. We focused on the construction of supreme networks for domestic telecommunications operators such as wireless mobile network and fiber-optic broadband network and kept abreast of the development of 5G and IoT, supporting the transformation and upgrade of the domestic telecommunications operators, thereby effectively reinforced the fundamentals of business from domestic telecommunications operators. Meanwhile, we accelerated the transfer of our production capacity to the domestic non-telecom operator market, taking full advantage of the opportunities arising from the construction of Digital Economy and Smart Society in China to stimulate a more rapid growth of such business. The TIS services revenue from the domestic non-telecom operator market witnessed a rapid year-on-year growth of 50.8%. In recent years, the revenue scale of domestic non-telecom operator market in the TIS business has continued to grow, which has effectively reduced the Group's reliance on the CAPEX business of domestic telecommunications operators.

Revenue from the BPO services amounted to RMB35,103 million, representing a year-on-year increase of 7.1%, and the growth rate of this segment increased noticeably compared with the same period of last year[8]. Revenue from BPO services accounted for 33.1% of the Group's total revenues. The Group adhered to the value-driven principle and proactively controlled its products distribution business, and as a result, revenue from products distribution business for the year reported a significant year-on-year decrease of 29.8%. Excluding this factor, revenue from its Core BPO services reported a rapid year-on-year increase of 17.1%. Among which, the Group vigorously developed the network maintenance business, which reported a year-on-year increase of 15.3%. The Group expedited the consolidation of supply chain business with its capabilities on network-wide operation effectively improved, resulting in a year-on-year growth of 20.5%. We also further promoted the synergistic operation of general facilities management by unifying the brands and standards, resulting in a growth of 15.9%. The Group persisted in making its Core BPO services as a sustainable and recurrent business, which met with a rapid year-on-year growth of its revenue and it has become one of the important drivers for the Group's development.

Revenue from the ACO services amounted to RMB13,715 million, representing a year-on-year increase of 21.4%, making it the fastest growing segment among the three major businesses, with its proportion to the Group's total revenues increased to 12.9%. We adapted to the trend of Digital Economy, seized the opportunities arising from the informatization and intelligentization of the society and industries, while vigorously promoting our smart-typed products, as a result of which our system integration, software development and system support businesses achieved a rapid year-on-year increase of 27.3% and 22.1% respectively, which both have maintained a rapid growth rate of more than 20% for two consecutive years. In addition, the propelling and complementary effect of our smart products to our other businesses such as TIS services have gradually emerged, which supported the Group to expand into the high-value fields and cultivation of its new branding on smart service. The Group ranked 6th in "China's Top 100 Software Enterprises 2018", demonstrating its further enhanced industry position.

8 In 2017, the Group's revenue from BPO services reported a year-on-year growth rate of 0.7%.

Customer Development

In 2018, the Group's revenue from its domestic non-telecom operator market achieved a continuous and rapid increase and recorded RMB33,317 million, representing a year-on-year increase of 25.0%, accounting for 31.4% of the total revenues. In particular, the revenue from the Core Businesses increased by 33.9% year-on-year, accounting for 89.1% of the revenue from that customer market, and representing a year-on-year increase of 5.9 percentage points, making it an important driver for the stable development of the Group. The Group further improved its marketing system and optimized resource allocation for the key industries such as the government, electricity and transportation. The Group strengthened capabilities accumulation in its promotion of synergistic research and development for smart-typed products, with the Smart Society Product Portfolio constantly enriched. Furthermore, we reinforced capabilities enabling through strengthening the role of our product center as the pillar support and promoting business expansion. Through capabilities expansion, we vigorously expanded cooperation scope and promoted cooperation and synergy. The Group has achieved positive results of its innovation and transformation and the number of projects with hundred-million scale kept emerging, such as the Intelligentization Project of Shenzhen World Exhibition & Convention Center, Suzhou Smart Industrial Park, and the Non-stop Electronic Toll Collection System of Hunan Highway and the Smart Park Project of Beijing International Horticultural Exhibition.

In 2018, for the domestic telecommunications operators market, we further penetrated into CAPEX business by continuously improving our delivery capabilities and quality. We also stepped up efforts to accelerate our expansion into OPEX business, including network maintenance, supply chain and general facilities management, which realized a wide coverage of our standards and capabilities. We strengthened the cooperation with the domestic telecommunications operators in the smart field, taking full advantage of new opportunities arising from their transformation and upgrade, which contributed to the development of businesses such as our software development business. Our market share for this market increased effectively during the year, with a revenue of RMB69,705 million, representing a year-on-year increase of 7.1%, and accounting for 65.7% of the total revenues. Among that, the revenue from the TIS services of China Telecom decreased by 11.9% as compared with the corresponding period of last year, while the revenue from its Core BPO services increased rapidly by 18.4%, and such growth mitigated the impact brought by the reduction of CAPEX of China Telecom, thus making the revenue from China Telecom remained largely stable and amounted to RMB41,279 million, representing a slight year-on-year decrease of 0.7%, and the revenue from China Telecom accounted for 38.9% of the total revenues. Driven by the rapid business growth from the CAPEX business of China Mobile and the OPEX business of China Tower, revenue from the domestic telecommunications operators other than China Telecom grew rapidly by 20.9% year-on-year, accounting for 26.8% of the total revenues, representing a year-on-year increase of 1.9 percentage points.

In 2018, the Group further optimized the operation, management and resource allocation model of its overseas business and enhanced the unified management of its overseas market. We leveraged on the opportunities arising from the promotion of China's "Belt and Road" Initiative and combined the experience in developing the domestic non-telecom operator market to strengthen its cooperation with domestic telecommunications operators and "Go Abroad" Chinese enterprises in building the overseas ecosystems and expanding sectors including the government, electricity and education. Through synergistic marketing, synergistic financing, and synergistic technical support, the Group actively promoted the expansion of large-scale projects and achieved favourable results. In 2018, the Group's overseas market stabilized and recovered, reporting a revenue of RMB3,155 million, representing a year-on-year increase of 11.2%, accounting for 2.9% of the total revenues.

Enhancement in Our Capabilities

In 2018, the Group further facilitated its innovation and transformation and optimized the construction of its business ecosystems, with its capabilities continuously improved. By the use of its innovative fund, the Group increased its investment in research and development while continuing on the progression on product-oriented services and platform-oriented products, with the blueprint of smart products continuously enlarged. Fundamental platforms and capabilities such as CCSYUN (our cloud service), Open IoT Platform and the Big Smart City IT Structure gradually came into shape, and new smart products such as Smart Justice, Smart Procuratorial Services, and Smart Government Services continued to emerge. Meanwhile, the Group vigorously forged its new smart image by releasing the Smart Society Product Portfolio, participating in national exhibitions such as the Big Data Expo, Smart China Expo and China (Nanjing) Soft Expo, and establishing the "Smart Service Industrial Ecosystem Alliance" with scientific research institutions, innovative technology enterprises and industrial partners to jointly explore the new market of Digital Economy, thus expanding its influence in the industries continuously.

The Group continued to promote the synergistic business operation for its supply chain and general facilities management businesses, and build capabilities among its network through the construction of a unified IT platform and the establishment of unified standards, which have met with preliminary results. Meanwhile, we accelerated the operation of our subsidiary Comservice Capital Holding Company Limited towards the public and designed products that incorporate with integration of financial solutions with the industrial development based on the core businesses of the Group and our main development tracks, providing customized support for the business expansion of the Group and on upstream and downstream enterprises.

To cater for the service demand of the domestic non-telecom operator market and overseas market for integrated capabilities, the Group accelerated cross-profession collaboration. While leveraging on our edges of "Consultant + Staff" business model and leading by our consultation and planning businesses, the Group brings up our full businesses together with smart products embedded and provides integrated solutions to the customers. The Group took advantage of its scale and synergy, strengthened cross-province and cross-profession collaboration, and matched its service capabilities with the market demand to satisfy the end-to-end requirements of its customers by building cross-region, cross-industry and cross-customer new capabilities.

The Group continuously strengthened its talent team and built its expert system and Comservice Craftsmanship system. Through enhancing the incentive mechanism, especially the incentives for large-scale projects, the Group further promoted its subsidiaries at all levels to establish market-oriented employment and compensation mechanisms. The Group has been taking good care of its employees, providing them with career development platforms to stimulate their vitality and enhance their competitiveness and innovative capabilities, which drive the Group's sustainable development with strong dynamics.

Prospects

In 2019, the Group will continue to uphold its overall roadmap of "value-driven, seeking steady yet progressive growth and high-quality development" while persisting in structure optimization, capabilities enhancement, and business scale expansion. We would also broaden our cooperation, accelerate the construction of ecological platforms, with the aim of creating greater value for our shareholders and customers.

Facing the window of opportunities arising from the replacement of old growth drivers with new ones for China's economy, industrial upgrade and the trend of informatization and digitalization development, the Group will further use its concerted efforts to bolster its "Branding and Deployment" and promote high-quality development of domestic non-telecom operator market. The Group will continue to improve its capabilities on fundamental platforms such as Big Data, Cloud Computing and IoT, further intensify synergistic operation and increase investment on research and development, enrich the Smart Society Product Portfolio, thus manifesting the new branding of Smart Comservice. The Group will continue to build up our strengths, give full play to its advantages in informatization infrastructure services, exploit room for external cooperation, accelerate the construction of our ecological platforms, and strengthen our core competitiveness of integrated services. Meanwhile, the Group will strengthen capabilities accumulation and capabilities enabling for key local cities by converging internal and external resources to build up local advantages, and fan out from a point to an area to seek breakthroughs in wider fields such as electricity, transportation, government services, water conservancy and broadcasting.

The Group will deeply penetrate into the ecosystem of domestic telecommunications operator customers, combine traditional services with smart services and integrate with the next-generation information technologies, such as accelerating the establishment of smart maintenance platform, to further promote the "CAPEX and OPEX-driven" businesses as dual growth drivers and support domestic telecommunications operator customers' new deployment in 5G and IoT, and cater for their new demand in the fields of Smart Family and smart industry applications. Meanwhile, the Group targets to create new values through the exploration of applying mature business models in the domestic non-telecom operator market to the domestic telecommunications operators along with their transformation.

Leveraging on its core advantages of informatization services, the Group will continue to promote the transformation and upgrade of overseas businesses, while capturing opportunities arising from the "Belt and Road" Initiative. We will continuously adapt to the new needs of overseas customers and markets, and forge new growth drivers that integrates "market+technology+capital+talents". We will emphasize on the synergy among the domestic and overseas markets and capabilities, replicate the mature products and capabilities in the domestic market to overseas market, broaden our overseas industrial customers, accelerate the expansion of large-scale projects, thus achieving rapid breakthroughs.

The Group will continue to deepen reforms and take full advantage of the opportunities arising from "Double-hundred Action" to promote diversity in share ownership, improve its corporate governance structure, optimize its market-oriented operation mechanism, improve incentive mechanism, and accelerate the establishment of an organizational structure that meets the requirements of future development. The Group will adhere to the guideline of "One CCS" and expedite the integration of professional businesses while fostering our enterprises with leading positions, capabilities centers and product centers. We will strengthen regional coordination to realize full coverage of capabilities, and develop the market as a whole. We will also explore the paradigm that matches the operation of an enterprise with hundred-billion scale, the model for smart operation and the mechanism for management and decision-making to ensure operation compliance, scientific decision-making, flexibility and efficiency, and healthy and sustainable development.

2019 marks the 70th anniversary of the founding of the People's Republic of China. We will fulfill our new commitment of "making our society smarter, making our life better, and making our employee happier". With reform as the engine and powered by innovation, we start a new journey and strive for high-quality development from the hundred-billion scale towards the goal of building a first class enterprise in the spirit of "fully committed and waste no time", with a view to delivering even more brilliant operating results, more high-quality achievements, and a better future.

Si Furong
President

Beijing, PRC
28 March 2019

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 2018, extracted from the audited consolidated financial statements of the Group as set out in its 2018 annual report.

Consolidated Statement of Profit or Loss
For the Year Ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
Revenues	4	**106,176,637**	94,572,411
Cost of revenues	5	**(93,291,671)**	(82,360,051)
Gross profit		**12,884,966**	12,212,360
Other operating income	6	**1,244,889**	1,014,492
Selling, general and administrative expenses		**(10,611,071)**	(9,885,426)
Other operating expenses		**(173,722)**	(126,278)
Finance costs	7	**(25,179)**	(47,119)
Share of profits of associates and joint ventures		**105,421**	63,782
Profit before tax	8	**3,425,304**	3,231,811
Income tax	9	**(497,405)**	(482,733)
Profit for the year		**2,927,899**	2,749,078
Attributable to:			
Equity shareholders of the Company		**2,901,324**	2,714,213
Non-controlling interests		**26,575**	34,865
Profit for the year		**2,927,899**	2,749,078
Basic earnings per share (RMB)	12	**0.419**	0.392

Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the Year Ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
Profit for the year		**2,927,899**	2,749,078
Other comprehensive (expense)/income 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	*10*	**(205,066)**	–
Items that may be subsequently reclassified to profit or loss (after tax):			
Exchange differences on translation of financial statements of subsidiaries outside Mainland China		**9,968**	(33,083)
Available-for-sale securities:			
Net movement in the fair value reserve	*10*	**–**	(12,603)
		(195,098)	(45,686)
Total comprehensive income for the year		**2,732,801**	2,703,392
Attributable to:			
Equity shareholders of the Company		**2,706,214**	2,668,640
Non-controlling interests		**26,587**	34,752
Total comprehensive income for the year		**2,732,801**	2,703,392

Consolidated Statement of Financial Position
At 31 December 2018

	Notes	31 December 2018 RMB'000	31 December 2017 RMB'000
Non-current assets			
Property, plant and equipment, net		**4,384,700**	4,190,375
Investment properties		**606,065**	637,867
Construction in progress		**342,427**	539,359
Lease prepayments		**722,672**	738,886
Goodwill		**103,005**	103,005
Other intangible assets		**355,339**	325,690
Interests in associates and joint ventures		**318,059**	220,117
Available-for-sale financial assets		**–**	851,560
Equity instruments at fair value through other comprehensive income		**3,737,553**	–
Deferred tax assets		**622,202**	542,672
Other non-current assets		**1,220,145**	240,523
Total non-current assets		**12,412,167**	8,390,054
Current assets			
Inventories		**2,253,027**	2,275,735
Accounts and bills receivable, net	*13*	**18,668,024**	30,370,500
Contract assets, net	*14*	**15,664,758**	–
Prepayments and other current assets	*15*	**8,646,123**	11,815,129
Financial assets at fair value through profit or loss		**5,046,898**	1,262,514
Restricted deposits		**2,128,757**	3,354,288
Cash and cash equivalents		**16,106,246**	13,266,631
Total current assets		**68,513,833**	62,344,797
Total assets		**80,926,000**	70,734,851
Current liabilities			
Interest-bearing borrowings		**462,003**	308,876
Accounts and bills payable	*16*	**28,279,533**	24,600,681
Contract liabilities	*17*	**8,648,060**	–
Receipts in advance for contract work		**–**	4,997,284
Accrued expenses and other payables		**9,017,427**	11,320,729
Income tax payable		**323,514**	339,393
Total current liabilities		**46,730,537**	41,566,963
Net current assets		**21,783,296**	20,777,834
Total assets less current liabilities		**34,195,463**	29,167,888

Consolidated Statement of Financial Position *(Continued)*
At 31 December 2018

	Notes	**31 December 2018** ***RMB'000***	31 December 2017 *RMB'000*
Non-current liabilities			
Interest-bearing borrowings		**8,922**	17,642
Other non-current liabilities		**617,488**	328,859
Deferred tax liabilities		**740,192**	1,736
Total non-current liabilities		**1,366,602**	348,237
Total liabilities		**48,097,139**	41,915,200
Equity			
Share capital	*18*	**6,926,018**	6,926,018
Reserves		**25,405,305**	21,403,080
Equity attributable to equity shareholders of the Company		**32,331,323**	28,329,098
Non-controlling interests		**497,538**	490,553
Total equity		**32,828,861**	28,819,651
Total liabilities and equity		**80,926,000**	70,734,851

Notes:

1. STATEMENT OF COMPLIANCE

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

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

2. CHANGES IN ACCOUNTING POLICIES

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

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers and the related Amendments
IFRIC 22	Foreign Currency Transactions and Advance Consideration
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
Amendments to IAS 28	As part of the Annual Improvements to IFRS Standards 2014-2016 Cycle
Amendments to IAS 40	Transfers of Investment Property

Except for IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers and the related Amendments 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 15 Revenue from Contracts with Customers

The Group has applied IFRS 15 for the first time in the current year. IFRS 15 superseded IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations.

The Group has applied IFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained earnings and comparative information has not been restated. Furthermore, in accordance with the transition provisions in IFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 January 2018 and has used the practical expedient for all contract modifications that occurred before the date of initial application, the aggregate effect of all of the modifications was reflected at the date of initial application. Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations.

The Group mainly recognises revenue from the following major sources which arise from contracts with customers:

(i) construction;

(ii) management of infrastructure for information technology; and

(iii) design.

Summary of effects arising from initial application of IFRS 15

For the major service contracts of the Group, the timing of revenue recognition and the method to measure the progress towards complete satisfaction of the performance obligation generally remain the same under IFRS 15.

The Group assessed contracts with customers that were not completed at 1 January 2018. Certain contracts contained significant financing component under IFRS 15 and goods or services promised in certain contracts previously recognised separately under IAS 18 or IAS 11 were not distinct and accounted for as a single performance obligation under IFRS 15. The impacts of initial application of IFRS 15 on these contacts were neither individually nor collectively material.

The net effects arising from the initial application of IFRS 15 resulted in a decrease in the opening balance of retained earnings at an amount of approximately RMB2 million.

The main adjustments made to the amounts recognised in the consolidated statement of financial position at 1 January 2018 were:

(i) At the date of initial application, unbilled revenues with net value of RMB7,550 million in respect of construction contracts previously included in unbilled revenues for contract work, and RMB4,137 million in respect of other service contracts previously included in accounts receivable were conditional on the Group's achieving specified milestone as stipulated in the contracts, and hence such balances were reclassified to contract assets;

(ii) As the date of initial application, advances from customers of RMB4,997 million in respect of construction contracts previously included in receipts in advances for contract work, and RMB3,293 million in respect of other service contracts previously included in accrued expenses and other payables, were reclassified to contract liabilities.

2.2 IFRS 9 Financial Instruments

In the current year, the Group has applied IFRS 9 Financial Instruments and the related consequential amendments to other IFRSs. IFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets and other items (for example, contract assets and lease receivables) and 3) general hedge accounting.

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9. i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained earnings and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 39 Financial Instruments: Recognition and Measurement.

Summary of effects arising from initial application of IFRS 9

The classification and measurement (including impairment) of financial assets and other items subject to ECL under IFRS 9 and IAS 39 at the date of initial application, 1 January 2018, are as followings.

(a) From available-for-sale financial assets to fair value through other comprehensive income ("FVTOCI")

The Group elected to present in other comprehensive income for the fair value changes of all its equity investments previously classified as available-for-sale financial assets. These investments are not held for trading and not expected to be sold in the foreseeable future. At the date of initial application of IFRS 9, RMB852 million were reclassified from available-for-sale investments to equity instruments at FVTOCI, of which RMB795 million related to unlisted equity securities previously measured at cost less impairment under IAS 39. The fair value gain of RMB3,157 million relating to those unlisted equity instruments previously carried at cost less impairment were adjusted to equity instruments at FVTOCI and fair value reserve, and a corresponding deferred tax liabilities of RMB789 million have been recognised against fair value reserve as at 1 January 2018. The fair value gain of RMB35 million relating to those investments previously carried at fair value continued to accumulate in fair value reserve.

(b) Financial assets at fair value through profit or loss ("FVTPL") and/or designated at FVTPL

At the date of initial application, the Group no longer applied designation as measured at FVTPL for the portfolio of wealth management products and structured deposits and these financial assets are mandatorily measured at FVTPL under IFRS 9, because the contractual terms of these financial assets do not give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. As a result, the fair value of these investments of RMB1,262 million were reclassified from financial assets designated at FVTPL to financial assets at FVTPL.

(c) Impairment under ECL model

The Group applied the IFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all accounts receivable, contract assets and lease receivables. To measure the ECL, accounts receivable and contract assets have been grouped based on shared credit risk characteristics. The contract assets relate to unbilled revenues and have substantially the same risk characteristics as the accounts receivable for the same type of contracts. The Group has therefore concluded that the expected loss rates for the accounts receivable are a reasonable approximation of the loss rates for the contract assets.

Loss allowance for other financial assets at amortised cost mainly comprise of financial assets included in prepayments and other current assets, are measured on 12-month ECL basis and there had been no significant increase in credit risk since initial recognition.

As at 1 January 2018, the additional credit loss allowance of RMB98 million related to accounts receivable and contract assets, and a corresponding deferred tax assets of RMB6 million have been recognised against retained earnings.

2.3 Impacts on opening consolidated statement of financial position arising from the application of all new standards

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

	31 December 2017	IFRS 15	IFRS 9	1 January 2018
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(audited)			(restated)
Non-current assets				
Available-for-sale financial assets	851,560	–	(851,560)	–
Equity instruments at fair value through other comprehensive income	–	–	4,008,605	4,008,605
Deferred tax assets	542,672	–	5,818	548,490
Other non-current assets	240,523	3,493	–	244,016
Others with no adjustments	6,755,299	–	–	6,755,299
Total non-current asset	8,390,054	3,493	3,162,863	11,556,410
Current assets				
Inventories	2,275,735	10,314	–	2,286,049
Accounts and bills receivable, net	30,370,500	(11,703,674)	(47,257)	18,619,569
Contract assets, net	–	11,687,405	(50,473)	11,636,932
Others with no adjustments	29,698,562	–	–	29,698,562
Total current assets	62,344,797	(5,955)	(97,730)	62,241,112
Total assets	70,734,851	(2,462)	3,065,133	73,797,522
Current liabilities				
Contract liabilities	–	8,289,875	–	8,289,875
Receipts in advance for contract work	4,997,284	(4,997,284)	–	–
Accrued expenses and other payables	11,320,729	(3,292,591)	–	8,028,138
Others with no adjustments	25,248,950	–	–	25,248,950
Total current liabilities	41,566,963	–	–	41,566,963
Net current assets	20,777,834	(5,955)	(97,730)	20,674,149
Total assets less current liabilities	29,167,888	(2,462)	3,065,133	32,230,559

	31 December 2017	IFRS 15	IFRS 9	1 January 2018
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(audited)			(restated)
Non-current liabilities				
Deferred tax liabilities	1,736	–	789,261	790,997
Others with no adjustments	346,501	–	–	346,501
Total non-current liabilities	348,237	–	789,261	1,137,498
Total liabilities	41,915,200	–	789,261	42,704,461
Equity				
Share capital	6,926,018	–	–	6,926,018
Reserves	21,403,080	(2,462)	2,276,259	23,676,877
Equity attributable to equity shareholders of the Company	28,329,098	(2,462)	2,276,259	30,602,895
Non-controlling interests	490,553	–	(387)	490,166
Total equity	28,819,651	(2,462)	2,275,872	31,093,061
Total liabilities and equity	70,734,851	(2,462)	3,065,133	73,797,522

3. SEGMENT REPORTING

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

4. REVENUES

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

Disaggregation of revenue

	2018	2017
	RMB'000	*RMB'000*
Revenue from telecommunications infrastructure services	**57,359,436**	50,510,988
Revenue from business process outsourcing services	**35,102,822**	32,763,685
Revenue from applications, content and other services	**13,714,379**	11,297,738
	106,176,637	94,572,411

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 2018 amounted to RMB41,279 million and RMB21,219 million, respectively (2017: RMB41,568 million and RMB15,825 million, respectively), being 38.9% and 20.0% of the Group's total revenues, respectively (2017: 43.9% and 16.7%, respectively). The revenues derived from areas outside Mainland China for the year ended 31 December 2018 amounted to RMB3,155 million (2017: RMB2,836 million).

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

The Group's rental income for the year ended 31 December 2018 amounted to RMB691 million (2017: RMB646 million).

5. COST OF REVENUES

	2018	2017
	RMB'000	*RMB'000*
Depreciation and amortisation	**466,096**	472,621
Direct personnel costs	**8,747,317**	8,647,493
Operating lease charges	**1,603,223**	1,485,355
Materials costs	**9,783,239**	9,327,654
Direct costs of products distribution	**4,629,177**	6,594,772
Subcontracting charges	**57,555,216**	46,858,020
Others	**10,507,403**	8,974,136
	93,291,671	82,360,051

6. OTHER OPERATING INCOME

	2018	2017
	RMB'000	*RMB'000*
Interest income	**181,612**	202,679
Dividend income from equity instruments	**1,575**	77,732
Government grants	**279,285**	236,906
Gain on disposal of subsidiaries	**20,206**	11,759
Gain on disposal of property, plant and equipment, other intangible assets and lease prepayments	**78,641**	24,644
Penalty income	**3,929**	2,731
Management fee income	**329,335**	328,523
Write-back of non-payable liabilities	**37,184**	23,698
Investment income and fair value gains on wealth management products and structured deposits	**252,609**	47,875
Others	**60,513**	57,945
	1,244,889	1,014,492

7. FINANCE COSTS

	2018	2017
	RMB'000	*RMB'000*
Interest on bank and other borrowings	**25,179**	12,411
Interest for convertible preference shares and preference shares	**–**	34,708
	25,179	47,119

For the years ended 31 December 2018 and 2017, no borrowing costs were capitalised in relation to construction in progress.

8. PROFIT BEFORE TAX

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

		2018 *RMB'000*	2017 *RMB'000*
(a)	Staff costs:		
	Salaries, wages and other benefits	**14,213,728**	13,797,277
	Contributions to defined contribution retirement schemes	**1,395,705**	1,283,625
		15,609,433	15,080,902
(b)	Other items:		
	Depreciation		
	– Property, plant and equipment	**659,181**	669,760
	– Investment properties	**44,355**	43,595
	Amortisation		
	– Lease prepayments	**26,727**	26,416
	– Other intangible assets	**107,874**	88,670
	Auditors' remuneration	**34,495**	34,500
	Materials costs	**9,783,239**	9,327,654
	Direct costs of products distribution	**4,629,177**	6,594,772
	Write-down of inventories	**30,819**	41,442
	Reversal of write-down of inventories	**(2,875)**	(7,181)
	Impairment losses on accounts receivable, other receivables and contract assets	**611,430**	453,963
	Reversal of impairment losses on accounts receivable, other receivables and contract assets	**(321,438)**	(286,998)
	Investment income and fair value gains of financial instruments at fair value through profit or loss	**(252,058)**	(17,362)
	Operating lease charges	**1,905,172**	1,775,369
	Research and development costs	**2,798,327**	2,554,834

The selling expenses, general and administrative expenses and other expenses of the Group are RMB2,071 million, RMB7,818 million and RMB722 million (2017: RMB1,689 million, RMB7,576 million and RMB620 million), respectively for the year ended 31 December 2018. Research and development costs include RMB2,290 million (2017: RMB2,041 million) relating to staff costs, amount of which is also included in the staff cost disclosed in note 8(a).

9. INCOME TAX

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

	2018	2017
	RMB'000	*RMB'000*
Current tax		
PRC enterprise income tax	**521,154**	536,514
Overseas enterprise income tax	**34,782**	17,204
Deferred tax		
Origination and reversal of temporary differences	**(58,531)**	(70,985)
Total income tax	**497,405**	482,733

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

	2018	2017
	RMB'000	*RMB'000*
Profit before tax	**3,425,304**	3,231,811
Expected income tax expense at a statutory tax rate of 25% (2017: 25%) *(note (i))*	**856,326**	807,953
Differential tax rates on subsidiaries' income *(note (i))*	**(214,189)**	(233,706)
Non-deductible expenses *(note (ii))*	**132,397**	140,874
Non-taxable income	**(58,741)**	(44,655)
Tax losses not recognised	**51,879**	52,450
Utilisation of previously unrecognised tax losses	**(4,719)**	(27,819)
Over provision in respect of prior years	**(28,737)**	(38,012)
Effect of tax exemptions	**–**	(1,454)
Others *(note (iii))*	**(236,811)**	(172,898)
Income tax	**497,405**	482,733

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 2018 and 2017, 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.

10. OTHER COMPREHENSIVE EXPENSE

Available-for-sale securities

	2018	2017
	RMB'000	*RMB'000*
Changes in fair value recognised during the year	**–**	(14,826)
Net deferred tax charged to other comprehensive expense	**–**	2,223
Net movement in the fair value reserve during the year recognised in other comprehensive expense	**–**	(12,603)

Equity instruments at FVTOCI

	2018	2017
	RMB'000	*RMB'000*
Changes in fair value recognised during the year	**(271,052)**	–
Net deferred tax charged to other comprehensive expense	**65,986**	–
Net movement in the fair value reserve during the year recognised in other comprehensive expense	**(205,066)**	–

11. DIVIDENDS

(a) Dividends attributable to the year

	2018	2017
	RMB'000	*RMB'000*
Final dividend proposed after the end of reporting period of RMB0.1257 per share (2017: RMB0.1176 per share)	**870,601**	814,500
Special dividend proposed after the end of reporting period of RMB0.0251 per share (2017: RMB0.0235 per share)	**173,843**	162,761
	1,044,444	977,261

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

	2018	2017
	RMB'000	*RMB'000*
Final dividend in respect of the previous financial year, approved and paid during the year, of RMB0.1176 per share (2017: RMB0.1098 per share)	**814,500**	760,477
Special dividend in respect of the previous financial year, approved and paid during the year, of RMB0.0235 per share (2017: RMB0.0220 per share)	**162,761**	152,372
	977,261	912,849

12. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company for the year ended 31 December 2018 of RMB2,901,324 thousand (2017: RMB2,714,213 thousand) and number of shares in issue during the year ended 31 December 2018 of 6,926,018 thousand shares (2017: 6,926,018 thousand shares).

13. ACCOUNTS AND BILLS RECEIVABLE, NET

	2018	2017
	RMB'000	*RMB'000*
Bills receivable	**276,034**	119,314
Accounts receivable	**19,806,523**	23,979,276
Unbilled revenues for contract work	**–**	7,615,867
	20,082,557	31,714,457
Less: allowance for credit losses	**(1,414,533)**	(1,343,957)
	18,668,024	30,370,500

(a) Included in accounts and bills receivable are amounts due from CTC Group, associates of the Group and associates of CTC Group of RMB10,620 million (2017: RMB20,023 million) as at 31 December 2018. 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:

	2018	2017
	RMB'000	*RMB'000*
Current	**1,736,665**	12,865,705
Within 1 year	**14,839,588**	15,273,116
After 1 year but less than 2 years	**1,376,626**	1,529,211
After 2 years but less than 3 years	**435,583**	488,983
After 3 years	**279,562**	213,485
	18,668,024	30,370,500

14. CONTRACT ASSETS, NET

	As at 31 December 2018 *RMB'000*	As at 1 January 2018* *RMB'000*
Telecommunications infrastructure services	**13,219,615**	9,715,834
Business process outsourcing services	**647,111**	778,861
Applications, content and other services	**2,028,796**	1,258,425
	15,895,522	11,753,120
Less: allowance for credit losses	**(230,764)**	(116,188)
	15,664,758	11,636,932

* The amounts in this column are after the adjustments from the application of IFRS 9 and 15.

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.

15. PREPAYMENTS AND OTHER CURRENT ASSETS

	2018 *RMB'000*	2017 *RMB'000*
Advances to staff	**86,002**	111,689
Amounts due from CTC Group, associates of the Group and associates of CTC Group	**1,726,998**	1,825,722
Prepayments in connection with construction work and equipment purchases	**2,722,854**	2,582,519
Prepaid expenses and deposits	**1,397,136**	1,256,574
Wealth management products and structured deposits	**–**	3,750,000
Others	**2,713,133**	2,288,625
	8,646,123	11,815,129

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.

16. ACCOUNTS AND BILLS PAYABLE

Accounts and bills payable comprise:

	2018 *RMB'000*	2017 *RMB'000*
Accounts payable	**27,067,452**	23,723,340
Bills payable	**1,212,081**	877,341
	28,279,533	24,600,681

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

	2018 *RMB'000*	2017 *RMB'000*
Within 1 year	**25,945,423**	22,989,350
After 1 year but less than 2 years	**1,651,120**	1,029,424
After 2 years but less than 3 years	**364,176**	308,399
After 3 years	**318,814**	273,508
	28,279,533	24,600,681

Included in accounts and bills payable are amounts due to CTC Group, associates of the Group and associates of CTC Group of RMB1,118 million (2017: RMB1,146 million) as at 31 December 2018. 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.

17. CONTRACT LIABILITIES

	As at 31 December 2018 *RMB'000*	As at 1 January 2018* *RMB'000*
Telecommunications infrastructure services	**6,865,112**	6,823,157
Other services	**1,782,948**	1,466,718
	8,648,060	8,289,875

* The amounts in this column are after the adjustments from the application of IFRS 15.

18. SHARE CAPITAL

	2018 *RMB'000*	2017 *RMB'000*
Registered, issued and fully paid:		
4,534,598,160 (31 December 2017: 4,534,598,160) domestic shares of RMB1.00 each	**4,534,598**	4,534,598
2,391,420,240 (31 December 2017: 2,391,420,240) H shares of RMB1.00 each	**2,391,420**	2,391,420
	6,926,018	6,926,018

	2018 *Thousand shares*	2017 *Thousand shares*
At 1 January and 31 December	**6,926,018**	6,926,018

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

Overview

In 2018, the Group adhered to its overall roadmap of "value-driven, seeking steady yet progressive growth and high-quality development". By capturing new opportunities in digitalization, fostering the new brand of "Smart Comservice" and continuing to transform its growth momentum, the Group made the leap from a ten-billion enterprise to a hundred-billion enterprise. Total revenues for the year amounted to RMB106,177 million, representing an increase of 12.3% as compared to 2017. Profits attributable to the equity shareholders of the Company was RMB2,901 million, representing an increase of 6.9% as compared to RMB2,714 million in 2017, with basic earnings per share amounted to RMB0.419. Free cash flow was RMB3,613 million, and cash conversion ratio was 146.9%, remaining at a healthy level continuously.

Total Revenues

The Group's total revenues in 2018 amounted to RMB106,177 million, representing an increase of 12.3% as compared to 2017. From the business perspective, the revenue from telecommunications infrastructure ("TIS") services was RMB57,359 million, representing a year-on-year growth of 13.6%; the revenue from business process outsourcing ("BPO") services was RMB35,103 million, representing a year-on-year increase of 7.1%, of which the revenues from Core BPO services (i.e. excluding products distribution business) was RMB30,220 million, representing a year-on-year increase of 17.1%; and the revenue from applications, content and other ("ACO") services was RMB13,715 million, representing a year-on-year growth of 21.4%. The Group continuously improved the delivery capabilities of TIS services, and extended its competitive industrial capacity to different markets, making TIS services the biggest driver of its overall revenue growth. Meanwhile, the Group aggressively promoted its smart services, which in turn stimulated the growth of its software development and system integration businesses, development of the ACO services expedited and became the fastest growing business segment of the year. The Group continued to optimize its Core BPO services, aiming to turn it into a sustainable and recurrent business, with the related revenue maintaining at double-digit growth.

From the market perspective, the incremental revenue from the domestic non-telecom operator market surpassed those generated from the domestic telecommunications operator market in 2018, and the revenue from such market amounted to RMB33,317 million, representing a year-on-year increase of 25.0%, in which, revenue from the Core Businesses of such market amounted to RMB29,701 million, representing a rapid year-on-year increase of 33.9%. Revenue from the domestic telecommunications operator market amounted to RMB69,705 million, representing a year-on-year growth of 7.1%; and revenue from the overseas market amounted to RMB3,155 million, representing a year-on-year increase of 11.2%. In 2018, the Group fully exploited the demands arising from the Digital Economy and Smart Society of the domestic non-telecom operator customers, such as governments and enterprises, and businesses from such market became the main growth momentum of the Group's total revenues. Meanwhile, the Group kept abreast of the network construction of the domestic telecommunications operators and endeavoured to increase its market share, and also captured the opportunity of OPEX business of the domestic telecommunications operators through putting more efforts on the expansion of Network Maintenance business, and constantly promoting the synergistic operation of supply chain and general facilities management businesses, thus effectively alleviating the impact of the decrease in the telecommunications operators' CAPEX on the development of the Group.

The following table sets forth a breakdown of our total revenues for 2017 and 2018, together with their respective changes:

	2018	2017	
	RMB'000	*RMB'000*	Change
Telecommunications Infrastructure Services			
Design services	**10,605,020**	10,239,148	3.6%
Construction services	**42,862,805**	36,668,312	16.9%
Project supervision and management services	**3,891,611**	3,603,528	8.0%
	57,359,436	50,510,988	13.6%
Business Process Outsourcing Services			
Management of infrastructure for information technology (Network Maintenance)	**14,793,165**	12,829,513	15.3%
General facilities management	**5,277,821**	4,554,889	15.9%
Supply chain	**10,148,648**	8,424,053	20.5%
Sub-total of Core BPO Services	**30,219,634**	25,808,455	17.1%
Products distribution	**4,883,188**	6,955,230	–29.8%
	35,102,822	32,763,685	7.1%
Applications, Content and Other Services			
System integration	**7,372,535**	5,789,503	27.3%
Software development and system support	**2,501,901**	2,048,496	22.1%
Value added services	**1,934,382**	1,570,458	23.2%
Others	**1,905,561**	1,889,281	0.9%
	13,714,379	11,297,738	21.4%
Total	**106,176,637**	94,572,411	12.3%

Telecommunications Infrastructure Services

In 2018, the Group's revenue from TIS services amounted to RMB57,359 million, representing an increase of 13.6% as compared to RMB50,511 million in 2017. TIS services was the primary source of revenue and accounted for 54.0% of our total revenues, representing an increase of 0.6 percentage point from 53.4% in 2017. As to the customer structure of the TIS services, the Group's TIS revenue from domestic telecommunications operators amounted to RMB40,325 million and accounted for 70.3% of the total TIS revenues, representing a decrease of 6.2 percentage points from last year. The aggregate TIS revenues from domestic non-telecom operator customers and overseas customers amounted to RMB17,034 million and accounted for 29.7% of the total TIS revenues, representing an increase of 6.2 percentage points from last year, whereas the increase in proportion was driven by domestic non-telecom operator customers.

In 2018, the Group's TIS revenue from domestic telecommunications operators increased by 4.3% over 2017. The Group persisted in strengthening project management and improving delivery quality, and its TIS revenue from the domestic telecommunications operator customers recorded a steady growth despite the CAPEX decrease from those customers. Meanwhile, the aggregate TIS revenues from domestic non-telecom operator customers and overseas customers increased by 43.6% over 2017, in which the TIS revenue from domestic non-telecom operator customers recorded a significant year-on-year growth of 50.8%, showing a remarkably enhanced growth momentum, as a result of which effectively alleviated the impacts from changes in network investments of the domestic telecommunications operators.

Business Process Outsourcing Services

In 2018, the Group's revenue from BPO services amounted to RMB35,103 million, representing an increase of 7.1% as compared to RMB32,763 million in 2017, accounting for 33.1% of our total revenues, a decrease of 1.5 percentage points as compared to 34.6% in 2017. Excluding the products distribution business, revenue from the Core BPO businesses amounted to RMB30,220 million, representing a year-on-year growth of 17.1%. Our Core BPO businesses achieved a rapid growth mainly due to our enhanced efforts in developing the OPEX business of the domestic telecommunications operators. In terms of customer structure of the BPO services, the BPO revenue from the domestic telecommunications operators amounted to RMB23,514 million, representing an increase of 10.0% over 2017, and accounting for 67.0% of the total revenues from the BPO services, representing an increase of 1.8 percentage points over 2017. The aggregate BPO revenues from the domestic non-telecom operator customers and overseas customers amounted to RMB11,589 million, representing an increase of 1.7% over 2017, accounted for 33.0% of the total revenues from the BPO services, representing a decrease of 1.8 percentage points over 2017.

In 2018, among each of the business under the Group's BPO services, revenue from the Network Maintenance business maintained a favourable growth and amounted to RMB14,793 million, representing an increase of 15.3% as compared to 2017, which is primarily due to the Group's focus on the OPEX business and the continuously increasing operation outsourcing demand of domestic telecommunications operators. The Group's capabilities for undertaking nation-wide integrated business and synergistic operation of supply chain business have been gradually enhanced, and the revenue from such business amounted to RMB10,149 million, representing an increase of 20.5% as compared to 2017. Revenue from the general facilities management service amounted to RMB5,278 million, representing an increase of 15.9% as compared to 2017, maintaining a favourable growth momentum. Besides, the Group adhered to the principle of high-quality development and proactively controlled products distribution business with low efficiency, and revenue from the products distribution business decreased by 29.8% as compared to 2017 and amounted to RMB4,883 million.

Applications, Content and Other Services

In 2018, the Group's revenue from ACO services amounted to RMB13,715 million, representing an increase of 21.4% as compared to RMB11,298 million in 2017, making it the fastest-growing business segment for the year. The revenue from ACO services accounted for 12.9% of the Group's total revenues, representing an increase of 0.9 percentage point from 12.0% in 2017, which has been constantly growing for three consecutive years. In terms of the customer structure of ACO services, the Group's ACO revenue from domestic telecommunications operators amounted to RMB5,866 million and accounted for 42.8% of the total ACO revenues, representing a decrease of 2.0 percentage points from the corresponding period of last year. Aggregate ACO revenues from domestic non-telecom operator customers and overseas customers amounted to RMB7,849 million, accounting for 57.2% of the total ACO revenues, representing an increase of 2.0 percentage points from the corresponding period of last year, which was driven by the domestic non-telecom operator customers.

In 2018, the Group adapted to the national strategies, including "Cyberpower", "Digital China" and "Smart Society", as well as the "Belt and Road" Initiative, and further enriched and optimized its smart solutions for different industries by consolidating its internal and external resources, strengthening synergistic cooperation, and leveraging advanced technologies such as Big Data, Cloud Computing, and IoT. Aggregate ACO revenues from the domestic non-telecom operator customers and overseas customers witnessed a rapid growth of 25.8% over 2017. With the Group's enhanced efforts in developing the domestic non-telecom operator customers, both the revenue and incremental revenue contribution of those customers from ACO services have surpassed those of the domestic telecommunications operators. ACO revenue from domestic telecommunications operators increased by 15.9% over 2017, maintaining a steady growth.

Cost of Revenues

The Group's cost of revenues in 2018 amounted to RMB93,292 million, representing an increase of 13.3% from 2017 and accounting for 87.9% of the total revenues.

The following table sets out a breakdown of the Group's cost of revenues in 2017 and 2018 and their respective changes:

	2018	2017	
	RMB'000	*RMB'000*	Change
Direct personnel costs	**8,747,317**	8,647,493	1.2%
Depreciation and amortization	**466,096**	472,621	–1.4%
Materials costs	**9,783,239**	9,327,654	4.9%
Direct costs of products distribution	**4,629,177**	6,594,772	–29.8%
Subcontracting charges	**57,555,216**	46,858,020	22.8%
Operating lease charges and others	**12,110,626**	10,459,491	15.8%
Total cost of revenues	**93,291,671**	82,360,051	13.3%

Direct Personnel Costs

In 2018, direct personnel costs amounted to RMB8,748 million, representing an increase of 1.2% from RMB8,647 million in 2017. Direct personnel costs as a proportion to our total revenues was 8.3%, representing a decrease of 0.8 percentage point from 2017. With the growth in its business volume in 2018, the Group made use of outsourcing resources reasonably, strictly controlled its total headcount and staff costs, thereby improving its labour productivity.

Depreciation and Amortisation

In 2018, depreciation and amortisation were RMB466 million, representing a decrease of 1.4% from RMB473 million in 2017. Depreciation and amortisation as a proportion to our total revenues was 0.4%.

Materials Costs

In 2018, materials costs amounted to RMB9,783 million, representing an increase of 4.9% as compared to RMB9,328 million in 2017. Materials costs as a proportion to our total revenues was 9.2%, representing a decrease of 0.7 percentage point from 2017. The increase in materials costs was mainly attributable to the increase in relevant materials costs caused by the growth of our system integration and supply chain services.

Direct Costs of Products Distribution

In 2018, the direct costs of products distribution amounted to RMB4,629 million, representing a decrease of 29.8% as compared to RMB6,595 million in 2017. Direct costs of products distribution as a proportion to our total revenues was 4.4%, representing a decrease of 2.6 percentage points over 2017. The significant decrease in the direct costs of products distribution was mainly because the Group proactively controlled the development of certain low efficiency products distribution business.

Subcontracting Charges

In 2018, subcontracting charges were RMB57,555 million, representing an increase of 22.8% as compared to RMB46,858 million in 2017. Subcontracting charges as a proportion to our total revenues was 54.2%, representing an increase of 4.7 percentage points over 2017. The increase in subcontracting charges was mainly from the construction and Network Maintenance businesses. The Group has been transforming from the labour-intensive operation model to management and technology-intensive operation model. In order to meet the need for transformation and the demand for total headcount control, the Group focused on high-end businesses and promoted subcontracting of low-end businesses. In addition, the Group undertook more turnkey projects in the domestic non-telecom operator market, in which the turnkey projects have more needs for subcontracting for certain professional work.

Operating Lease Charges and Others

In 2018, operating lease charges and others were RMB12,111 million, representing an increase of 15.8% over RMB10,459 million in 2017. Operating lease charges and others as a proportion to our total revenues was 11.4%, representing an increase of 0.3 percentage point over 2017. The increase in costs was mainly due to the increase in technical service expenses under other expenses in order to support the business development of the Group.

Gross Profit

In 2018, the Group recorded gross profit of RMB12,885 million, representing an increase of 5.5% over RMB12,212 million in 2017. The Group's gross profit margin in 2018 was 12.1%, representing a decrease of 0.8 percentage point from 12.9% in 2017. In 2018, there was a decline in gross profit margin of the Group due to various factors, including the decrease in unit prices of certain businesses from domestic telecommunications operator market and the increase in certain costs that were characterized as fixed in nature, such as labour-related costs. In addition, due to the fact that the development in the domestic non-telecom operator market is still in the preliminary introductory phase, the gross profit margin were affected to a certain extent with the rapid increase of revenue scale. In the meantime, the Group continued to optimize its revenue structure in 2018. Revenue from the Core Businesses as a proportion to our total revenues was 95.4%, representing an increase of 2.7 percentage points as compared to the previous year, thereby alleviating the impacts brought by the above factors on gross profit margin to a certain extent. Through continuous transformation and business upgrade, the Group will endeavour to increase the proportion of smart businesses and improve gross profit margin.

Selling, General and Administrative Expenses

In 2018, the selling, general and administrative expenses of the Group were RMB10,611 million, representing an increase of 7.3% as compared to RMB9,885 million in 2017. The selling, general and administrative expenses as a proportion of our total revenues was 10.0%, representing a decrease of 0.5 percentage point from 2017. The main reason for the increase in selling, general and administrative expenses was the increased investment on research and development as well as sales and marketing during the year to support the Group's direction of transformation towards digitalization and cultivate the brand of "Smart Comservice", so as to help expand its businesses.

Finance Costs

In 2018, the finance costs of the Group were RMB25 million (2017: RMB47 million), which was lower than that of 2017. It was mainly due to the decrease in the relevant interest expenses as a result of the redemption of the convertible preference shares by one of the Group's subsidiaries in 2017.

Income Tax

In 2018, the income tax of the Group was RMB497 million and its effective tax rate was 14.5%, representing a decrease of 0.4 percentage point from 14.9% in 2017. 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 2018, certain subsidiaries of the Group that fall under the scope of new and high-technology enterprises were entitled to a preferential income tax rate of 15%. Certain enterprises in the western China were entitled to the preferential policies for Western Development Program. Apart from these subsidiaries, the Company and other domestic subsidiaries of the Group were mainly subject to an income tax rate of 25%. The overseas subsidiaries of the Group were subject to different tax rates in various countries.

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

In 2018, profit attributable to equity shareholders of the Company was RMB2,901 million, representing an increase of 6.9% over RMB2,714 million in 2017. Profit attributable to equity shareholders of the Company accounted for 2.7% of our total revenues, which slightly decreased as compared to 2017. Basic earnings per share of the Company were RMB0.419, representing an increase of 6.9% as compared to RMB0.392 in 2017.

Capital Expenditure

The Group implemented stringent budget management over capital expenditure, and made adjustments according to changes in market condition. In 2018, capital expenditure amounted to RMB824 million, representing a decrease of 10.5% over RMB921 million in 2017. The capital expenditure in 2018 accounted for 0.8% of the total revenues, representing a decrease of 0.2 percentage point over 2017. 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 RMB2,824 million in 2018, as compared with a net cash outflow of RMB21 million in 2017. Such change was mainly due to the decrease of cash used in investing activities during the reporting period. As at the end of 2018, the balance of cash and cash equivalents of the Group amounted to RMB16,106 million, of which 95.3% was denominated in Renminbi.

The following table sets out our cash flow positions in 2017 and 2018, respectively:

	2018	2017
	RMB'000	*RMB'000*
Net cash generated from operating activities	**4,260,971**	6,964,245
Net cash used in investing activities	**(550,886)**	(5,683,712)
Net cash used in financing activities	**(885,710)**	(1,301,884)
Net increase/(decrease) in cash and cash equivalents	**2,824,375**	(21,351)

In 2018, net cash generated from operating activities was RMB4,261 million, representing a decrease of RMB2,703 million from RMB6,964 million in 2017. The change in operating cash flow was mainly because of the high base effect after substantial increases in the previous years, and it returned to a relatively normal level in 2018.

In 2018, net cash used in investing activities was RMB551 million, representing a decrease of RMB5,132 million from RMB5,683 million in 2017. The decrease was mainly attributable to the utilization of part of the fund to purchase short-term wealth management products and place in banks as structured deposits since 2017, but there was no further increase in the scale in 2018 considering the overall arrangement of the Group.

In 2018, net cash used in financing activities was RMB886 million, representing a decrease of RMB416 million from RMB1,302 million in 2017. The decrease was mainly due to the combined impact of the convertible preference shares redeemed by one of the subsidiaries of the Group in 2017 and the increase in borrowings for overseas business expansion in 2018.

Working Capital

As at the end of 2018, the Group's working capital (i.e. current assets net of current liabilities) was RMB21,783 million, representing an increase of RMB1,005 million from RMB20,778 million in 2017. 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 2018, the Group's total assets was RMB80,926 million, representing an increase of RMB10,191 million from RMB70,735 million in 2017. Total liabilities was RMB48,097 million, representing an increase of RMB6,182 million from RMB41,915 million in 2017. The liabilities-to-assets ratio was 59.4%, which is basically the same as that of 59.3% at the end of 2017.

Indebtedness

As at the end of 2018, total indebtedness of the Group was RMB471 million, representing an increase of RMB144 million from RMB327 million as at the end of 2017. Indebtedness of the Group was mainly denominated in US dollar, of which Renminbi loan accounted for 2.8% and US dollar loan accounted for 85.5%; and of which 21.3% was the loans with a fixed interest rate and 78.7% was those with a floating interest rate.

As at the end of 2018, our gearing ratio[9] was 1.4%, representing an increase of 0.3 percentage point from 1.1% as at the end of 2017.

Contractual Obligations

The following table sets out our contractual commitments as at 31 December 2018:

	Total	**2019**	**2020**	**2021**	**2022**	**2023 and after**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Short-term debt	462,003	462,003	–	–	–	–
Long-term debt	8,922	–	8,922	–	–	–
Operating lease commitments	1,301,802	508,960	283,124	175,383	97,493	236,842
Contracted for but not provided capital commitments	500,340	500,340	–	–	–	–
Total of contractual obligations	2,273,067	1,471,303	292,046	175,383	97,493	236,842

Exchange Rate

Most of the Group's revenues and expenses are denominated in Renminbi. As at the end of 2018, the balance of the Group's cash and cash equivalents in foreign currencies accounted for 4.7% of the balance of its total cash and cash equivalents, of which 1.9% and 0.5% were denominated in US dollars and Hong Kong dollars, respectively.

9 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.

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

For the year ended 31 December 2018, 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 2018.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

As a joint stock limited company incorporated in the PRC and listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), the Company has not only complied with the relevant provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) but also has abided by the PRC Company Law and the applicable laws, regulations and regulatory requirements of Hong Kong and the PRC as the basic guidelines for the Company’s corporate governance. Throughout the year ended 31 December 2018, the Company has complied with the code provisions as set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules.

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

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

CLOSURE OF SHARE REGISTER

1. Annual General Meeting

The H share register of members of the Company will be closed, for the purpose of determining the H share shareholders' entitlement to attend the annual general meeting (the "Annual General Meeting") to be held on Friday, 21 June 2019, from Wednesday, 22 May 2019 to Friday, 21 June 2019 (both days inclusive), during which period no transfer of H shares will be registered. In order to attend the Annual General Meeting, all transfer documents, accompanied by the relevant share certificates, must be lodged for registration with Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, not later than 4:30 p.m. on Tuesday, 21 May 2019. H share shareholders of the Company who are registered on the register of members held by Computershare Hong Kong Investor Services Limited on Friday, 21 June 2019 are entitled to attend the Annual General Meeting.

2. Proposed Final Dividend and Special Dividend

The Board proposes a final dividend of RMB0.1257 per share and a special dividend of RMB0.0251 per share, and the total dividend is RMB0.1508 per share (pre-tax) for the year ended 31 December 2018. 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, 10 July 2019. The register of members will be closed from Friday, 5 July 2019 to Wednesday, 10 July 2019 (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, 4 July 2019.

Dividends will be denominated and declared in Renminbi. Dividends will be paid in Renminbi for holders of domestic shares and holders of H shares (including enterprises and individuals) who invest in the H shares of the Company listed on the Hong Kong Stock Exchange through the Shanghai Stock Exchange or Shenzhen Stock Exchange ("the Southbound Trading") (the "Southbound Shareholders"), and dividends for H share shareholders other than the Southbound Shareholders will be paid in Hong Kong dollars. The relevant exchange rate will be the average of the mid-point rates of Renminbi to Hong Kong dollars as announced by the People's Bank of China for the week prior to the date of approval of declaration of dividends 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, 16 August 2019 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, 10 July 2019 according to the following regulations:

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

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

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

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

ANNUAL REPORT

The Annual Report for the year ended 31 December 2018 will be dispatched to shareholders and made available on the HKExnews website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (www.chinaccs.com.hk) in due course.

FORWARD-LOOKING STATEMENTS

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

Beijing, PRC
28 March 2019

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