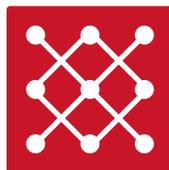


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中国通信服务
CHINA COMSERVICE

中國通信服務股份有限公司
CHINA COMMUNICATIONS SERVICES CORPORATION LIMITED

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

(Stock Code: 552)

**ANNOUNCEMENT OF ANNUAL RESULTS FOR
THE YEAR ENDED 31 DECEMBER 2021**

HIGHLIGHTS

- Operating results achieved solid and progressive growth with an enhancement in development quality.
 - Total revenues were RMB133,991 million, up by 9.2%.
 - Profit attributable to equity shareholders of the Company was RMB3,157 million, up by 2.5%.
 - Profit attributable to equity shareholders of the Company (as adjusted) was RMB3,247 million, up by 5.4%^(Note).
 - Free cash flow was RMB4,060 million, up by 54.4%.
 - Gross profit margin was 11.0%, showing a moderating decline trend, and net profit margin was 2.4%.
- The Board has proposed to increase the dividend per share by paying a final dividend of RMB0.1641 per share, representing a year-on-year increase of 22.9%, and a special dividend of RMB0.0091 per share. Total dividend for 2021 is RMB0.1732 per share, representing a year-on-year increase of 8.1%, and the total dividend payout ratio is 38%.

Note: For a comparable analysis, the relevant data is the adjusted profit attributable to equity shareholders of the Company and its year-on-year change. In relation to the property acquired in 2020 to serve as the bases for the smart production, operation and research and development, the corresponding depreciation of the property was excluded as it was transferred to fixed assets in February 2021 (2020: Nil).

STATEMENT FROM THE BOARD

Dear Shareholders,

In 2021, by adhering to the overall roadmap of “value-driven, seeking steady yet progressive growth and high-quality development” and leveraging its strengths as a “New Generation Integrated Smart Service Provider”, the Group overcame the setbacks from the COVID-19 pandemic, expanded markets proactively and achieved satisfactory operating performance by taking a firm grip of the significant opportunities brought by digital economy, Cyberpower and National Big Data Strategy. Meanwhile, the Group started the new stage of development, practised the new development philosophy and serviced the new development landscape; and focused on State-owned Enterprise Reform and value creation with transitory results achieved, leading to a further enhancement in its development quality and laying a more solid foundation for future development.

Operating Performance

In 2021, the Group capitalized on the opportunities arising from the acceleration in the digital infrastructure construction and the promotion of integrated development of digital economy and real economy in China, the domestic non-telecom operator (“domestic non-operator”) market achieved sound development and was the largest growth driver of the Group’s results. In addition, the supply chain business, which has been consolidated and cultivated, and applications, content and other (“ACO”) services also contributed notably to the results growth. The total revenues of the Group increased by 9.2% year-on-year to RMB133,991 million for the year. Profit attributable to the equity shareholders of the Company amounted to RMB3,157 million, representing a year-on-year increase of 2.5% (excluding the effect of depreciation arising from the Group’s property acquired in 2020 as the bases for the smart production, operation and research and development, which was transferred to fixed assets in February 2021, profit attributable to the equity shareholders of the Company in 2021 was RMB3,247 million, representing a year-on-year increase of 5.4%). Gross profit margin was 11.0%, and the decline of gross profit margin has been moderating and stabilizing gradually¹. Free cash flow² remained healthy at RMB4,060 million, representing a year-on-year increase of 54.4%. Good operating results and sufficient free cash flow have provided solid support for the subsequent development of the Group.

¹ In 2020, gross profit margin of the Group was 11.2%, representing a decline of 0.5 percentage point as compared to 2019.

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

Dividend

In view of factors including the Group's operating results, and to further increase shareholders' return, the Board has proposed to increase the dividend payout ratio of final dividend from 30% in the past to 36% for the financial year ended 31 December 2021, representing a final dividend of RMB0.1641 per share with a year-on-year increase of 22.9%. Besides, the Board has also proposed to distribute a special dividend of RMB0.0091 per share for 2021. Taking into consideration of the above factors, the Company's total dividend for 2021 is RMB0.1732 per share, representing a year-on-year increase of 8.1% and a total dividend payout ratio of 38%.

Market Development

In 2021, the Group actively expanded the domestic non-operator market and the revenue from such market amounted to RMB57,446 million, representing a year-on-year increase of 15.9% and accounting for 42.9% of the total revenues, an increase of 2.5 percentage points year-on-year. Domestic non-operator market was the largest contributor to revenue growth among the customer groups³. The Group continued to make breakthroughs in digital infrastructure and industrial smart solutions, with sizeable projects valued above RMB10 million kept increasing, and the development quality of the domestic non-operator market gradually elevated.

In 2021, the Group seized market opportunities in 5G, data centers, cloud-network integration and network information security, adhered to the development strategy of "CAPEX + OPEX + Smart Applications"⁴ and provided customers with integrated services for new information infrastructure construction and industrial digitalization. The revenue from domestic telecommunications operator market amounted to RMB73,803 million, representing a year-on-year increase of 5.5%, which reversed the year-on-year decrease in revenue⁵ from such market, and accounting for 55.1% of the total revenues, representing a year-on-year decrease of 2.0 percentage points. The Group proactively integrated itself into the industry's ecosystem and strengthened cooperation with the domestic telecommunications operators in market expansion and technology research and development for mutual complementarity, leading to favourable results. The above efforts deepened the trust and loyalty from domestic telecommunications operators, while broadening the source of the Group's revenue and enhancing its capabilities.

In 2021, the COVID-19 pandemic continued to rage overseas, which had a relatively large impact on the Group's overseas business. The Group's revenue from overseas market amounted to RMB2,742 million, representing a year-on-year decrease of 11.4% and accounting for 2.0% of the total revenues. Although the protracted pandemic cast greater uncertainties over its overseas business expansion, the Group still proactively expanded its business and built up a reserve of overseas projects in various regions.

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

⁴ CAPEX + OPEX + Smart Applications: CAPEX refers to the capital expenditure of domestic telecommunications operators while OPEX refers to the operating expenditure of domestic telecommunications operators.

⁵ In 2020, the revenue from the domestic telecommunications operator market recorded a year-on-year decrease of 3.4%.

Business Development

In 2021, the Group fully recognized that the new round of technological revolution and industrial reform had brought huge room of development for China's digital economy industry. As a "New Generation Integrated Smart Service Provider", the Group rode on the trend and supported its customers to build digital infrastructure featuring 5G, cloud computing and other advanced technologies. Revenue from the telecommunications infrastructure ("TIS") services amounted to RMB71,889 million, representing a year-on-year increase of 7.0% and accounting for 53.7% of the total revenues.

In 2021, the Group seized the opportunities arising from the OPEX of domestic telecommunications operators and the development of modern supply chain industry. Revenue from business process outsourcing ("BPO") services amounted to RMB40,624 million, representing a year-on-year increase of 9.0% and accounting for 30.3% of the total revenues. Of which, revenue from our network maintenance business and supply chain business recorded a year-on-year growth of 5.6% and 10.1%, respectively. The growth of supply chain business expedited notably⁶ after consolidation, synergistic operation and the introduction of strategic investors. The aggregate contribution to revenue growth from network maintenance and supply chain businesses accounted for 59.1% of the revenue growth of BPO services.

In 2021, the Group stepped up its technology research and development and iterative development of smart products to cater for the demand for upgrade from digitalization of the society and industrial digitalization, with focus placed on key industries such as the government, electricity, transportation and medical care, and provided its customers with digitalization products, platforms and solutions adapted to 5G scenarios. ACO services maintained its rapid growth momentum, with a revenue of RMB21,478 million for the year, representing a year-on-year growth of 18.0%. Its contribution to the total revenues increased by 1.2 percentage points year-on-year to 16.0%.

State-owned Enterprise Reform

Leveraging "Double-hundred Reform", the Group further promoted comprehensive reform, and made certain achievements. In the aspect of introducing strategic investors, in 2021, the Group introduced State Grid Information & Telecommunication Technology Group Co., Ltd. ("State Grid ITT Group") successfully as a strategic shareholder and entered into a Digital New Infrastructure Strategic Cooperation Framework Agreement with State Grid ITT Group. State Grid ITT Group currently holds 166,000,000 domestic shares of the Company, representing 2.40% of the total issued share capital of the Company. The chairman of State Grid ITT Group has been appointed as a Non-executive Director of the Company at present. By introducing State Grid ITT Group as a strategic shareholder of the Group and entering into the strategic cooperation agreement, the Group has further expanded the market in the fields of informatization and intelligentization of the power industry. In 2021, the contract amount from State Grid increased by approximately 20% year-on-year.

⁶ In 2020, the revenue from the supply chain business recorded a year-on-year growth rate of 5.3%.

In the aspect of mixed-ownership reform at subsidiary level, in 2021, the wholly-owned subsidiary of the Group, China Comservice Supply Chain Management Company Ltd. (“Supply Chain Company”), introduced four strategic investors⁷ successfully and the strategic investors have injected a total of RMB900 million into the Supply Chain Company. After the completion of the capital injection, the aggregate equity interest held by strategic investors is approximately 26.015% of the enlarged share capital in the Supply Chain Company. The Supply Chain Company is the only integrated logistics enterprise in the domestic telecommunications industry with a “5A” qualification. The Group introduced strategic investors with synergistic effect for the Supply Chain Company with an aim to build the Supply Chain Company into a leading enterprise of smart supply chain integrated services in the domestic ICT industry to strengthen the Group’s competitiveness.

In the aspect of market-oriented incentive mechanism, in 2021, the Group implemented the Share Appreciation Rights Incentive Scheme with the approval of the general meeting. Such scheme aims to deepen the reform of incentive and restraint mechanism and refine the mid- to long-term incentive system, thereby making the interests of the core staff in key positions closely linked to the performance of the Group and fully motivating the key talents. Besides, the Group deeply implemented pilot subdivision of assessment units and empowered the front line with corporate resources to improve the overall efficiency of the Group and employees’ sense of gain.

Capabilities Enhancement

In 2021, the Group pressed on with technological innovation and accelerated the construction of core platforms and products through the “Synergistic + Dispersed” research and development mechanism. The Group currently has developed a wide range of industrial applications and products covering various industries and sectors such as smart city, digital government, smart emergency management, smart game, and smart transportation, together with self-developed core platforms including open Internet of Things (“IoT”) platform, cybersecurity platform, emergency management industry middle platform, maintenance digitalization platform, blockchain platform and innovation middle platform. The Group’s technological strength has been well recognized by the society. The Group ranked 4th in the “100 Most Competitive Software & IT Service Enterprises 2021” coordinated by China Information Technology Industry Federation; shortlisted in the “Top 100 Cybersecurity Enterprises in China” Industry Report by “AQNIU”⁸ for three consecutive years; and the IoT platform was shortlisted in the “2021 China AIoT Industry Panoramic Map Report”.

In 2021, the Group continued the efforts to enhance its internal efficiency. Among which, smart cloud-based procurement platform was applied to carry out fully transparent procurement management; subcontracting charges were contained by implementing a whole process management with system control, IT control and personnel management, and the subcontracting charges accounted for 53.2% of the total revenues, representing a decrease of 1.6 percentage points year-on-year. Besides, in order to overcome the difficulties amid the pandemic, the Group adopted various measures to improve the settlement efficiency of accounts receivable, and the ratio of accounts receivable⁹ to total revenues was 29.7%, being the lowest level in the past five years.

⁷ The four strategic investors are COSCO SHIPPING (Tianjin) Company Limited, Zhilian Shenzhen International Smart Logistics (Shenzhen) Co., Ltd., Guoxin Shuangbai No. 1 (Hangzhou) Equity Investment Partnership (Limited Partnership) and Gongqingcheng Orient Securities Sucheng Investment Partnership (Limited Partnership).

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

⁹ Accounts receivable comprises accounts receivable, bills receivable and contract assets.

Environmental, Social and Governance (ESG)

The Group actively responds to the national strategic requirement, and it has set up a management organization for “Carbon Peak, Carbon Neutrality” and formulated green and low-carbon plans and related implementation programs. The Group consistently follows and implements the development principles of innovation, coordination, green, openness and sharing, continues to increase investment in the research and development of new energy-saving technologies and businesses, establishes a green ecosystem and achieves healthy and sustainable corporate development. Among them, the Group adopted the green photovoltaic technology to change the traditional power supply method for data rooms, and launched a pilot program of using a mixture of solar energy and utility power to supply power for data rooms in Guangdong to make full use of solar energy to achieve energy saving and emission reduction. Leveraging the carbon neutrality data management platform to achieve carbon emission data monitoring and control, the Group built the first carbon neutrality park in the inner ring of Shanghai, serving as a carbon neutrality demonstration and training base.

The Group has high regard for shouldering the responsibilities and hasten to the frontline of pandemic combat and disaster relief. In 2021, when Henan experienced extremely rare and severe rainstorm and communications network disruption, the Group responded promptly and adopted multiple high-tech measures for emergency repair of communication network. In addition, the Group leveraged the advantages of network-wide warehouse resource distribution and coordinated with national and social efforts to deliver emergency rescue equipment and supplies to the disaster-stricken sites within eight hours, efficiently linking up the “lifeline” for disaster relief supplies. Such deeds were reported by Xinhua News Agency and other official media. Following the latest severe outbreak of COVID-19 pandemic in Hong Kong, the Group undertook the 5G network construction and the communications service support for module hospitals in locations such as Kai Tak, Chok Ko Wan and Tsing Yi, ensuring safe and smooth communication network.

In the recently concluded XXIV Olympic Winter Games in Beijing, the Group undertook 135 important communications support projects related to the Olympic Games and properly resolved a variety of emergency situations during the Winter Games support work, which was well-trusted and highly recognized by customers and venue operators, demonstrating the Group’s responsibilities, capabilities and commitment, as well as enhancing the corporate brand awareness and reputation.

The Group has always maintained a high standard of corporate governance and attached great importance to corporate management according to relevant laws and risk prevention and control, so as to ensure its healthy and sustainable development. Our efforts have also been widely recognized by the capital market. The Group ranked 87th in *FORTUNE China*’s “2021 FORTUNE China 500” and 1,337th in *Forbes*’ “2021 Forbes Global 2000”. In the “16th Asian ESG Awards” organized by *Corporate Governance Asia*, the Group won the accolades of “Asia’s Icon on ESG”, “ESG Influencer” and “Asian Corporate Director”. The Group was honored with “Gold Award” in “The Asset ESG Corporate Awards 2021” held by *The Asset*, a financial magazine. The Group was named as “Honored Company” in “2021 All-Asia Executive Team” rankings by *Institutional Investor* again. The Group was also awarded “2021 Golden Hong Kong Equities Grand Award” in the “6th Golden Hong Kong Equities Awards Ceremony”. The Group also received honors of “Best CEO” and “Best CFO” in rankings from *Institutional Investor* and other institution.

Outlook

Currently, the State has attached great importance to developing digital economy and promoting integrated development of the digital economy and the real economy. Since the outbreak of COVID-19 pandemic, digital technology and digital economy have played an important role in fighting against the COVID-19 pandemic and the resumption of work and life. With China entering a new stage of development, the Group, which acts as a “New Generation Integrated Smart Service Provider”, will seize the opportunities brought by the robust development of digital economy, acceleration of digital transformation in society, the fulfillment of national objectives of “Carbon Peak, Carbon Neutrality”, the full commencement of “East-To-West Computing Resource Transfer” project, and adhere to the principles of fairness and innovation, seeking steady yet progressive growth, value placed at the first priority, manageable risks, united spirits and efforts, to continuously strengthen its technological innovation capability, synergistic capability in ecosystem, market competitiveness, reform impetus and risk control capability while putting efforts into pandemic prevention and control. The Group will capitalize on its own advantages and strive for market expansion, increase research and development investment to embark on the path of transformation and upgrade towards a technology-oriented enterprise. The Group will focus on value creation, promote reforms and innovation, with a view to achieving high-quality development.

In the domestic non-operator market, the Group will seize the opportunities arising from industrial digitalization and digital infrastructure, capitalizing on its advantages of the “Consultant + Staff + Housekeeper”¹⁰ service model and the “Platform + Software + Service”¹¹ capabilities. The Group will penetrate key regions, namely the Beijing-Tianjin-Hebei Area, the Yangtze River Delta, the Guangdong-Hong Kong-Macao Area, and the Chengdu-Chongqing Area as well as key sectors including government, transportation, electricity, construction, and will step up its effort to develop key businesses such as data centers, 5G customized network, Industrial Internet, emergency management, digital governance and cybersecurity, thus achieving dual enhancement in the scale and value of market development.

In the domestic telecommunications operator market, by adhering to its “CAPEX + OPEX + Smart Applications” development strategy, the Group will seize the opportunities of 5G, big data and cloud-network integration while vigorously developing the traditionally advantageous businesses to secure the fundamentals of its operation. The Group will provide its customers with multi-scenario informatization products and services, quickly respond and react, with a view to meeting customers’ demand for business development and digital transformation, assisting customers to construct integrated digital information infrastructure which is speedy, green, safe and intelligent.

¹⁰ “Consultant + Staff + Housekeeper” service model is a unique business model adopted by the Group in recent years. “Consultant” means that the Group acts as the “Consultant” to help its customers through leveraging its talents and product advantages, so as to turn customers’ needs into feasible solutions or projects. “Staff” means that the Group, as appointed by its customers, assists them in the capacity of “Staff” in coordinating other stakeholders of the project, so as to promote the smooth implementation of the project and ensure that its customers’ expectation could be achieved. “Housekeeper” means the Group provides full life cycle management and accompanying service of relevant businesses and creates values for customers.

¹¹ “Platform + Software + Service” capabilities: utilize core foundation platforms, including cybersecurity and IoT, focus on various smart applications for customer scenarios and the integrated service capabilities covering consultation and planning, project construction, operation and maintenance, to provide customers with customized integrated solution.

In the overseas market, the Group will develop businesses based on the principles of safety and effectiveness. The Group will actively explore and grasp new opportunities arising from the “dual-circulation with domestic and international development” and normalization of pandemic situation overseas, participate in the construction along the “Belt and Road” and further promote the development and implementation of overseas projects.

The Group has high regard to its own value creation, and it will keep devoting itself to research and development investment by strengthening the support for research and development, optimizing the evaluation mechanism, expediting the conversion of research and development to results, forging strategic core platforms, accumulating flagship products proactively and cultivating expert and talent team, with a view to promoting its technological leadership. The group will expedite its own digital transformation and utilize data as the core element to solve key problems in production and operation and improve the overall operation efficiency. Taking the Supply Chain Company’s successful introduction of strategic investors as a starting point, the Group will accelerate business consolidation and synergistic operation. The Group will implement the whole process management with its procurement platform and strictly execute the whole process monitoring on business subcontracting to reduce cost and enhance efficiency. The Group will attach equal importance to the strategies of organic growth and external development and make good use of its capital to support its own development and generate income from its investment.

Last but not least, on behalf of the Board, I would like to express my sincere gratitude to our shareholders, customers and all sectors of society for their long-term care and support, and deeply thank all of our employees for their continued dedication and hard work. I would also like to express my sincere gratitude to Mr. Zhang Zhiyong, who resigned as Chairman of the Board, and Ms. Han Fang, who resigned as Chairman of the Supervisory Committee during the year, for their remarkable and outstanding contributions to the development of the Group during their tenure; and my sincere welcome to Mr. Huang Zhen and Ms. Ye Lichun who have joined the Board and Supervisory Committee, respectively.

Huang Xiaoqing
Executive Director & President

Beijing, PRC
30 March 2022

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 2021, extracted from the audited consolidated financial statements of the Group as set out in its 2021 annual report.

Consolidated Statement of Profit or Loss

For the year ended 31 December 2021

	Notes	2021 RMB'000	2020 RMB'000
Revenues	4	133,991,317	122,648,944
Cost of revenues	5	<u>(119,206,899)</u>	<u>(108,911,308)</u>
Gross Profit		14,784,418	13,737,636
Other income	6	1,946,396	1,687,789
Selling, general and administrative expenses		(12,951,723)	(11,826,471)
Other expenses	7	(213,956)	(216,802)
Finance costs	8	(78,624)	(63,482)
Share of profits of associates and joint ventures		<u>91,923</u>	<u>168,928</u>
Profit before tax	9	3,578,434	3,487,598
Income tax	10	<u>(392,673)</u>	<u>(398,278)</u>
Profit for the year		<u>3,185,761</u>	<u>3,089,320</u>
Attributable to:			
Equity shareholders of the Company		3,157,434	3,081,475
Non-controlling interests		<u>28,327</u>	<u>7,845</u>
Profit for the year		<u>3,185,761</u>	<u>3,089,320</u>
Basic/diluted earnings per share (RMB)	11	<u>0.456</u>	<u>0.445</u>

Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the year ended 31 December 2021

	<i>Note</i>	2021 RMB'000	2020 <i>RMB'000</i>
Profit for the year		<u>3,185,761</u>	<u>3,089,320</u>
Other comprehensive (expense)/income for the year (after tax)	<i>13</i>		
Item that will not be reclassified to profit or loss (after tax):			
Equity instruments at fair value through other comprehensive income:			
Net movements in the fair value reserve		(517,677)	205,575
Item that may be subsequently reclassified to profit or loss (after tax):			
Exchange differences on translation of financial statements of subsidiaries outside of Mainland China		<u>(25,337)</u>	<u>(35,712)</u>
		<u>(543,014)</u>	<u>169,863</u>
Total comprehensive income for the year		<u>2,642,747</u>	<u>3,259,183</u>
Attributable to:			
Equity shareholders of the Company		2,614,500	3,251,548
Non-controlling interests		<u>28,247</u>	<u>7,635</u>
Total comprehensive income for the year		<u>2,642,747</u>	<u>3,259,183</u>

Consolidated Statement of Financial Position

At 31 December 2021

		31 December 2021	31 December 2020
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current assets			
Property, plant and equipment, net		6,212,786	4,330,733
Right-of-use assets		2,422,952	2,046,005
Investment properties	14	1,729,906	550,022
Construction in progress	15	576,405	3,468,094
Goodwill		103,005	103,005
Intangible assets		683,477	535,710
Interests in associates and joint ventures		1,285,547	1,351,368
Financial assets at fair value through profit or loss		111,330	64,567
Equity instruments at fair value through other comprehensive income		3,672,472	4,362,469
Deferred tax assets		758,187	700,738
Other non-current assets	16	3,196,158	713,639
Total non-current assets		<u>20,752,225</u>	<u>18,226,350</u>
Current assets			
Inventories		1,492,011	1,676,943
Accounts and bills receivable, net	17	18,254,155	18,208,251
Contract assets, net	18	21,534,745	19,786,576
Prepayments and other current assets	19	11,102,020	9,618,272
Financial assets at fair value through profit or loss		3,364,554	3,098,634
Restricted deposits		2,357,234	2,865,265
Cash and cash equivalents		21,171,025	21,008,490
Total current assets		<u>79,275,744</u>	<u>76,262,431</u>
Total assets		<u>100,027,969</u>	<u>94,488,781</u>
Current liabilities			
Interest-bearing borrowings		723,024	704,401
Accounts and bills payable	20	36,319,980	33,363,786
Current portion of lease liabilities		490,859	400,627
Contract liabilities	21	11,449,171	10,977,645
Accrued expenses and other payables		9,090,865	9,499,772
Income tax payable		239,624	282,597
Total current liabilities		<u>58,313,523</u>	<u>55,228,828</u>
Net current assets		<u>20,962,221</u>	<u>21,033,603</u>
Total assets less current liabilities		<u>41,714,446</u>	<u>39,259,953</u>

Consolidated Statement of Financial Position (Continued)*At 31 December 2021*

	31 December 2021 RMB'000	31 December 2020 RMB'000
Non-current liabilities		
Interest-bearing borrowings	89,808	–
Lease liabilities	1,071,944	768,662
Other non-current liabilities	197,623	408,405
Deferred tax liabilities	744,951	895,912
	<hr/>	<hr/>
Total non-current liabilities	2,104,326	2,072,979
	<hr/>	<hr/>
Total liabilities	60,417,849	57,301,807
	<hr/>	<hr/>
Equity		
Share capital	6,926,018	6,926,018
Reserves	31,481,196	29,791,666
	<hr/>	<hr/>
Equity attributable to equity shareholders of the Company	38,407,214	36,717,684
Non-controlling interests	1,202,906	469,290
	<hr/>	<hr/>
Total equity	39,610,120	37,186,974
	<hr/>	<hr/>
Total liabilities and equity	100,027,969	94,488,781
	<hr/> <hr/>	<hr/> <hr/>

Notes:

1. STATEMENT OF COMPLIANCE

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) as issued by the International Accounting Standards Board (the “IASB”). IFRSs include all applicable individual IFRSs, International Accounting Standards (“IASs”) and related interpretations. The consolidated financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”).

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

2. CHANGES IN ACCOUNTING POLICIES

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

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 “Interest Rate Benchmark Reform – Phase 2”

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

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

3. SEGMENT REPORTING

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

4. REVENUES

Revenues are derived from the provision of integrated comprehensive smart solutions.

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

	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue from telecommunications infrastructure services	71,889,248	67,164,571
Revenue from business process outsourcing services	40,623,583	37,276,879
Revenue from applications, content and other services	21,478,486	18,207,494
	<u>133,991,317</u>	<u>122,648,944</u>

The Group's major customers are telecommunications operators mainly including China Telecommunications Corporation and its subsidiaries (excluding the Group) ("CTC Group") and China Mobile Communications Group Co., Ltd. and its subsidiaries ("CM Group"). Revenues from the provision of integrated telecommunications support services to CTC Group and CM Group for the year ended 31 December 2021 amounted to RMB46,047 million and RMB18,186 million, respectively (2020: RMB41,777 million and RMB19,285 million, respectively), being 34.4% and 13.6% of the Group's total revenues, respectively (2020: 34.1% and 15.7%, respectively). The revenues derived from areas outside Mainland China for the year ended 31 December 2021 amounted to RMB2,742 million (2020: RMB3,095 million).

For the year ended 31 December 2021, the Group's top three business lines that contributed to the overall revenues were construction included in telecommunications infrastructure services, management of infrastructure for information technology included in business process outsourcing services and system integration included in applications, content and other services, the revenues from which amounted to RMB57,310 million, RMB16,678 million and RMB13,278 million, respectively (2020: The Group's top three business lines that contributed to the overall revenues were construction, management of infrastructure for information technology and system integration, the revenues from which amounted to RMB52,953 million, RMB15,794 million and RMB11,180 million, respectively). Revenues from contracts with non-telecom operators for construction included in telecommunications infrastructure services amounted to RMB28,664 million (2020: RMB24,978 million).

5. COST OF REVENUES

	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Subcontracting charges	71,239,853	67,166,028
Materials costs	19,166,225	15,057,234
Direct personnel costs	8,804,676	8,300,338
Direct costs of products distribution	4,614,143	4,067,599
Expense relating to short-term leases and leases of low-value assets	1,114,587	1,056,466
Depreciation and amortisation	908,323	827,413
Others	13,359,092	12,436,230
	<u>119,206,899</u>	<u>108,911,308</u>

6. OTHER INCOME

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Management fee income	403,877	382,224
Interest income	372,221	290,493
Input tax credits	301,821	192,514
Government grants	261,145	349,498
Investment income and fair value gains on wealth management products and structured deposits	193,894	189,592
Dividend income from equity instruments at fair value through other comprehensive income	163,731	161,920
Gain on disposal of property, plant and equipment, intangible assets and right of assets	115,973	6,211
Write-back of non-payable liabilities	35,708	24,717
Gain on disposal of a subsidiary	6,285	–
Penalty income	2,705	4,569
Others	89,036	86,051
	<u>1,946,396</u>	<u>1,687,789</u>

7. OTHER EXPENSES

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Bank handling fees	73,399	64,903
Penalty charge and compensation	70,858	56,006
Net foreign exchange loss	15,883	42,415
Loss on disposal of property, plant and equipment, construction in progress and intangible assets	10,271	14,873
Donations	2,796	2,189
Others	40,749	36,416
	<u>213,956</u>	<u>216,802</u>

8. FINANCE COSTS

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Interest on bank and other borrowings	24,552	21,942
Interest on lease liabilities	54,072	41,540
	<u>78,624</u>	<u>63,482</u>

For the year ended 31 December 2021, no borrowing costs were capitalised in relation to construction in progress (2020: Nil).

9. PROFIT BEFORE TAX

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

	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
(a) Staff costs:		
Salaries, wages and other benefits	15,932,148	15,209,385
Contributions to defined contribution retirement schemes	1,703,830	1,021,958
	<u>17,635,978</u>	<u>16,231,343</u>
(b) Other items:		
Depreciation		
– Property, plant and equipment	746,188	668,398
– Right-of-use assets	549,885	488,178
– Investment properties	58,377	42,977
Amortisation		
– Intangible assets	174,321	150,677
Auditors' remuneration	27,187	35,095
Materials costs	19,166,225	15,057,234
Direct costs of products distribution	4,614,143	4,067,599
Write-down of inventories	42,057	64,267
Reversal of write-down of inventories	(15,869)	(3,668)
Impairment losses recognised and reversed on accounts receivable, other receivables, contract assets and others, net	67,643	127,187
Expense relating to short-term leases and leases of low-value assets	1,340,856	1,268,302

The selling expenses, general and administrative expenses, research and development costs and others of the Group are RMB2,778 million, RMB5,486 million, RMB4,233 million and RMB455 million (2020: RMB2,379 million, RMB5,148 million, RMB3,782 million and RMB517 million), respectively for the year ended 31 December 2021.

10. INCOME TAX

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

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Current tax	428,763	415,197
Deferred tax	(36,090)	(16,919)
	<u>392,673</u>	<u>398,278</u>
Total income tax	<u>392,673</u>	<u>398,278</u>

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

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Profit before tax	<u>3,578,434</u>	<u>3,487,598</u>
Expected income tax expense at a statutory tax rate of 25% (2020: 25%)	894,609	871,900
Differential/preferential tax rates on subsidiaries' income (<i>note (i)(ii)</i>)	(177,809)	(210,176)
Non-deductible expenses (<i>note (iii)</i>)	208,190	221,891
Non-taxable income	(99,407)	(121,044)
Tax losses not recognised	119,652	102,781
Utilisation of previously unrecognised tax losses	(9,286)	(8,775)
Over provision in respect of prior years	(40,503)	(20,360)
Additional deduction of research and development expenses (<i>note (iv)</i>)	(502,773)	(437,939)
	<u>392,673</u>	<u>398,278</u>
Income tax	<u>392,673</u>	<u>398,278</u>

Notes:

- (i) The provision for income tax of the Group is calculated based on a statutory tax rate of 25% of the assessable profit of the Group as determined in accordance with the relevant PRC income tax rules and regulations for the years ended 31 December 2021 and 2020, except for certain domestic subsidiaries of the Group, which are taxed at preferential rates of 15% and 20% (2020: 15%, 10%), where applicable; and for certain overseas subsidiaries of the Group, which are taxed at their respective statutory rates.
- (ii) According to the PRC enterprise income tax law and its relevant regulations, certain subsidiaries that are qualified as High and New Technology Enterprise, enterprises under the Western Region Development Program, and Small and Micro enterprises as defined under the tax law are entitled to a preferential income tax rate of 15%, 15% and 20% (2020: 15%, 15%, 10%).
- (iii) The amounts represent staff costs in excess of the statutory deductible limits for tax reporting purposes and other non-deductible expenses.
- (iv) According to the PRC enterprise income tax law and its relevant regulations, certain research and development expenses of the Group's PRC subsidiaries are qualified for 75% (2020: 75%) additional deduction for tax reporting purposes.

11. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company for the year ended 31 December 2021 of RMB3,157,434 thousand (2020: RMB3,081,475 thousand) and number of shares in issue during the year ended 31 December 2021 of 6,926,018 thousand shares (2020: 6,926,018 thousand shares).

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

12. DIVIDENDS

(a) Dividends attributable to the year

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Final dividend proposed after the end of reporting period of RMB0.1641 per share (2020: RMB0.1335 per share)	1,136,560	924,623
Special dividend proposed after the end of reporting period of RMB0.0091 per share (2020: RMB0.0267 per share)	63,027	184,925
	<u>1,199,587</u>	<u>1,109,548</u>

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

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Final dividend in respect of the previous financial year, approved and paid during the year, of RMB0.1335 per share (2020: RMB0.1321 per share)	924,623	914,927
Special dividend in respect of the previous financial year, approved and paid during the year, of RMB0.0267 per share (2020: RMB0.0264 per share)	184,925	182,847
	<u>1,109,548</u>	<u>1,097,774</u>

13. OTHER COMPREHENSIVE (EXPENSE)/INCOME

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Changes in fair value of equity instruments at fair value through other comprehensive (expense)/income recognised during the year	(689,997)	274,265
Net deferred tax credited/(charged) to other comprehensive income	172,320	(68,690)
Exchange differences on translation of financial statements	(25,337)	(35,712)
Net movement in the fair value reserve during the year recognised in other comprehensive (expense)/income	<u>(543,014)</u>	<u>169,863</u>

14. INVESTMENT PROPERTIES

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Cost:		
As at 1 January	1,250,786	1,210,486
Additions	159	27,580
Transfer from property, plant and equipment	1,280,912	13,781
Transfer from right-of-use assets	7,040	–
Transfer to property, plant and equipment	(9,824)	(989)
Disposals	–	(72)
	<u>2,529,073</u>	<u>1,250,786</u>
As at 31 December		
Accumulated depreciation:		
As at 1 January	700,764	646,666
Transfer from property, plant and equipment	44,368	12,104
Transfer from right-of-use assets	3,380	–
Transfer to property, plant and equipment	(7,722)	(913)
Depreciation charge	58,377	42,977
Depreciation written back on disposals	–	(70)
	<u>799,167</u>	<u>700,764</u>
As at 31 December		
Net carrying value		
As at 31 December	<u>1,729,906</u>	<u>550,022</u>
As at 1 January	<u>550,022</u>	563,820
Fair value	<u>4,287,597</u>	<u>2,685,137</u>

All the Group's investment properties are located in the PRC.

15. CONSTRUCTION IN PROGRESS

	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Cost:		
As at 1 January	3,468,094	282,365
Additions	561,328	3,478,159
Disposals	(2,424)	(202)
Transfer to intangible assets	(48,057)	(69,010)
Transfer to property, plant and equipment	(3,402,536)	(223,218)
	<u>576,405</u>	<u>3,468,094</u>

16. OTHER NON-CURRENT ASSETS

	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Deposits at financial institutions with original maturity more than one year	2,563,841	200,000
Long-term receivables	515,280	433,116
Others	117,037	80,523
	<u>3,196,158</u>	<u>713,639</u>

17. ACCOUNTS AND BILLS RECEIVABLE, NET

	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Bills receivable	405,956	264,802
Accounts receivable	19,542,192	19,610,315
	<u>19,948,148</u>	<u>19,875,117</u>
Less: allowance for credit losses	(1,693,993)	(1,666,866)
	<u>18,254,155</u>	<u>18,208,251</u>

17. ACCOUNTS AND BILLS RECEIVABLE, NET (CONTINUED)

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

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Current	1,112,606	852,540
Within 1 year	14,636,676	14,743,770
After 1 year but less than 2 years	1,729,092	2,016,517
After 2 years but less than 3 years	542,481	430,743
After 3 years but less than 4 years	99,950	62,180
After 4 years but less than 5 years	36,257	102,501
Over 5 years	97,093	–
	<u>18,254,155</u>	<u>18,208,251</u>

18. CONTRACT ASSETS, NET

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Telecommunications infrastructure services	17,771,357	16,499,707
Business process outsourcing services	1,381,365	983,032
Applications, content and other services	2,621,771	2,523,856
	<u>21,774,493</u>	<u>20,006,595</u>
Less: allowance for credit losses	(239,748)	(220,019)
	<u>21,534,745</u>	<u>19,786,576</u>

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

19. PREPAYMENTS AND OTHER CURRENT ASSETS

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Other receivables	3,625,219	3,315,761
Long-term receivables due within 1 year	477,580	152,681
Prepayments in connection with construction work and equipment purchases	5,368,905	4,623,314
Input VAT deductible	1,074,711	979,198
Others	555,605	547,318
	<u>11,102,020</u>	<u>9,618,272</u>

Included in other receivables are mainly deposits.

20. ACCOUNTS AND BILLS PAYABLE

Accounts and bills payable comprise:

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Accounts payable	32,759,611	30,987,698
Bills payable	3,560,369	2,376,088
	<u>36,319,980</u>	<u>33,363,786</u>

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

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Within 1 year	34,147,550	30,759,309
After 1 year but less than 2 years	1,226,760	1,769,256
After 2 years but less than 3 years	459,884	428,587
After 3 years	485,786	406,634
	<u>36,319,980</u>	<u>33,363,786</u>

21. CONTRACT LIABILITIES

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Telecommunications infrastructure services	8,626,944	8,124,136
Other services	2,822,227	2,853,509
	<u>11,449,171</u>	<u>10,977,645</u>

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

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

Overview

In 2021, by adhering to its overall roadmap of “value-driven, seeking steady yet progressive growth and high-quality development” and positioning itself as a “New Generation Integrated Smart Service Provider”, the Group maintained positive growth for the overall results amid the complicated domestic and international environments and seized the important opportunities brought by digital economy, Cyberpower and National Big Data Strategy. Total revenues for the year amounted to RMB133,991 million, representing an increase of 9.2% as compared to 2020; profit attributable to the equity shareholders of the Company was RMB3,157 million, representing an increase of 2.5% as compared to 2020, with basic earnings per share amounted to RMB0.456. Free cash flow was RMB4,060 million with cash conversion ratio¹² being 142.7%, which continued to remain at a healthy and relatively high level.

Total Revenues

The Group’s total revenues in 2021 amounted to RMB133,991 million, representing an increase of 9.2% as compared to 2020. From the business perspective, the revenue from telecommunications infrastructure (“TIS”) services was RMB71,889 million, representing a year-on-year growth of 7.0%; the revenue from business process outsourcing (“BPO”) services was RMB40,624 million, representing a year-on-year increase of 9.0%; the revenue from applications, content and other (“ACO”) services was RMB21,478 million, representing a year-on-year growth of 18.0%. In 2021, the Group seized the opportunities arising from 5G, New Infrastructure and social digitalization and enhanced integrated comprehensive smart service capabilities, thus maintaining the continuous and steady growth of the TIS services. Meanwhile, the Group increased investment in research and development, consolidated the capabilities on its research and development as well as product, kept up with opportunities arising from digital transformation of enterprises, and informatization construction of emergency management, smart city upgrade, etc., which stimulated the growth of its businesses such as system integration and software development, making the ACO services continue to be the fastest-growing business segment.

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

From the market perspective, the revenue from the domestic non-operator market was the main driver for business growth in 2021, and the revenue from such market amounted to RMB57,446 million, representing a year-on-year increase of 15.9%. Revenue from the domestic telecommunications operator market amounted to RMB73,803 million, representing a year-on-year increase of 5.5%; revenue from the overseas market amounted to RMB2,742 million, representing a year-on-year decrease of 11.4%. The Group kept abreast of the development trends of digital economy and industrial digitalization, focused on the development opportunities arising from New Infrastructure, smart society, cybersecurity, emergency management, new energy and Dual Carbon Goals, and achieved positive interaction and development of the emerging and traditional businesses by continuously forging core capabilities and platforms, strengthening the collaboration of internal and external products and services as well as leveraging the comprehensive strengths. As a result, revenue from the domestic non-operator market maintained a strong growth momentum and continued to be the largest contributor to the Group's revenue growth. Meanwhile, the Group effectively implemented the "CAPEX + OPEX + Smart Applications" development strategy in the domestic telecommunications operator market, seized new opportunities of industrial digitalization, 5G and data center construction, further developed the traditional businesses, endeavored to raise the OPEX market share, took initiative to integrate into the whole process of operators' transformation and actively developed businesses in relation to operators' government and enterprise customers and network information security, thereby stabilizing the operation fundamentals of the domestic telecommunications operators.

The following table sets forth a breakdown of our total revenues for 2020 and 2021, together with their respective changes:

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>	Change
Telecommunications Infrastructure Services			
Design services	10,521,239	10,372,327	1.4%
Construction services	57,310,463	52,952,530	8.2%
Project supervision and management services	4,057,546	3,839,714	5.7%
	71,889,248	67,164,571	7.0%
Business Process Outsourcing Services			
Management of infrastructure for information technology (Network Maintenance)	16,677,957	15,794,043	5.6%
General facilities management (Property Management)	7,127,497	6,357,245	12.1%
Supply chain	11,963,560	10,870,747	10.1%
Sub-total of Core BPO Services	35,769,014	33,022,035	8.3%
Products distribution	4,854,569	4,254,844	14.1%
	40,623,583	37,276,879	9.0%

	2021	2020	
	<i>RMB'000</i>	<i>RMB'000</i>	Change
Applications, Content and Other Services			
System integration	13,278,131	11,179,619	18.8%
Software development and system support	3,634,339	3,107,772	16.9%
Value added services	2,386,280	1,963,321	21.5%
Others	2,179,736	1,956,782	11.4%
	21,478,486	18,207,494	18.0%
Total	133,991,317	122,648,944	9.2%

Telecommunications Infrastructure Services

In 2021, the Group's revenue from TIS services amounted to RMB71,889 million, representing an increase of 7.0% as compared to RMB67,165 million in 2020. Among which, the construction services recorded revenue of RMB57,310 million, representing an increase of 8.2% as compared to 2020, being the largest contributor to the growth of total revenues. TIS services was the primary source of revenue of the Group and accounted for 53.7% of our total revenues, representing a decrease of 1.1 percentage points from 54.8% in 2020. As to the customer structure of the TIS services, the Group's TIS revenue from domestic telecommunications operators amounted to RMB39,454 million and accounted for 54.9% of the total TIS revenues, representing a decrease of 3.0 percentage points from 2020. The aggregate TIS revenues from domestic non-operator customers and overseas customers amounted to RMB32,435 million and accounted for 45.1% of the total TIS revenues, representing an increase of 3.0 percentage points from 2020, whereas the increase in proportion was driven by domestic non-operator customers.

In 2021, the aggregate TIS revenues from domestic non-operator customers and overseas customers increased by 14.7% over 2020, in which the TIS revenue from domestic non-operator customers recorded a significant year-on-year growth of 17.5%, which was the main growth driver of the TIS business. As a result of the further implementation of Digital China Strategy, the acceleration in the construction of new infrastructure facilities, the prosperous development of industrial digitalization and the market potential brought by the booming informatization demands under the normalization of pandemic situation, the Group captured relevant opportunities in the domestic non-operator market and realized relatively rapid growth. The share of the Group's TIS revenues from domestic telecommunications operators maintained at a stable level and such revenue increased by 1.5% as compared to 2020. As domestic telecommunications operators continued to increase their investment in New Infrastructure such as 5G and data centers with a view to accelerating the transformation of cloud-network integration, the Group further integrated into the ecosystem of operators and enhanced product and service capabilities, so as to cater for the integrated network construction services demand of domestic telecommunications operators and maintained the stable business development of domestic telecommunication operators.

Business Process Outsourcing Services

In 2021, the Group's revenue from BPO services amounted to RMB40,624 million, representing an increase of 9.0% as compared to RMB37,277 million in 2020, accounting for 30.3% of our total revenues, a decrease of 0.1 percentage point as compared to 30.4% in 2020. In terms of customer structure of the BPO services, the BPO revenue from domestic telecommunications operators amounted to RMB26,011 million, representing an increase of 7.3% over 2020, and accounting for 64.0% of the total revenues from the BPO services, representing a decrease of 1.0 percentage point from 2020. The aggregate BPO revenues from the domestic non-operator customers and overseas customers amounted to RMB14,613 million, representing an increase of 12.1% over 2020, and accounting for 36.0% of the total BPO revenues, representing an increase of 1.0 percentage point over 2020.

In 2021, among each of the businesses under the Group's BPO services, revenue from the Network Maintenance business amounted to RMB16,678 million, representing an increase of 5.6% as compared to 2020. Revenue from the Property Management business amounted to RMB7,127 million, representing an increase of 12.1% as compared to 2020 and maintaining a good momentum. Revenue from the supply chain business amounted to RMB11,964 million, representing an increase of 10.1% as compared to 2020. The Group focused on the upstream and downstream customers, continuously leveraged its advantages in full-process and network-wide synergistic operation in supply chain to provide value-added, integrated and full life cycle supply chain services to domestic telecommunications operators, government and enterprise customers. In addition, revenue from the products distribution business amounted to RMB4,855 million, representing an increase of 14.1% as compared to 2020, which was mainly due to the distribution of communications products, including the terminal and device distribution services for domestic telecommunications operator customers and the distribution and procurement services of IT devices, auxiliary accessories and equipment for domestic non-operator customers.

Applications, Content and Other Services

In 2021, the Group's revenue from ACO services amounted to RMB21,478 million, representing an increase of 18.0% as compared to RMB18,207 million in 2020, making it the fastest-growing business segment for the year. In this segment, the system integration business recorded revenue of RMB13,278 million, representing an increase of 18.8% as compared to 2020, being the second largest contributor to the growth of the total revenues. The revenue from ACO services accounted for 16.0% of the Group's total revenues, representing an increase of 1.2 percentage points from 14.8% in 2020, and such proportion has kept growing in the past five years. In terms of the customer structure of ACO services, the Group's ACO revenue from domestic telecommunications operators amounted to RMB8,338 million and accounted for 38.8% of the total ACO revenues, representing an increase of 1.1 percentage points as compared to 2020. Aggregate ACO revenues from domestic non-operator customers and overseas customers amounted to RMB13,140 million, accounting for 61.2% of the total ACO revenues, representing a decrease of 1.1 percentage points over 2020.

In 2021, the Group's ACO revenue from domestic non-operator customers and domestic telecommunications operator customers grew rapidly by 16.7% and 21.5% respectively as compared with 2020. The growth was mainly attributable to the Group's efforts in leveraging its strength in integrated services and capabilities on system integration and software development, further expanding the ecological cooperation scale, and seizing the opportunities of New Infrastructure and digital transformation in China. By utilizing the self-developed core platforms and a range of leading "smart series" products, the Group effectively satisfied the business transformation demand of our customers through vigorously expanding the businesses including 5G, data centers, smart city, transportation, electricity, cybersecurity and emergency management.

Cost of Revenues

The Group's cost of revenues in 2021 amounted to RMB119,207 million, representing an increase of 9.5% from 2020 and accounting for 89.0% of the total revenues.

The following table sets out a breakdown of the Group's cost of revenues in 2020 and 2021 and their respective changes:

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>	Change
Direct personnel costs	8,804,676	8,300,338	6.1%
Depreciation and amortization	908,323	827,413	9.8%
Materials costs	19,166,225	15,057,234	27.3%
Direct costs of products distribution	4,614,143	4,067,599	13.4%
Subcontracting charges	71,239,853	67,166,028	6.1%
Lease charges and others	14,473,679	13,492,696	7.3%
Total cost of revenues	119,206,899	108,911,308	9.5%

Direct Personnel Costs

In 2021, direct personnel costs amounted to RMB8,805 million, representing an increase of 6.1% from RMB8,300 million in 2020. Direct personnel costs accounted for 6.6% of our total revenues, representing a decrease of 0.2 percentage point from 2020. The Group kept a reasonable control over its total headcount, continued to optimize the employee structure and strictly controlled staff costs, which resulted in the continuous decrease of the proportion of direct personnel costs to total revenues.

Depreciation and Amortisation

In 2021, depreciation and amortisation amounted to RMB908 million, representing an increase of 9.8% from RMB827 million in 2020. Depreciation and amortisation cost accounted for 0.7% of our total revenues.

Materials Costs

In 2021, materials costs amounted to RMB19,166 million, representing an increase of 27.3% as compared to RMB15,057 million in 2020. Materials costs accounted for 14.3% of our total revenues, representing an increase of 2.0 percentage points from 2020. The increase was mainly because the Group optimized its business model and undertook major projects in general contracting model proactively, and the businesses of construction, supply chain and system integration involved relatively more materials, so the fast development of those businesses drove the rise of materials costs.

Direct Costs of Products Distribution

In 2021, the direct costs of products distribution amounted to RMB4,614 million, representing an increase of 13.4% as compared to RMB4,068 million in 2020. Direct costs of products distribution accounted for 3.4% of our total revenues, representing an increase of 0.1 percentage point over 2020. The increase of direct costs of products distribution was mainly attributable to the distribution of communications products, including the terminal and device distribution services for domestic telecommunications operator customers and the distribution and procurement services of IT devices, auxiliary accessories and equipment for domestic non-operator customers.

Subcontracting Charges

In 2021, subcontracting charges amounted to RMB71,240 million, representing an increase of 6.1% as compared to RMB67,166 million in 2020. Subcontracting charges accounted for 53.2% of our total revenues, representing a decrease of 1.6 percentage points from 2020. In 2021, the Group strengthened the whole process subcontracting management and enhanced the management and supervision with system control, IT control and personnel management, and so subcontracting charges was effectively managed and its proportion to total revenues decreased significantly, and the increase of subcontracting charges was slower than the growth of total revenues by 3.1 percentage points. The Group will continue to strengthen and regulate the management over subcontracting, with a view to maintaining the growth of subcontracting charges at a relatively reasonable level.

Lease Charges and Others

In 2021, lease charges and others were RMB14,474 million, representing an increase of 7.3% over RMB13,493 million in 2020. Lease charges and others accounted for 10.8% of our total revenues, representing decrease of 0.2 percentage point from 2020.

Gross Profit

In 2021, the Group recorded gross profit of RMB14,784 million, representing an increase of 7.6% over RMB13,738 million in 2020. The Group's gross profit margin in 2021 was 11.0%, representing a decrease of 0.2 percentage point from 11.2% in 2020, and the decrease of gross profit margin has gradually moderated in recent years. The decline in gross profit margin was mainly a result of the factors including the decrease of business unit price due to continuous cost control by domestic telecommunications operators and the increase of rigid costs of the Group. During the year, the Group had a more rigorous screening for high gross profit margin projects, made a balance between the speed and the quality of business development, and guided subsidiaries to develop projects of high gross profit margin through optimizing the performance appraisal system. In addition, the Group continuously strengthened project management and cost control and enhanced the business value creation capability, with a view to improving the gross profit margin.

With the Group's deployment in digital economy, smart society and New Infrastructure areas starting to bear fruit, the Group expects that the proportion of high-value businesses will gradually increase and the gross profit margin of the domestic non-operator market could stabilize and even further improve in the future, thereby driving the Group's overall gross profit margin. In fact, the domestic non-operator market has continued to be the largest contributor to the increase in gross profit of the Group.

Selling, General and Administrative Expenses

In 2021, the selling, general and administrative expenses of the Group were RMB12,952 million, representing an increase of 9.5% as compared to RMB11,826 million in 2020. The selling, general and administrative expenses accounted for 9.7% of our total revenues, representing an increase of 0.1 percentage point from 2020. In the selling, general and administrative expenses, the research and development costs were RMB4,233 million, representing an increase of 11.9% as compared to RMB3,782 million in 2020, and accounted for 3.2% of our total revenues, representing an increase of 0.1 percentage point from 2020. The increase of selling, general and administrative expenses is commensurate with the increase of cost of revenues.

Finance Costs

In 2021, the finance costs of the Group were RMB79 million, representing an increase of 23.9% as compared to RMB63 million in 2020.

Income Tax

In 2021, the income tax of the Group was RMB393 million and its effective tax rate was 11.0%, representing a decrease of 0.4 percentage point from 11.4% in 2020. The decrease in the Group's effective tax rate and the difference between such effective tax rate and the statutory tax rate was mainly due to the increased investment in research and development by the Group. In accordance with the relevant national policies, the Group enjoyed more preferential income tax rate treatments as a high-technology enterprise and the preferential policy of tax deduction before income tax for research and development expenses. In 2021, certain subsidiaries of the Group that fall under the scope of high-technology enterprises were entitled to a preferential income tax rate of 15%. Certain enterprises in Western China benefited from the preferential policies for Western Development Program. Other than 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 2021, profit attributable to equity shareholders of the Company was RMB3,157 million, representing an increase of 2.5% over RMB3,081 million in 2020. Profit attributable to equity shareholders of the Company accounted for 2.4% of our total revenues, which decreased slightly as compared to 2020. Excluding the effect of depreciation arising from the Group's property acquired in 2020 as the bases for the smart production, operation and research and development (which was transferred to fixed assets in February 2021), profit attributable to the equity shareholders of the Company in 2021 was RMB3,247 million, representing a year-on-year increase of 5.4%. Basic earnings per share of the Company were RMB0.456 (2020: RMB0.445).

Capital Expenditure

The Group implements stringent budget management over capital expenditure and makes adjustment according to changes in market condition. In 2021, capital expenditure of the Group amounted to RMB1,074 million, representing a considerable decrease of 72.9% from RMB3,962 million in 2020. The capital expenditure in 2021 accounted for 0.8% of the total revenues, representing decrease of 2.4 percentage points from 2020. The considerable decrease in capital expenditure was mainly due to the property acquisition in 2020 to serve as the Group's bases for smart production, operation as well as research and development.

Cash Flow

The Group recorded a net cash inflow of RMB208 million in 2021, representing a decrease of RMB1,648 million from RMB1,856 million in 2020. Such change was mainly due to the increase of cash used in investing activities during the reporting period. As at the end of 2021, the balance of cash and cash equivalents of the Group amounted to RMB21,171 million, of which 96.8% was denominated in Renminbi.

The following table sets out our cash flow positions in 2020 and 2021, respectively:

	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Net cash generated from operating activities	4,505,957	5,453,485
Net cash used in investing activities	(3,669,549)	(2,243,695)
Net cash used in financing activities	(628,351)	(1,353,860)
	<hr/>	<hr/>
Net increase in cash and cash equivalents	<u>208,057</u>	<u>1,855,930</u>

In 2021, net cash generated from operating activities of the Group was RMB4,506 million, representing a decrease of RMB947 million from RMB5,453 million in 2020. The Group will continue to strengthen the clearing and settlement of accounts receivable, and put more efforts on management of accounts payable in the meantime.

In 2021, net cash used in investing activities of the Group was RMB3,670 million, representing an increase of RMB1,427 million from RMB2,243 million in 2020. Such cash used in investing activities was primarily for investments in deposit certificates and wealth management products.

In 2021, net cash used in financing activities of the Group was RMB628 million, representing a decrease of RMB726 million from RMB1,354 million in 2020, which was mainly because a subsidiary of the Group, China Comservice Supply Chain Management Company Ltd., introduced strategic investors with the capital injection from minority shareholders.

Working Capital

As at the end of 2021, the Group's working capital (i.e. current assets net of current liabilities) was RMB20,962 million, representing a decrease of RMB72 million from RMB21,034 million at the end of 2020.

Assets and Liabilities

The Group continued to maintain its solid financial position. As at the end of 2021, the Group's total assets was RMB100,028 million, representing an increase of RMB5,539 million from RMB94,489 million in 2020; and total liabilities was RMB60,418 million, representing an increase of RMB3,116 million from RMB57,302 million in 2020. The liabilities-to-assets ratio was 60.4%, which was slightly lower than 60.6% at the end of 2020.

Indebtedness

As at the end of 2021, total indebtedness of the Group was RMB813 million, representing an increase of RMB109 million from RMB704 million as at the end of 2020. Indebtedness of the Group was mainly denominated in US dollar, of which Renminbi loan accounted for 8.3% and US dollar loan accounted for 78.3%; and of which 37.5% was the loans with a fixed interest rate and 62.5% was those with a floating interest rate.

As at the end of 2021, our gearing ratio¹³ was 2.1%, which was slightly higher than 1.9% as at the end of 2020.

¹³ Gearing ratio represents total interest-bearing debts at the end of the financial year divided by the sum of equity attributable to equity shareholders of the Company and interest-bearing debts.

Contractual Obligations

The following table sets out our contractual commitments as at 31 December 2021:

	Total	2022	2023	2024	2025	2026
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>and after</i>
						<i>RMB'000</i>
Short-term debt	723,024	723,024	–	–	–	–
Long-term debt	89,808	–	18,362	18,362	18,362	34,722
Lease commitments	173,833	73,709	42,423	25,150	11,456	21,095
Contracted for but not provided capital commitments	<u>160,510</u>	<u>160,510</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Total of contractual obligations	<u>1,147,175</u>	<u>957,243</u>	<u>60,785</u>	<u>43,512</u>	<u>29,818</u>	<u>55,817</u>

Exchange Rate

Most of the Group's revenues and expenses are denominated in Renminbi. As at the end of 2021, the balance of the Group's cash and cash equivalents in foreign currencies accounted for 3.2% of the balance of its total cash and cash equivalents, of which 1.0% and 0.4% were denominated in US dollars and Hong Kong dollars, respectively.

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

For the year ended 31 December 2021, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

AUDIT COMMITTEE

The audit committee has reviewed with the management and the Company's international auditor, PricewaterhouseCoopers, the accounting principles and practices adopted by the Group and discussed the risk management, internal control and financial reporting matters including the review of the annual report for the year ended 31 December 2021.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

As a joint stock limited company incorporated in the PRC with limited liability and listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), the Company has not only complied with the relevant provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) but also has abided by the PRC Company Law and the applicable laws, regulations and regulatory requirements of Hong Kong and the PRC as the basic guidelines for the Company’s corporate governance. The Board believes that, save as disclosed below, the Company complied with all code provisions as set out in the Corporate Governance Code in Appendix 14 to the Listing Rules for the year ended 31 December 2021.

Mr. Zhang Zhiyong, the then Chairman of the Company, resigned as an Executive Director and the Chairman of the Company on 30 September 2021, and the Company had yet to appoint a new Chairman before the end of the year. Due to the situation above, no meeting was arranged between the Chairman and the independent non-executive directors without the presence of other directors during the reporting period. However, the Company has internal policies and arrangements to allow all directors of the Company (including the independent non-executive directors) to express their views and raise their concerns to the Company. Upon approval by the Board, Mr. Huang Xiaoqing, an Executive Director and the President of the Company, exercises the powers of the Chairman of the Company with effect from 13 October 2021 until new appointment is made by the Board.

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

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

CLOSURE OF SHARE REGISTER

1. Annual General Meeting

The H share register of members of the Company will be closed, for the purpose of determining the H share shareholders' entitlement to attend the annual general meeting (the "Annual General Meeting") to be held on Friday, 17 June 2022, from Tuesday, 14 June 2022 to Friday, 17 June 2022 (both days inclusive), during which period no transfer of H shares will be registered. In order to attend the Annual General Meeting, all transfer documents, accompanied by the relevant share certificates, must be lodged for registration with Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, not later than 4:30 p.m. on Monday, 13 June 2022. H share shareholders of the Company who are registered on the register of members held by Computershare Hong Kong Investor Services Limited on Friday, 17 June 2022 are entitled to attend the Annual General Meeting.

2. Proposed Final Dividend and Special Dividend

The Board proposes a final dividend of RMB0.1641 per share and a special dividend of RMB0.0091 per share, and the total dividend is RMB0.1732 per share (pre-tax) for the year ended 31 December 2021. 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 Monday, 11 July 2022. The register of members will be closed from Wednesday, 6 July 2022 to Monday, 11 July 2022 (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 Tuesday, 5 July 2022.

Dividends will be denominated and declared in Renminbi. Dividends will be paid in Renminbi for domestic share shareholders and H share shareholders (including enterprises and individuals) who invest in the H shares of the Company listed on Stock Exchange through the Shanghai Stock Exchange or Shenzhen Stock Exchange ("the Southbound Trading") (the "Southbound Shareholders"), and dividends for H share shareholders other than the Southbound Shareholders will be paid in Hong Kong dollars. The relevant exchange rate will be the average of the mid-point rates of Renminbi to Hong Kong dollars as announced by the People's Bank of China for the week prior to the date of approval of declaration of dividends by the Annual General Meeting. The record date for entitlement to the shareholders' rights and the relevant arrangements of dividend distribution for Southbound Shareholders are the same as those for the Company's H share shareholders. The proposed dividends are expected to be paid on or about Friday, 12 August 2022 upon approval at the Annual General Meeting.

The Company shall be obliged to withhold and pay income tax on behalf of overseas non-resident enterprise shareholders and overseas resident individual shareholders of H shares whose names appear on the Company's H share register of members on Monday, 11 July 2022 according to the following regulations:

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

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

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

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

ANNUAL REPORT

The Annual Report for the year ended 31 December 2021 will be dispatched to shareholders and made available on the HKExnews website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (www.chinaccs.com.hk) in due course.

FORWARD-LOOKING STATEMENTS

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

Beijing, PRC
30 March 2022

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