

## CHAIRMAN'S STATEMENT



**In 2019, the Group adhered to the overall roadmap of “value-driven, seeking steady yet progressive growth and high-quality development” and pinpointed its new position as “New Generation Integrated Smart Service Provider”. By firmly capturing the changes in the market and vigorously penetrating into industrial ecosystems, the Group achieved favourable results and made a solid progression towards intelligent and digital transformation.**



Zhang Zhiyong  
*Chairman*



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Dear Shareholders,

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

### OPERATING PERFORMANCE

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

### DIVIDEND

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

### MARKET DEVELOPMENT

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

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

<sup>2</sup> OPEX refers to the operating expenditure of domestic telecommunications operators.

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

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

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

## BUSINESS DEVELOPMENT

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

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

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

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

<sup>6</sup> CAPEX refers to the capital expenditure of domestic telecommunications operators.

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

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

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

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

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

### INNOVATION AND TRANSFORMATION

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

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

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

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

<sup>9</sup> Core BPO services include management of infrastructure for information technology (network maintenance), general facilities management (property management) and supply chain services.



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### CORPORATE GOVERNANCE

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

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

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

### SOCIAL RESPONSIBILITIES

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



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

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

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

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

## FUTURE OUTLOOK

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



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

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

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

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





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

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

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

**Zhang Zhiyong**  
*Chairman*

Beijing, PRC  
31 March 2020

<sup>10</sup> EPC+F+I+O+S: EPC (Engineering, Procurement, Construction) + Finance + Investment + Operation + Solution.