

PRESIDENT'S STATEMENT



In 2019, by adhering to the main development tracks, the Group focused on the businesses related to digital services in the domestic non-operator market, the OPEX business and the industry-oriented smart application businesses in the domestic telecommunications operator market, continued to transform and upgrade and promoted high-quality development, thus achieving solid operating results.



Si Furong
President



PRESIDENT'S STATEMENT

Dear Shareholders,

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

FINANCIAL PERFORMANCE

In 2019, by adhering to the overall roadmap of “value-driven, seeking steady yet progressive growth and high-quality development” and focusing on the main development tracks, the Group made good progress on its transformation and upgrade. Driven by the businesses related to digital services in the domestic non-operator market, the OPEX business and the industry-oriented smart application businesses in the domestic telecommunications operator market, the Group effectively coped with the adverse impact caused by the tempered growth of domestic telecommunications operators and downward pressure in the industry value chain. The Group reinforced its operation fundamentals, ensured steady development, and achieved solid operating results. In 2019, the Group's total revenues amounted to RMB117,413 million, representing a year-on-year increase of 10.6%. The Group's gross profit amounted to RMB13,687 million, representing a year-on-year increase of 6.2%, and gross profit margin was 11.7%, representing a year-on-year decrease of 0.4 percentage point, indicating a moderate decline¹¹. While increasing the investment in research and development, the Group strengthened its synergistic management and used IT measures to improve management efficiency, and as a result, selling, general and administrative expenses amounted to RMB11,494 million, accounting for 9.8% of total revenues and representing a year-on-year decrease of 0.2 percentage point. Profit attributable to equity shareholders of the Company amounted to RMB3,049 million, representing a year-on-year increase of 5.1%, with a net profit margin of 2.6%. Basic earnings per share amounted to RMB0.440. Free cash flow was RMB4,243 million, with the cash conversion ratio¹² remaining at a healthy and relatively high level.

BUSINESS DEVELOPMENT

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

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

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




PRESIDENT'S STATEMENT

In 2019, the Group's TIS services recorded a revenue of RMB64,689 million, representing a year-on-year increase of 12.8% and accounting for 55.1% of the total revenues. Capturing the domestic construction opportunities from Digital Economy and Smart Society, the Group has penetrated into the domestic non-operator market by adopting the "Consultant + Staff + Housekeeper" service model¹³ and provided digital infrastructure construction related services to its customers. During the year, such revenue from the domestic non-operator market was RMB20,910 million, representing a rapid year-on-year increase of 42.8%, and was the largest revenue growth driver of TIS services. During the year, the Group built up its strength in 5G technologies and capabilities while proactively satisfying 5G network construction demand of the domestic telecommunications operators. However, as the investment of the domestic telecommunications operators in 5G network has yet to come into scale, the TIS revenue from the domestic telecommunications operator market experienced a stable year-on-year growth of 2.1%, amounting to RMB41,153 million.

Revenue from the BPO services amounted to RMB36,637 million, representing a year-on-year increase of 4.4% and accounting for 31.2% of the total revenues. Adhering to the value-driven principle, the Group continued to contain its products distribution business with low gross profit, as a result, revenue from products distribution business for the year reported a year-on-year decrease of 11.5%. Excluding the products distribution business, the Core BPO services progressed well with a year-on-year revenue increase of 6.9%. The Group continued to penetrate into the OPEX business of the domestic telecommunications operators and facilitated the quality improvement of their networks. Revenue from the network maintenance business for the year reported a year-on-year increase of 7.0%. In 2019, the Group continued to establish comprehensive and integrated capabilities for the property management. Leveraging on the "Hui Yun" (慧雲) platform, we enhanced synergistic operation and promoted intelligent transformation. Our property management business extended to fields such as high speed rail, airport and achieved favourable development results. Revenue from the general facilities management (property management) business reported a year-on-year increase of 16.9% and maintained a growth rate of over 15% for two consecutive years¹⁴. The Group established the supply chain digitalized procurement platform, which enhanced the unified storage capabilities and network-wide operation capabilities. However, revenue growth of the supply chain business slowed down and reported a year-on-year increase of 1.7%, mainly because of the subdued growth in marketing agent and after-sale businesses attributable to the marketing strategy adjustment of the domestic telecommunications operators.

Revenue from the ACO services amounted to RMB16,087 million, representing a rapid year-on-year increase of 17.3%, making it the fastest growing segment among the three major businesses. It accounted for 13.7% of the total revenues, which was 0.8 percentage point higher year-on-year. Through capturing the domestic opportunities arising from the digitalization construction by the government and industries, as well as the intelligent transformation of the domestic telecommunications operators, we provided smart products, smart services and industrial integrated solutions to customers. Currently, we have accelerated the promotion of over 30 smart applications among vertical industrial customers. In 2019, revenue from the Group's system integration, software development and system support businesses reported a year-on-year increase of 23.5% and 14.2% respectively. Revenue from the ACO Major businesses reported a year-on-year increase of 18.6%, surpassing the growth rate of the national software business revenue¹⁵ and demonstrating a sound development result of such businesses.

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

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

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



PRESIDENT'S STATEMENT

MARKET EXPANSION

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

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

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

CAPABILITIES ENHANCEMENT

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

PRESIDENT'S STATEMENT

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

The Group has continuously improved the dispersed research and development system based on foundation platforms and propelled the products' research and development as well as the migration of the products' iteration to such foundation platforms through various means, such as the organization of the contest of "Incubating Future from the Cloud". Meanwhile, subject to different industries and nature of the projects, the Group established various research institutions such as the CCS Industrial Internet (Big Data) Research Institute. By establishing ecosystem alliances to converge both internal and external research and development capabilities and resources, enhancing capabilities of its smart products, and enabling capabilities effectively within the Group for development, the Group's software development capabilities have been strengthened and recognized in the industry. We ranked 5th¹⁶ in the "100 Most Competitive Software & IT Service Enterprises 2019" organized by China Information Technology Industry Federation and was awarded the title of "Leading Enterprises" in the voting for the Leading Enterprises for Information Technology Industry in 2019.

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

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

PROSPECTS

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

In 2020, positioned as a "New Generation Integrated Smart Service Provider", the Group will charge itself with the mission of being the Builder of Digital Infrastructure, Provider of Smart Products and Platforms, Service Provider of Data Production and Guard of Smart Operation, and adhere to the overall roadmap of "value-driven, seeking steady yet progressive growth and

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

PRESIDENT'S STATEMENT

high-quality development" to further implement innovation and transformation with a more open-minded attitude. We will establish a platform-based symbiotic ecosystem, provide full life cycle integrated smart services to the society, industries and customers, with a view to creating higher values for shareholders and customers.

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

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

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

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

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



Si Furong
President

Beijing, PRC
31 March 2020