

## CHAIRMAN'S STATEMENT



In 2020, facing the serious challenges from the novel coronavirus pandemic, the Group adhered to the strategic position as a “New Generation Integrated Smart Service Provider” and played the strengths as the “Builder of Digital Infrastructure”, “Provider of Smart Products and Platforms”, “Service Provider of Data Production” and “Guard of Smart Operation”, capturing the important opportunities from social digitalization, thus achieving stable operating results.

**Zhang Zhiyong**  
Chairman

## CHAIRMAN'S STATEMENT

Dear Shareholders,

In 2020, the novel coronavirus (the "COVID-19") pandemic had a significant impact on the overall social economic development, and the Group encountered the greatest pressure and challenges since its listing. Facing the adverse impact of the pandemic, the Group coordinated resources of every level and devoted itself to the battle against the pandemic. When the pandemic situation was effectively controlled in China, the Group actively promoted the resumption of work and production in an orderly manner, seized the opportunities of 5G, New Infrastructure and social digitalization, and accelerated market expansion, innovation and transformation, thus realizing a positive growth in total revenues and net profit for the full year and overcoming the severe impact of the pandemic to achieve favourable operating results.

## OPERATING PERFORMANCE

In 2020, the pandemic expedited the development of social digitalization, cyberization, and intelligentization. Riding on the social development trend and the change of market demand, the Group provided customers with integrated comprehensive smart services and realized favourable operating results. Total revenues of the year reached RMB122,649 million, representing a year-on-year growth of 4.5%. Profit attributable to equity shareholders of the Company amounted to RMB3,081 million, representing a year-on-year growth of 1.1%, and free cash flow<sup>1</sup> reached RMB2,630 million.

During the "13th Five-Year Plan" period, the Group adhered to the overall roadmap of "value-driven, seeking steady yet progressive growth and high-quality development" and achieved good development results. In 2020, the Group's total revenues and profit attributable to equity shareholders grew by 51.5% and 32.0%, respectively, as compared with those in 2015. The Group resolutely advanced on innovation and transformation, enhanced the smart service capabilities, strengthened the development of new customers and new businesses, and continuously optimized the revenue structure by customer and business. Among them, the revenue contribution from domestic non-telecom operator (the "domestic non-operator") customers to the total revenues reached 40.4%, which increased by 12.1 percentage points from the level in 2015 and became the Group's largest customer group<sup>2</sup>; the revenue contribution from applications, content and other ("ACO") services to the total revenues was 14.8%, which increased by 4.0 percentage points from the level in 2015, demonstrating a notable achievement of innovation and transformation.

## DIVIDEND

The Board has proposed to distribute a final dividend of RMB0.1335 per share for the financial year ended 31 December 2020, representing a dividend payout ratio of 30%. Besides, in view of the Group's solid operating results and favourable cash flow level for the full year, the Board has proposed to distribute a special dividend of RMB0.0267 per share for 2020. Taking into consideration of the above factors, the Company's total dividend for 2020 is RMB0.1602 per share, representing a total dividend payout ratio of 36%.

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

<sup>2</sup> Customers here are classified into four categories, including the domestic non-operator customers, China Telecom, other domestic telecommunications operator customers and overseas customers.

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### MARKET DEVELOPMENT

In 2020, the Group captured the accelerated demand for digital transformation from the society and industries as driven by the pandemic, built up its core capabilities, and continuously focused on the market development of industrial customers. Revenue from the domestic non-operator market of the year recorded a year-on-year growth of 18.8%, maintaining a growth of over 18% for three consecutive years; its contribution to the total revenues rose to 40.4%, which increased by 4.9 percentage points from last year and remained as the largest contributor to revenue growth among the customer groups. Benefiting from the Group's forward-looking market research and judgment and consistent strategy execution during the "13th Five-Year Plan" period, the domestic non-operator market sustained a thriving development and effectively helped the Group to overcome difficulties amid the pandemic and realize positive results growth.

In 2020, the Group endeavoured to support the 5G network construction of domestic telecommunications operators. Due to the pandemic in the first half of the year, the commencement, implementation and delivery and revenue recognition of relevant projects were affected to a larger extent. Revenue from the domestic telecommunications operator market recorded a year-on-year decrease of 3.4%, and the contribution to the total revenues was 57.1%, representing a decline of 4.6 percentage points as compared with the same period of the last year. Persisting in the strategy of "CAPEX and OPEX + Smart Applications"<sup>3</sup> and leveraging the edges on its services, the Group explored market demand to provide differentiated smart application products and solutions and fully supported the transformation and upgrade of domestic telecommunications operators. Both the Group's revenue from Core Business Process Outsourcing ("BPO") services<sup>4</sup> and revenue from ACO services of domestic telecommunications operator market recorded relatively good development and supported the overall performance of such market.

In 2020, the pandemic outbreak around the world had a serious impact on the contract signing and commencement of the Group's overseas projects. Revenue from the overseas market of the year recorded a year-on-year decrease of 5.2%, and the contribution to the total revenues was 2.5%. While strengthening the pandemic prevention and control in the overseas market, the Group proactively utilized digital measures such as "remote" and "online" to promote the resumption of work and production as well as market expansion, thus achieving breakthroughs of overseas businesses in electricity and telecommunications operator OPEX, etc.

### BUSINESS DEVELOPMENT

In 2020, the Group offered strong support to the construction demand for telecommunications network from domestic and overseas telecommunications operators as well as the demand for intelligentization construction from non-operator customers in other industries, and achieved breakthroughs in the aspects such as the construction of 5G network and data centers. Revenue from the telecommunications infrastructure ("TIS") services of the year recorded a year-on-year growth of 3.8%.

<sup>3</sup> "CAPEX and OPEX + Smart Applications": CAPEX refers to the capital expenditure of domestic telecommunications operators while OPEX refers to the operating expenditure of domestic telecommunications operators.

<sup>4</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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In 2020, the Group continued to enhance the professional and integrated service capabilities of BPO services, established the synergistic and efficient, full-process collaborative operation system for supply chain services, and leveraged the advantages of its full life cycle service. The above measures conducted to the notable achievement in new customer development and drove the Group's revenue from the BPO services to grow by 1.7% year-on-year, and revenue from the Core BPO services to grow by 2.2% year-on-year.

In 2020, as the pandemic sparked the booming demand of upgrading social digitalization, the Group endeavoured to develop smart businesses represented by emergency management, smart city and industrial smart solutions by seizing the opportunities of New Infrastructure and digital transformation in the society, strengthening its self-developed capabilities in research and development, and expanding ecological cooperation. Revenue from the ACO services recorded a year-on-year growth of 13.2%, and the contribution to the total revenues was 14.8%. The contribution from ACO services to the overall revenue growth was 40.5%, which increased significantly by 19.4 percentage points as compared with the same period of the last year.

## REFORM AND INNOVATION

The development and popularization of new generation information technology greatly promotes the deep integration of digital economy and real economy, and customer demands and industry development are also going through profound changes. In 2020, in view of the mega trend and the new requirements of digital transformation and upgrade of the society, the Group conformed to the trend, identified and adapted to changes, made early deployments and continuously promoted its reform and innovation with a view to enhancing its high-quality development capability.

Focusing on the opportunities of New Infrastructure represented by 5G, the Group undertook the 5G construction projects with the general contracting model from domestic telecommunications operator customers, and elevated the capabilities and optimized the ecosystem of general contracting, thus satisfying the general contracting demand for digital infrastructure from industrial customers and creating greater customer value.

The Group optimized its organizational structure in the headquarters by flattening the layers to improve the efficiency in strategy execution and communications. The Group strengthened the research and development and resource allocation by establishing China Comservice General Research Institute in order to build an integrated technology research and development mechanism which is vertically coordinated and horizontally connected, enabling it to respond rapidly to market changes and improve the capabilities on market research and judgment and project delivery. The Group also acquired a property as its integrated bases for the production and operation of smart services to support technological research and development and smart product showcase, improve the operation synergy and efficiency, as well as building up the brand image of "New Generation Integrated Smart Service Provider".

The Group actively promoted the deepened reform and sought to introduce strategic investors with strategic synergy and complementarity in order to acquire new capabilities, develop new markets, and cultivate more diversified sources of income. During the year, the Board approved the mixed-ownership reform of China Comservice Supply Chain Management Company Ltd., a subsidiary of the Company, to boost the business development through capital measures. Meanwhile, the Group pursued the integration of finance solutions with industry development, and acquired stakes in new and high-technology enterprises in the fields of Internet of Things ("IoT") and network information security, with a view to further expanding the boundary of ecological cooperation.

## SOCIAL RESPONSIBILITIES

In 2020, facing the COVID-19 pandemic, the Group proactively assumed social responsibilities, leveraged its capabilities and strengths to bolster the fight against the pandemic and resumption of work and production in the society with smart and technological measures. The Group rapidly completed the planning and construction of the 4G/5G wireless network for Huoshenshan Hospital and Leishenshan Hospital in Wuhan in three days, and provided module hospitals in Wuhan, Beijing Xiaotangshan Hospital, government departments and enterprises of various sectors with emergency communication construction for pandemic control. The Group undertook the construction of the Big Data platform of the Ministry of Industry and Information Technology of the PRC ("MIIT") and developed multiple smart applications for pandemic prevention. The Group's professional teams in the maintenance, property management and supply chain businesses devoted every effort to secure effective pandemic prevention in key places such as airports, schools and high-speed railway. Given the proactive contribution to pandemic prevention, the Group was honored the title of "Advanced Group in Fighting against COVID-19 in the Industry and Information Technology System" by MIIT.

The Group also fulfilled the social responsibilities by actively participating in charitable activities. It participated in the country's poverty alleviation through providing training, creating job opportunities and promoting industry development, and helped counties in poverty such as Jiuzhi County in Qinghai province to achieve entire poverty elimination.

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### CORPORATE GOVERNANCE

The Group attaches great importance to corporate governance, and the Board plays the role of carrying out market research and making judgments, steering strategies, deepening reform, making scientific decisions and preventing risks, and supports the management to continuously promote the Group's high-quality development. The Board and its committees, and the Supervisory Committee also give full play to their strengths and expertise to provide professional advice and decision support to the Company's affairs, including the strategic planning, major decisions, mechanism construction and compliance safeguard, so as to further reinforce the development quality and competitiveness of the Group.

The Group was widely recognized by the capital market for its high standard of corporate governance, and won multiple honors in 2020. The Group ranked 86th in *FORTUNE China's* "2020 FORTUNE China 500" and 1,488th in *Forbes'* "2020 Forbes Global 2000 – The World's Largest Public Companies". The Group was named as "Honored Companies in Asia" in *Institutional Investor's* 2020 "All-Asia Executive Team" Rankings for the first time. It was honored with "Titanium Award" in "The Asset ESG Corporate Awards 2020" held by *The Asset*, a financial magazine in Asia; "Best CEO" and "Best CFO" in the "10th Asian Excellence Recognition Awards" held by *Corporate Governance Asia*, and "The Best TMT Company" in the 5th "Golden Hong Kong Equities Awards Ceremony" organized by PRC leading financial media. In the 10th "China Securities Golden Bauhinia Awards" organized by *Ta Kung Wen Wei*, the Group won the award of "The Best Investment Value Listed Company".

### OUTLOOK

In the past year, confronted with the unexpected COVID-19 pandemic, the Chinese Government united all the people across the country to fight through all difficulties and made significant achievements in pandemic prevention and control that China was the world's only major economy to achieve growth. During the "14th Five-Year Plan" period, China will enter a new stage of development characterized by long-term positive trend of macro-economy, acceleration of digital economy in the social development, expedition in the construction pace of New Infrastructure represented by 5G, data centers and the Industrial Internet, and quickening in the process of social governance upgrade.

Adhering to the strategic position as a "New Generation Integrated Smart Service Provider" and upholding the mission and vision of "Building Smart Society, Boosting Digital Economy, Serving a Good Life", the Group will start the new development stage, practise the new development philosophy, and formulate the new development landscape. The Group will seize the important opportunities of digital transformation arising from Cyberpower, Digital China and Smart Society, focus on key industries, regions and customers, and fully leverage its advantages of "Builder of Digital Infrastructure", "Provider of Smart Products and Platforms", "Service Provider of Data Production" and "Guard of Smart Operation", so as to continuously promote the high-quality development of the Group.

In the domestic non-operator market, the Group will target on the new infrastructure facilities, new urbanization constructions and national major construction, as well as seizing the important market opportunities such as Industrial Internet and network security, and focus on key industries and economically active areas, and continuously optimize and promote its key products including Smart City, Smart Government Services and Smart Game. The domestic non-operator market will become the primary driving force of the sustainable and healthy development of the Group.

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In the domestic telecommunications operator market, while adhering to the "CAPEX and OPEX + Smart Applications" strategy and penetrating into the traditionally advantageous fields, the Group will actively develop new businesses such as 5G, data centers, cloud-network integration and network information security, accelerate its integration into the ecosystem of operator customers' transformation and upgrade, continuously improve its service capabilities and quality, thereby maintaining the leading position in the domestic telecommunications operator market and securing the fundamentals of its operation.

In the overseas market, on the premise of strict prevention of pandemic risk, the Group will seize the opportunities from the "Belt and Road" and the facilitation in trade and investment, leverage its "EPC+F+I+O+S"<sup>5</sup> model, focus on key regions such as Southeast Asia, the Middle East and Africa, further advance on the development of major projects and the breakthrough of industrial customer development, and continuously explore areas for new business development in the overseas market.

The Group will attach equal importance to its organic growth and external development. The Group will seek partners for strategic collaboration, industrial collaboration and business collaboration, and strengthen the cooperation with telecommunications operators and key industrial customers to explore and establish the collaborative and symbiotic ecosystem. Through investing in strategic businesses, the Group will build the link of business ecosystem. The Group will work with partners to jointly develop the social digitalization market on a market-oriented and win-win basis.

Last but not least, on behalf of the Board, I would like to express my sincere gratitude to our shareholders, customers and all sectors of society for their long-term attention and support, and deeply thank all of our employees for their continued dedication and hard work. I would also like to express my sincere gratitude to Mr. Si Furong, who resigned as an executive director during the year, for his outstanding contribution to the development of the Group during his tenure; and my sincere welcome to Mr. Huang Xiaoqing, Mr. Gao Tongqing and Mr. Mai Yanzhou who have joined the Board.



**Zhang Zhiyong**  
*Chairman*

Beijing, PRC  
29 March 2021

<sup>5</sup> "EPC+F+I+O+S": EPC (Engineering, Procurement, Construction) + Finance + Investment + Operation + Solution