

PRESIDENT'S STATEMENT



In 2020, the Group strived to build a baseline for pandemic prevention and promoted the resumption of work and production in an active and orderly manner; in the meantime, we accelerated the reform and innovation and improved service capabilities and quality, thus strengthening value creation to lay a solid foundation for the high-quality development of the Company in the future.

Huang Xiaoqing
President

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Dear Shareholders,

I am very pleased to present the operating results of the Group in 2020.

FINANCIAL PERFORMANCE

In 2020, the COVID-19 pandemic had a severe impact on the overall social economic development and brought unprecedented pressure and challenges to the Group's operation. After the pandemic outbreak, the Group encountered great difficulty in the overall operation as most of the businesses could not be carried out normally in the first quarter while anti-pandemic expenses increased and rigid costs persisted. Facing the challenges of the pandemic, the Group united all the employees to overcome the adversity, put the lives of employees as the first priority, comprehensively and actively coordinated resources, exerted effort to build the baseline for pandemic prevention, and actively fulfilled the social responsibilities by participating in and supporting the pandemic prevention and control in the society. In the meantime, the Group captured the accelerated construction demand for New Infrastructure such as 5G, digital government, upgrade of smart city and emergency management system as driven by the pandemic, and leveraged its capabilities and advantages to actively promote the resumption of work and production, therefore ensuring that the operating results of the full year realized a positive growth.

In 2020, the Group's total revenues amounted to RMB122,649 million, representing a year-on-year increase of 4.5%. Gross profit amounted to RMB13,738 million, representing a year-on-year increase of 0.4%, and the gross profit margin was 11.2%, representing a year-on-year decrease of 0.5 percentage point. Having considered the needs for both the pandemic prevention and control and its business development, the Group applied multiple digital measures such as "online" and "remote" to control expenses and improve the operating and management efficiency. Selling, general and administrative expenses amounted to RMB11,826 million, representing a year-on-year increase of 2.9%, and accounting for 9.6% of total revenues, representing a year-on-year decrease of 0.2 percentage point. Profit attributable to equity shareholders of the Company amounted to RMB3,081 million, representing a year-on-year increase of 1.1%, with a net profit margin of 2.5%. Basic earnings per share amounted to RMB0.445. Free cash flow was RMB2,630 million.

BUSINESS DEVELOPMENT

In 2020, the Group's TIS services recorded a revenue of RMB67,165 million, representing a year-on-year increase of 3.8% and accounting for 54.8% of the total revenues. The Group seized the construction opportunities of New Infrastructure such as 5G, data centers and Industrial Internet, and dedicated itself to developing the domestic non-operator market. Revenue from TIS services of such market reached RMB25,759 million, representing a rapid year-on-year growth of 23.2% and being the largest driving force of revenue growth from TIS services. The pandemic affected the commencement and delivery of projects and revenue from TIS services of the domestic telecommunications operator market was RMB38,879 million, representing a year-on-year decrease of 5.5%.

In 2020, the Group's revenue from the BPO services amounted to RMB37,277 million, representing a year-on-year increase of 1.7% and accounting for 30.4% of the total revenues. With the Group's emphasis on value enhancement and further control of businesses with low gross profit, revenue from Core BPO services (excluding the products distribution business) recorded a year-on-year increase of 2.2%. As the Group has been strengthening the cultivation, consolidation and the synergistic operation of the supply chain businesses in recent years, the coverage of such business has not only covered telecommunications operator customers, but also expanded to the markets of government and equipment manufacturers. With the continuously enriching customer portfolio and enhancing business value, revenue from the supply chain business recorded a year-on-year growth of 5.3%. The Group continued to develop synergistic and efficient property management services, overcame the impact of the pandemic to promote the business and devoted resources to the frontline for pandemic control. Revenue from general facilities management (property management) of the year recorded a year-on-year increase of 3.1%.

In 2020, the Group's revenue from the ACO services amounted to RMB18,207 million, representing a rapid year-on-year increase of 13.2%, and the contribution to the total revenues was 14.8%, increased by 1.1 percentage points year-on-year. Among which, revenue from the system integration business recorded a year-on-year increase of 22.7%, and revenue from the software development and system support business recorded a year-on-year increase of 8.8%. The Group was further recognized by the industry for its software development service capabilities, and continued to rank 5th in the "100 Most Competitive Software & IT Service Enterprises 2020" coordinated by China Information Technology Industry Federation.

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MARKET EXPANSION

In 2020, the Group's domestic non-operator market maintained a rapid growth momentum and recorded a revenue of RMB49,578 million, representing a year-on-year increase of 18.8%; the contribution to the total revenues was 40.4%, increased significantly by nearly 5 percentage points from the same period of the last year. With the "Consultant + Staff + Housekeeper"⁶ unique service model and the "Platform + Software + Service"⁷ advantageous capabilities, the Group further expanded the domestic non-operator market, and provided services to customers in the vertical industries with over 30 smart products in different fields, thus realizing mutual capabilities enabling among the traditionally advantageous TIS services and the technology-related ACO services in such market. In this market, revenue from TIS services and ACO services grew by 23.2% and 24.1% year-on-year respectively. In the project development, the Group seized the opportunity of data center construction and secured several data center general contracting projects with contract amount over RMB100 million each, achieving rapid business growth. Meanwhile, the Group focused on key sectors such as government, construction, Internet, electricity, transportation and sport game, and secured contracts for key projects represented by "Urban Power Supply and Distribution Upgrade Services in Guangzhou City", "Communications Pipeline and Facilities Relocation Project for Shanghai Rail Transit Airport Line", "Information Technology System Services for the Organizing Committee of the 6th Asian Beach Games", "Big Data Platform Phase II General Contracting Construction Project of Shanghai Lingang", "New Smart City General Contracting EPC Project of Lianjiang City in Guangdong Province" and "Weak Current Upgrade General Contracting EPC Project in the Road Construction of Yichun City Center". Leveraging its experience and advantages in communications support and network maintenance, the Group provided mobile communications support services to "Chang'e-5 probe" for lunar exploration, making contribution to the key national technology project. The healthy development of the domestic non-operator market supported the Group's favourable development momentum.

In 2020, owing to the pandemic outbreak at the beginning of the year, the Group's bidding and tendering process, construction and delivery and project settlement of relevant projects in the domestic telecommunications operator market were all behind schedule, which resulted in the volatile performance in such market. When the pandemic was largely under control and the situation became relatively stable in China, the Group actively seized the opportunities from network construction such as 5G, and utilized its advantageous capabilities in "CAPEX and OPEX + Smart Applications", with a view to minimizing the negative impact of the pandemic and maintaining the stable fundamentals of its operation. Revenue from the domestic telecommunications operator market reached RMB69,976 million, representing a year-on-year decrease of 3.4% and accounting for 57.1% of the total revenues. Among which, revenue from China Telecom amounted to RMB41,777 million, resuming a year-on-year growth of 2.8% for the full year, and the contribution to the total revenues was 34.1%. The aggregate revenue from domestic telecommunications operators other than China Telecom recorded a year-on-year decrease of 11.3%, and the contribution to the total revenues was 23.0%.

In 2020, the outbreak and persistence of the pandemic overseas had an impact on the development of the Group's overseas market. The Group's revenue from the overseas market amounted to RMB3,095 million, representing a year-on-year decrease of 5.2%, and the contribution to the total revenues was 2.5%. While implementing the effective overseas pandemic risk control, the Group proactively developed the business in a prudent manner, and made breakthroughs in the electricity industry in certain countries of the Middle East and Southeast Asia, and secured new contracts from operators of certain countries in Southeast Asia and Africa regarding communications tower maintenance business, thus expanding the source of revenue in the overseas market.

⁶ "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 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.

⁷ "Platform + Software + Service" capabilities: utilize core foundation platforms, including Cloud and IoT, focus on the application of 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 solutions.

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CAPABILITIES ENHANCEMENT

The Group closely followed new trends and new characteristics of the macro-economy and the industry development, continued to increase investment in research and development, developed smart products and enhanced service capabilities and quality to satisfy new demand of markets and customers.

In 2020, the Group began to undertake 5G construction projects of domestic telecommunications operators with the general contracting model, initiated the integration of multiple professional services and the business process re-engineering, improved the general contracting qualification and key capabilities, and built a team of over 1,900 project managers with general contracting capability. The Group gathered resources on developing the data center construction business and secured new contracts on data center construction totaling RMB11,500 million during the year.

The Group further increased its resources allocation to strengthen the research and development capabilities. In 2020, research and development expenses of the year amounted to RMB3,782 million, accounting for 3.1% of total revenues. Since 2018, the Group has cumulatively invested RMB9,856 million in research and development. In 2020, the Group established China Comservice General Research Institute and built the two-level research and development structure between the headquarters and the provincial companies, which coordinated the research and development management systems of core platforms such as Cloud and IoT. It continuously promoted and expanded the cloud application, and supported the construction of Chongqing Industrial Big Data Platform. CCS IoT Platform now connects to 1,500 products and 42 million terminals. Pilot programs of the maintenance cloud platform based on CCS IoT Platform have been launched in some provinces. In 2020, CCS IoT Platform won the honor of "2020 Best Digitalization Product in PRC" granted by China International Fair for Trade in Services and "OFweek 2020 Most Popular Development Platform in China IoT Industry" jointly granted by Industry and Information Technology Bureau of Shenzhen Municipality and OFweek.

The Group emphasized the construction of technology ecosystems, and has built relationships with more than 40 new and high-technology enterprises as ecological cooperation partners. Meanwhile, the Group cultivated the internal research and development power through organizing the innovation contest of "Incubating Future from the Cloud". By consolidating its internal scientific research resources, the Group endeavoured to develop the network information security business, and built a professional team of 1,600 network information security specialists.

PROSPECTS

In the future, the Group will start the new development stage, practise the new development philosophy and formulate the new development landscape. It will uphold the strategic position as a "New Generation Integrated Smart Service Provider", accelerate the reform and innovation, and strengthen the value creation to further promote the high-quality development.

In the domestic non-operator market, the Group will ride on the trend of digital upgrade in areas such as society, industries and governance, and focus on key sectors including government, construction, Internet, electricity and transportation as well as key regions including the Yangtze River Delta, the Guangdong-Hong Kong-Macao area, the Beijing-Tianjin-Hebei area and the Chengdu-Chongqing area, with a view to shaping the first-mover advantage by accelerating the business development of 5G, data centers and emergency management. The Group will deeply penetrate into the development in key industries, and promote its smart products and services including Smart City, Smart Government Services, Smart Park and Smart Highway, to satisfy customers' own demand for digital transformation and smart upgrade. The Group will continuously optimize the marketing system and enhance the synergy of marketing with its three-tier organizational structure. The Group will leverage the advantages of China Comservice General Research Institute in leading the planning, development and promotion for key industry products of strategic importance. We will strengthen the cooperation with domestic telecommunications operator customers to jointly develop the industrial customer market by complementing each other's strengths. The Group will also continuously enlarge the revenue scale from the domestic non-operator market by improving the service capabilities and development quality to consolidate the foundation of development.

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In the domestic telecommunications operator market, by adhering to its “CAPEX and OPEX + Smart Applications” development strategy, the Group will further integrate into the ecosystem of our customers and seize the opportunities of 5G, big data and cloud-network integration by undertaking 5G network construction with the general contracting model, vigorously developing the data center construction business, and providing customers with services related to “Cloud + 5G + DICT” to support their transformation and upgrade. Meanwhile, the Group will deepen the development of maintenance, property management and supply chain businesses to expand the revenue scale and its share from operators’ OPEX business. With all these measures, the Group will endeavour to maintain stable fundamentals of the domestic telecommunications operator market.

In the overseas market, on the premise of effective pandemic prevention and control, the Group will seize the opportunities arising from the advancement of the “Belt and Road” and actively integrate into the “new development paradigm of dual-circulation with domestic and international development reinforcing each other”, exporting the capabilities and experience gained from serving domestic customers overseas through capabilities enabling and leveraging the “EPC+F+I+O+S” model, with a view to achieving greater breakthroughs in industries including transportation, electricity and education. The Group will continue to enhance the collaboration with domestic telecommunications operators and “Go Abroad” Chinese enterprises to support their overseas IDC construction to further expand the source of revenue in the overseas market, improve the development quality and accelerate the breakthrough in transformation.

The Group will improve the efficiency of capital operation, and take the opportunities arising from the State-owned Enterprise Reform “Double-hundred Action” to bring in strategic investors with strategic synergy and complementarity and to promote diversification in ownership structure. The Group will further advance on the mixed-ownership reform of China Comservice Supply Chain Management Company Ltd. to boost the business development through capital measures. We will also explore the investment in high-technology enterprises primarily engaged in intelligent hardware and big data analysis so as to reinforce product and technological capabilities, and also explore the “F+EPC”⁸ model to drive the development of sizable projects for the New Infrastructure, with an aim to expediting the development pace of the Group.

For capabilities enhancement, the Group will take the 5G general contracting as the standard, and continue to upgrade its capability and enlarge the business scope of the general contracting projects by extending such model to IDC general contracting, ICT general contracting, cross-industry general contracting and overseas general contracting. The Group will promote the research and development of its core platforms such as Cloud, CCS IoT and CCS Network Information Security and migrate its products to cloud so as to facilitate the sharing of general competence, iteration of industry solutions, and build the integrated and synergistic research and development capabilities. Through integration of its professionals, qualification enhancement and synergistic operation, the Group could improve the professional capabilities of its businesses. We will center on the market demand, strengthen the training and selection of our talent and build the expert team to further consolidate our strength for sustainable development.

2021 marks the first year of the “14th Five-Year Plan”. As the “New Generation Integrated Smart Service Provider”, the Group will take reform and innovation as the core impetus, follow the path of high-quality development to enhance value creation, integrate its own development with the development trend of the country, the society, industries and customers, and devote every effort to turn a new page of enterprise development in the new era.



Huang Xiaoqing

President

Beijing, PRC
29 March 2021

⁸ “F+EPC”: Finance + EPC (Engineering, Procurement, Construction)