

## STATEMENT FROM THE BOARD



**Huang Xiaoqing**  
*Executive Director & President*

"In 2021, the Group proactively responded to the challenges from the COVID-19 pandemic. Adhering to '1 Positioning, 4 Roles', the Group started the new stage of development, practised the new development philosophy, serviced the new development landscape. The Group focused on value creation, expanded markets proactively, and accelerated the reform and innovation, leading to a further enhancement in its development quality."



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 gradually<sup>1</sup>. Free cash flow<sup>2</sup> 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.

## 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 groups<sup>3</sup>. 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.

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

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

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





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”<sup>4</sup> 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 revenue<sup>5</sup> 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.

## 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 notably<sup>6</sup> 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%.

<sup>4</sup> 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.

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

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



## 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.

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 investors<sup>7</sup> 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”<sup>8</sup> 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 receivable<sup>9</sup> to total revenues was 29.7%, being the lowest level in the past five years.

<sup>7</sup> 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).

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

<sup>9</sup> Accounts receivable comprises accounts receivable, bills receivable and contract assets.

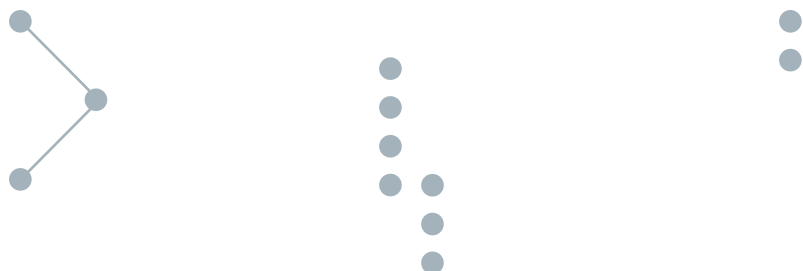
## ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG)

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”<sup>10</sup> service model and the “Platform + Software + Service”<sup>11</sup> 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.

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.

<sup>10</sup> “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.

<sup>11</sup> “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.



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

