

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

OVERVIEW

In 2021, by adhering to its overall roadmap of “value-driven, seeking steady yet progressive growth and high-quality development” and positioning itself as a “New Generation Integrated Smart Service Provider”, the Group maintained positive growth for the overall results amid the complicated domestic and international environments and seized the important opportunities brought by digital economy, Cyberpower and National Big Data Strategy. Total revenues for the year amounted to RMB133,991 million, representing an increase of 9.2% as compared to 2020; profit attributable to the equity shareholders of the Company was RMB3,157 million, representing an increase of 2.5% as compared to 2020, with basic earnings per share amounted to RMB0.456. Free cash flow was RMB4,060 million with cash conversion ratio¹² being 142.7%, which continued to remain at a healthy and relatively high level.

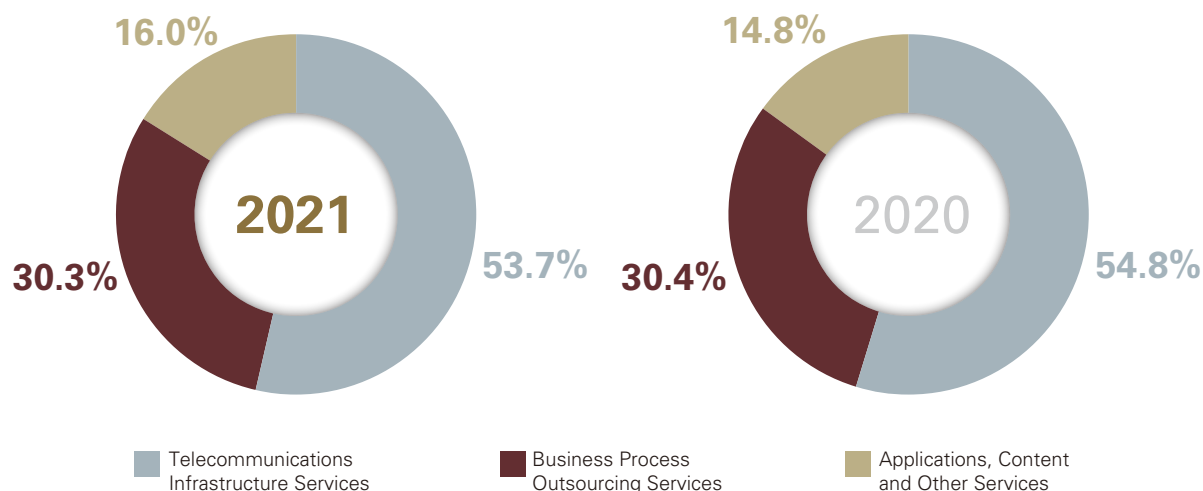
TOTAL REVENUES

The Group’s total revenues in 2021 amounted to RMB133,991 million, representing an increase of 9.2% as compared to 2020. From the business perspective, the revenue from telecommunications infrastructure (“TIS”) services was RMB71,889 million, representing a year-on-year growth of 7.0%; the revenue from business process outsourcing (“BPO”) services was RMB40,624 million, representing a year-on-year increase of 9.0%; the revenue from applications, content and other (“ACO”) services was RMB21,478 million, representing a year-on-year growth of 18.0%. In 2021, the Group seized the opportunities arising from 5G, New Infrastructure and social digitalization and enhanced integrated comprehensive smart service capabilities, thus maintaining the continuous and steady growth of the TIS services. Meanwhile, the Group increased investment in research and development, consolidated the capabilities on its research and development as well as product, kept up with opportunities arising from digital transformation of enterprises, and informatization construction of emergency management, smart city upgrade, etc., which stimulated the growth of its businesses such as system integration and software development, making the ACO services continue to be the fastest-growing business segment.

From the market perspective, the revenue from the domestic non-operator market was the main driver for business growth in 2021, and the revenue from such market amounted to RMB57,446 million, representing a year-on-year increase of 15.9%. Revenue from the domestic telecommunications operator market amounted to RMB73,803 million, representing a year-on-year increase of 5.5%; revenue from the overseas market amounted to RMB2,742 million, representing a year-on-year decrease of 11.4%. The Group kept abreast of the development trends of digital economy and industrial digitalization, focused on the development opportunities arising from New Infrastructure, smart society, cybersecurity, emergency management, new energy and Dual Carbon Goals, and achieved positive interaction and development of the emerging and traditional businesses by continuously forging core capabilities and platforms, strengthening the collaboration of internal and external products and services as well as leveraging the comprehensive strengths. As a result, revenue from the domestic non-operator market maintained a strong growth momentum and continued to be the largest contributor to the Group’s revenue growth. Meanwhile, the Group effectively implemented the “CAPEX + OPEX + Smart Applications” development strategy in the domestic telecommunications operator market, seized new opportunities of industrial digitalization, 5G and data center construction, further developed the traditional businesses, endeavored to raise the OPEX market share, took initiative to integrate into the whole process of operators’ transformation and actively developed businesses in relation to operators’ government and enterprise customers and network information security, thereby stabilizing the operation fundamentals of the domestic telecommunications operators.

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

BUSINESS REVENUE MIX



The following table sets forth a breakdown of our total revenues for 2020 and 2021, together with their respective changes:

	2021 RMB'000	2020 RMB'000	Change
Telecommunications Infrastructure Services			
Design services	10,521,239	10,372,327	1.4%
Construction services	57,310,463	52,952,530	8.2%
Project supervision and management services	4,057,546	3,839,714	5.7%
	71,889,248	67,164,571	7.0%
Business Process Outsourcing Services			
Management of infrastructure for information technology (Network Maintenance)	16,677,957	15,794,043	5.6%
General facilities management (Property Management)	7,127,497	6,357,245	12.1%
Supply chain	11,963,560	10,870,747	10.1%
Sub-total of Core BPO Services	35,769,014	33,022,035	8.3%
Products distribution	4,854,569	4,254,844	14.1%
	40,623,583	37,276,879	9.0%
Applications, Content and Other Services			
System integration	13,278,131	11,179,619	18.8%
Software development and system support	3,634,339	3,107,772	16.9%
Value added services	2,386,280	1,963,321	21.5%
Others	2,179,736	1,956,782	11.4%
	21,478,486	18,207,494	18.0%
Total	133,991,317	122,648,944	9.2%

Telecommunications Infrastructure Services

In 2021, the Group's revenue from TIS services amounted to RMB71,889 million, representing an increase of 7.0% as compared to RMB67,165 million in 2020. Among which, the construction services recorded revenue of RMB57,310 million, representing an increase of 8.2% as compared to 2020, being the largest contributor to the growth of total revenues. TIS services was the primary source of revenue of the Group and accounted for 53.7% of our total revenues, representing a decrease of 1.1 percentage points from 54.8% in 2020. As to the customer structure of the TIS services, the Group's TIS revenue from domestic telecommunications operators amounted to RMB39,454 million and accounted for 54.9% of the total TIS revenues, representing a decrease of 3.0 percentage points from 2020. The aggregate TIS revenues from domestic non-operator customers and overseas customers amounted to RMB32,435 million and accounted for 45.1% of the total TIS revenues, representing an increase of 3.0 percentage points from 2020, whereas the increase in proportion was driven by domestic non-operator customers.

In 2021, the aggregate TIS revenues from domestic non-operator customers and overseas customers increased by 14.7% over 2020, in which the TIS revenue from domestic non-operator customers recorded a significant year-on-year growth of 17.5%, which was the main growth driver of the TIS business. As a result of the further implementation of Digital China Strategy, the acceleration in the construction of new infrastructure facilities, the prosperous development of industrial digitalization and the market potential brought by the booming informatization demands under the normalization of pandemic situation, the Group captured relevant opportunities in the domestic non-operator market and realized relatively rapid growth. The share of the Group's TIS revenues from domestic telecommunications operators maintained at a stable level and such revenue increased by 1.5% as compared to 2020. As domestic telecommunications operators continued to increase their investment in New Infrastructure such as 5G and data centers with a view to accelerating the transformation of cloud-network integration, the Group further integrated into the ecosystem of operators and enhanced product and service capabilities, so as to cater for the integrated network construction services demand of domestic telecommunications operators and maintained the stable business development of domestic telecommunication operators.

Business Process Outsourcing Services

In 2021, the Group's revenue from BPO services amounted to RMB40,624 million, representing an increase of 9.0% as compared to RMB37,277 million in 2020, accounting for 30.3% of our total revenues, a decrease of 0.1 percentage point as compared to 30.4% in 2020. In terms of customer structure of the BPO services, the BPO revenue from domestic telecommunications operators amounted to RMB26,011 million, representing an increase of 7.3% over 2020, and accounting for 64.0% of the total revenues from the BPO services, representing a decrease of 1.0 percentage point from 2020. The aggregate BPO revenues from the domestic non-operator customers and overseas customers amounted to RMB14,613 million, representing an increase of 12.1% over 2020, and accounting for 36.0% of the total BPO revenues, representing an increase of 1.0 percentage point over 2020.

In 2021, among each of the businesses under the Group's BPO services, revenue from the Network Maintenance business amounted to RMB16,678 million, representing an increase of 5.6% as compared to 2020. Revenue from the Property Management business amounted to RMB7,127 million, representing an increase of 12.1% as compared to 2020 and maintaining a good momentum. Revenue from the supply chain business amounted to RMB11,964 million, representing an increase of 10.1% as compared to 2020. The Group focused on the upstream and downstream customers, continuously leveraged its advantages in full-process and network-wide synergistic operation in supply chain to provide value-added, integrated and full life cycle supply chain services to domestic telecommunications operators, government and enterprise customers. In addition, revenue from the products distribution business amounted to RMB4,855 million, representing an increase of 14.1% as compared to 2020, which was mainly due to the distribution of communications products, including the terminal and device distribution services for domestic telecommunications operator customers and the distribution and procurement services of IT devices, auxiliary accessories and equipment for domestic non-operator customers.

Applications, Content and Other Services

In 2021, the Group's revenue from ACO services amounted to RMB21,478 million, representing an increase of 18.0% as compared to RMB18,207 million in 2020, making it the fastest-growing business segment for the year. In this segment, the system integration business recorded revenue of RMB13,278 million, representing an increase of 18.8% as compared to 2020, being the second largest contributor to the growth of the total revenues. The revenue from ACO services accounted for 16.0% of the Group's total revenues, representing an increase of 1.2 percentage points from 14.8% in 2020, and such proportion has kept growing in the past five years. In terms of the customer structure of ACO services, the Group's ACO revenue from domestic telecommunications operators amounted to RMB8,338 million and accounted for 38.8% of the total ACO revenues, representing an increase of 1.1 percentage points as compared to 2020. Aggregate ACO revenues from domestic non-operator customers and overseas customers amounted to RMB13,140 million, accounting for 61.2% of the total ACO revenues, representing a decrease of 1.1 percentage points over 2020.

In 2021, the Group's ACO revenue from domestic non-operator customers and domestic telecommunications operator customers grew rapidly by 16.7% and 21.5% respectively as compared with 2020. The growth was mainly attributable to the Group's efforts in leveraging its strength in integrated services and capabilities on system integration and software development, further expanding the ecological cooperation scale, and seizing the opportunities of New Infrastructure and digital transformation in China. By utilizing the self-developed core platforms and a range of leading "smart series" products, the Group effectively satisfied the business transformation demand of our customers through vigorously expanding the businesses including 5G, data centers, smart city, transportation, electricity, cybersecurity and emergency management.

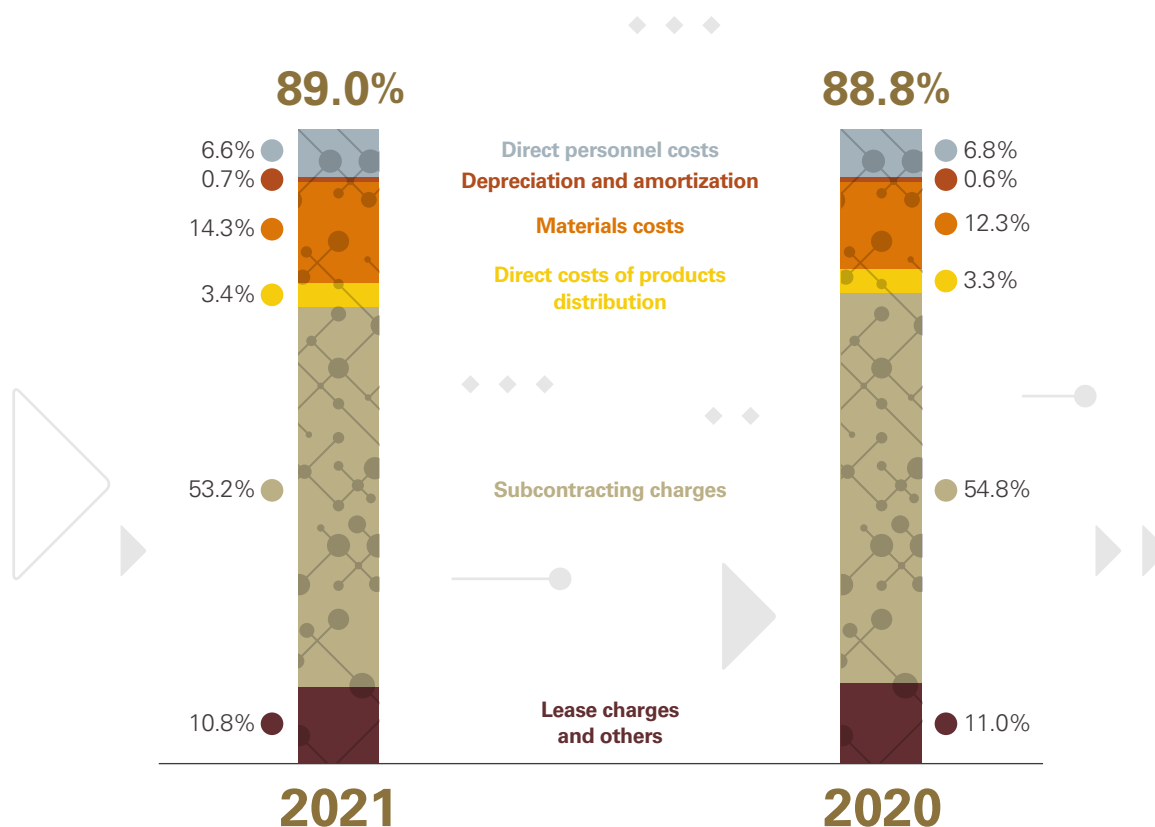
COST OF REVENUES

The Group's cost of revenues in 2021 amounted to RMB119,207 million, representing an increase of 9.5% from 2020 and accounting for 89.0% of the total revenues.

The following table sets out a breakdown of the Group's cost of revenues in 2020 and 2021 and their respective changes:

	2021	2020	
	RMB'000	RMB'000	Change
Direct personnel costs	8,804,676	8,300,338	6.1%
Depreciation and amortization	908,323	827,413	9.8%
Materials costs	19,166,225	15,057,234	27.3%
Direct costs of products distribution	4,614,143	4,067,599	13.4%
Subcontracting charges	71,239,853	67,166,028	6.1%
Lease charges and others	14,473,679	13,492,696	7.3%
Total cost of revenues	119,206,899	108,911,308	9.5%

COST OF REVENUES AS A % OF TOTAL REVENUES

**Direct Personnel Costs**

In 2021, direct personnel costs amounted to RMB8,805 million, representing an increase of 6.1% from RMB8,300 million in 2020. Direct personnel costs accounted for 6.6% of our total revenues, representing a decrease of 0.2 percentage point from 2020. The Group kept a reasonable control over its total headcount, continued to optimize the employee structure and strictly controlled staff costs, which resulted in the continuous decrease of the proportion of direct personnel costs to total revenues.

Depreciation and Amortisation

In 2021, depreciation and amortisation amounted to RMB908 million, representing an increase of 9.8% from RMB827 million in 2020. Depreciation and amortisation cost accounted for 0.7% of our total revenues.

Materials Costs

In 2021, materials costs amounted to RMB19,166 million, representing an increase of 27.3% as compared to RMB15,057 million in 2020. Materials costs accounted for 14.3% of our total revenues, representing an increase of 2.0 percentage points from 2020. The increase was mainly because the Group optimized its business model and undertook major projects in general contracting model proactively, and the businesses of construction, supply chain and system integration involved relatively more materials, so the fast development of those businesses drove the rise of materials costs.

Direct Costs of Products Distribution

In 2021, the direct costs of products distribution amounted to RMB4,614 million, representing an increase of 13.4% as compared to RMB4,068 million in 2020. Direct costs of products distribution accounted for 3.4% of our total revenues, representing an increase of 0.1 percentage point over 2020. The increase of direct costs of products distribution was mainly attributable to the distribution of communications products, including the terminal and device distribution services for domestic telecommunications operator customers and the distribution and procurement services of IT devices, auxiliary accessories and equipment for domestic non-operator customers.

Subcontracting Charges

In 2021, subcontracting charges amounted to RMB71,240 million, representing an increase of 6.1% as compared to RMB67,166 million in 2020. Subcontracting charges accounted for 53.2% of our total revenues, representing a decrease of 1.6 percentage points from 2020. In 2021, the Group strengthened the whole process subcontracting management and enhanced the management and supervision with system control, IT control and personnel management, and so subcontracting charges was effectively managed and its proportion to total revenues decreased significantly, and the increase of subcontracting charges was slower than the growth of total revenues by 3.1 percentage points. The Group will continue to strengthen and regulate the management over subcontracting, with a view to maintaining the growth of subcontracting charges at a relatively reasonable level.

Lease Charges and Others

In 2021, lease charges and others were RMB14,474 million, representing an increase of 7.3% over RMB13,493 million in 2020. Lease charges and others accounted for 10.8% of our total revenues, representing decrease of 0.2 percentage point from 2020.

GROSS PROFIT

In 2021, the Group recorded gross profit of RMB14,784 million, representing an increase of 7.6% over RMB13,738 million in 2020. The Group's gross profit margin in 2021 was 11.0%, representing a decrease of 0.2 percentage point from 11.2% in 2020, and the decrease of gross profit margin has gradually moderated in recent years. The decline in gross profit margin was mainly a result of the factors including the decrease of business unit price due to continuous cost control by domestic telecommunications operators and the increase of rigid costs of the Group. During the year, the Group had a more rigorous screening for high gross profit margin projects, made a balance between the speed and the quality of business development, and guided subsidiaries to develop projects of high gross profit margin through optimizing the performance appraisal system. In addition, the Group continuously strengthened project management and cost control and enhanced the business value creation capability, with a view to improving the gross profit margin.

With the Group's deployment in digital economy, smart society and New Infrastructure areas starting to bear fruit, the Group expects that the proportion of high-value businesses will gradually increase and the gross profit margin of the domestic non-operator market could stabilize and even further improve in the future, thereby driving the Group's overall gross profit margin. In fact, the domestic non-operator market has continued to be the largest contributor to the increase in gross profit of the Group.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

In 2021, the selling, general and administrative expenses of the Group were RMB12,952 million, representing an increase of 9.5% as compared to RMB11,826 million in 2020. The selling, general and administrative expenses accounted for 9.7% of our total revenues, representing an increase of 0.1 percentage point from 2020. In the selling, general and administrative expenses, the research and development costs were RMB4,233 million, representing an increase of 11.9% as compared to RMB3,782 million in 2020, and accounted for 3.2% of our total revenues, representing an increase of 0.1 percentage point from 2020. The increase of selling, general and administrative expenses is commensurate with the increase of cost of revenues.

FINANCE COSTS

In 2021, the finance costs of the Group were RMB79 million, representing an increase of 23.9% as compared to RMB63 million in 2020.

INCOME TAX

In 2021, the income tax of the Group was RMB393 million and its effective tax rate was 11.0%, representing a decrease of 0.4 percentage point from 11.4% in 2020. The decrease in the Group's effective tax rate and the difference between such effective tax rate and the statutory tax rate was mainly due to the increased investment in research and development by the Group. In accordance with the relevant national policies, the Group enjoyed more preferential income tax rate treatments as a high-technology enterprise and the preferential policy of tax deduction before income tax for research and development expenses. In 2021, certain subsidiaries of the Group that fall under the scope of high-technology enterprises were entitled to a preferential income tax rate of 15%. Certain enterprises in Western China benefited from the preferential policies for Western Development Program. Other than these subsidiaries, the Company and other domestic subsidiaries of the Group were mainly subject to an income tax rate of 25%. The overseas subsidiaries of the Group were subject to different tax rates in various countries.

PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY AND BASIC EARNINGS PER SHARE

In 2021, profit attributable to equity shareholders of the Company was RMB3,157 million, representing an increase of 2.5% over RMB3,081 million in 2020. Profit attributable to equity shareholders of the Company accounted for 2.4% of our total revenues, which decreased slightly as compared to 2020. 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%. Basic earnings per share of the Company were RMB0.456 (2020: RMB0.445).

CAPITAL EXPENDITURE

The Group implements stringent budget management over capital expenditure and makes adjustment according to changes in market condition. In 2021, capital expenditure of the Group amounted to RMB1,074 million, representing a considerable decrease of 72.9% from RMB3,962 million in 2020. The capital expenditure in 2021 accounted for 0.8% of the total revenues, representing decrease of 2.4 percentage points from 2020. The considerable decrease in capital expenditure was mainly due to the property acquisition in 2020 to serve as the Group's bases for smart production, operation as well as research and development.

CASH FLOW

The Group recorded a net cash inflow of RMB208 million in 2021, representing a decrease of RMB1,648 million from RMB1,856 million in 2020. Such change was mainly due to the increase of cash used in investing activities during the reporting period. As at the end of 2021, the balance of cash and cash equivalents of the Group amounted to RMB21,171 million, of which 96.8% was denominated in Renminbi.

The following table sets out our cash flow positions in 2020 and 2021, respectively:

	2021 RMB'000	2020 RMB'000
Net cash generated from operating activities	4,505,957	5,453,485
Net cash used in investing activities	(3,669,549)	(2,243,695)
Net cash used in financing activities	(628,351)	(1,353,860)
Net increase in cash and cash equivalents	208,057	1,855,930

In 2021, net cash generated from operating activities of the Group was RMB4,506 million, representing a decrease of RMB947 million from RMB5,453 million in 2020. The Group will continue to strengthen the clearing and settlement of accounts receivable, and put more efforts on management of accounts payable in the meantime.

In 2021, net cash used in investing activities of the Group was RMB3,670 million, representing an increase of RMB1,427 million from RMB2,243 million in 2020. Such cash used in investing activities was primarily for investments in deposit certificates and wealth management products.

In 2021, net cash used in financing activities of the Group was RMB628 million, representing a decrease of RMB726 million from RMB1,354 million in 2020, which was mainly because a subsidiary of the Group, China Comservice Supply Chain Management Company Ltd., introduced strategic investors with the capital injection from minority shareholders.

WORKING CAPITAL

As at the end of 2021, the Group's working capital (i.e. current assets net of current liabilities) was RMB20,962 million, representing a decrease of RMB72 million from RMB21,034 million at the end of 2020.

ASSETS AND LIABILITIES

The Group continued to maintain its solid financial position. As at the end of 2021, the Group's total assets was RMB100,028 million, representing an increase of RMB5,539 million from RMB94,489 million in 2020; and total liabilities was RMB60,418 million, representing an increase of RMB3,116 million from RMB57,302 million in 2020. The liabilities-to-assets ratio was 60.4%, which was slightly lower than 60.6% at the end of 2020.

INDEBTEDNESS

As at the end of 2021, total indebtedness of the Group was RMB813 million, representing an increase of RMB109 million from RMB704 million as at the end of 2020. Indebtedness of the Group was mainly denominated in US dollar, of which Renminbi loan accounted for 8.3% and US dollar loan accounted for 78.3%; and of which 37.5% was the loans with a fixed interest rate and 62.5% was those with a floating interest rate.

As at the end of 2021, our gearing ratio¹³ was 2.1%, which was slightly higher than 1.9% as at the end of 2020.

CONTRACTUAL OBLIGATIONS

The following table sets out our contractual commitments as at 31 December 2021:

	Total	2022	2023	2024	2025	2026 and after
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Short-term debt	723,024	723,024	–	–	–	–
Long-term debt	89,808	–	18,362	18,362	18,362	34,722
Lease commitments	173,833	73,709	42,423	25,150	11,456	21,095
Contracted for but not provided capital commitments	160,510	160,510	–	–	–	–
Total of contractual obligations	1,147,175	957,243	60,785	43,512	29,818	55,817

EXCHANGE RATE

Most of the Group's revenues and expenses are denominated in Renminbi. As at the end of 2021, the balance of the Group's cash and cash equivalents in foreign currencies accounted for 3.2% of the balance of its total cash and cash equivalents, of which 1.0% and 0.4% were denominated in US dollars and Hong Kong dollars, respectively.

¹³ Gearing ratio represents total interest-bearing debts at the end of the financial year divided by the sum of equity attributable to equity shareholders of the Company and interest-bearing debts.