

CHAIRMAN'S STATEMENT

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Mr. LIU Guiqing
Executive Director and Chairman

CHAIRMAN'S STATEMENT

Dear Shareholders,

In 2022, the Chinese government accelerated the construction of Cyberpower and Digital China, resulting in the acceleration of integrated development of the digital economy and the real economy. By positioning itself as a “New Generation Integrated Smart Service Provider” and targeting to become “the Main Force in Digital Infrastructure Construction, the Vanguard in Smart City Services, the Leading Enterprise in Industrial Digitalization Services, and a Trusted Expert in Smart Operation”, the Group adhered to the overall roadmap of “value-driven, seeking steady yet progressive growth and high-quality development”, upheld the concept of new development philosophy, strengthened the core competitiveness of the Group and actively fulfilled corporate social responsibilities. By closely following the industrial transformation driven by digitalization, the Group has accelerated the deployment in new tracks of strategic emerging industries, supporting the transformation and development of industries, enterprises and society, while also achieving steady improvements in the Group’s operating performance and development quality.

I. FULL-YEAR OPERATING PERFORMANCE HIT A RECORD HIGH, WITH MAJOR INDICATORS SHOWING IMPROVEMENTS ACROSS THE BOARD

In 2022, amid the impact of the changes in the macro environment, the Group persisted in progressive development while maintaining overall stability, actively seized the development opportunities of the digital economy, and endeavoured to minimize the impact of adverse factors. As a result, our indicators on operating performance, efficiency, and shareholders’ return improved across the board, with both total revenues and net profit¹ reaching historic highs.

During the year, the Group’s total revenues reached RMB140,746 million, representing a year-on-year increase of 5.0%. Gross profit amounted to RMB15,981 million, representing a year-on-year increase of 8.1%, and gross profit margin stabilized and rebounded to 11.4%, representing a year-on-year increase of 0.4 percentage point. Net profit was RMB3,358 million, representing a year-on-year increase of 6.4%, and such growth rate was higher than the revenue growth rate for the first time in recent years. Net profit margin was 2.4%, which stabilized and improved on a year-on-year basis. Free cash flow was RMB4,353 million, which was higher than net profit. Return on equity (ROE) was 8.5%, representing a year-on-year increase of 0.1 percentage point. Basic earnings per share were RMB0.485, representing a year-on-year increase of 6.4%.

Considering the solid operating results and the favourable cash flow for the full year, and to further increase shareholders’ return, the Board has proposed to increase the total dividend payout ratio from 38% in 2021 to 40% for the financial year ended 31 December 2022, representing a final dividend of RMB0.1939 per share with an increase of 12.0% over the total dividend per share of last year.

II. PROMOTING HIGH-QUALITY DEVELOPMENT OF THE COMPANY WITH VALUE CREATION AS THE FOCUS

In 2022, the Group seized the strategic opportunity of industrial digitalization upgrade, leveraged its strength as a “New Generation Integrated Smart Service Provider”, continuously enhanced its capabilities in market competitiveness, technological innovation, reform impetus, ecosystem collaboration, and risk control. By focusing on strategic emerging industries, the Group developed smart products and solutions for industrial digitalization, driving improvement in both business scale and quality. During the year, the revenue of telecommunications infrastructure (“TIS”) services amounted to RMB72,907 million, representing a year-on-year increase of 1.4%, accounting for 51.8% of total revenues, and the efficiency of development remained largely stable. Business process outsourcing (“BPO”) services continued to gain momentum, with revenue amounting to RMB43,072 million, representing a year-on-year increase of 6.0%, accounting for 30.6% of total revenues, and was an important contributor to revenue growth. Driven by industrial digitalization, revenue from applications, content, and other (“ACO”) services grew rapidly and amounted to RMB24,767 million, representing a year-on-year increase of 15.3%, accounting for 17.6% of total revenues, and continued to be the largest contributor to the Group’s revenue growth.

¹ Net profit refers to profit attributable to the equity shareholders of the Company.

1. Accelerating the Strategic Deployment in Key Fields

The Group focused on accelerating the deployment in key fields such as digital infrastructure, smart city, green and low-carbon, emergency management and security, and strengthened capabilities consolidation and capabilities empowerment to expand high-value businesses and drive high-quality development of the Company.

In the field of digital infrastructure, the Group actively engaged in the national strategic deployment of the Cyberpower and Digital China. By establishing a digital infrastructure industrial research institute and focusing on areas such as data centers, 5G, cloud computing and the Internet of Things ("IoT"), the Group actively served the national "East-To-West Computing Resources Transfer" projects, and participated extensively in the construction of national integrated big data center system for the "8 National Computing Hubs and 10 National Data Center Clusters". The Group secured key digital infrastructure projects with contract size over RMB100 million each in more than ten provinces and cities, including Beijing, Shanghai, Jiangsu, Zhejiang, and Guangdong, and the total new contract amount for data centers exceeded RMB10 billion for the full year.

In the field of smart city, the Group seized the strategic opportunity of the national urban renewal, focused on key regions such as Beijing-Tianjin-Hebei region, Yangtze River Delta region, the Guangdong-Hong Kong-Macao area as well as the Chengdu-Chongqing region, accumulated rich smart city solutions in sectors such as government, transportation, park and healthcare, enhanced the full cycle integrated general contracting service capability in smart city and cultivated specialized local teams. The Group successfully undertook many projects with contract size over RMB100 million each, such as the Digital Road Intelligentization Project of the Rongdong Area in Xiong'an New Area, Hebei Province, the Phase 5 Intelligentization Project of the Xixi Park in Hangzhou City, Zhejiang Province, and the construction of the Government Affairs Data Brain cum Smart City Intelligent Operations Center (IOC²) Project of a city in Guangdong Province. The total new contract amount exceeded RMB10 billion for the full year. The Group's competitiveness in the field of smart city continued to increase, and its brand influence was further enhanced.

In the field of green and low-carbon, the Group implemented the national "Dual Carbon" strategy by focusing on key industries such as energy and power, industrial manufacturing, transportation, information and communications, as well as developing efficient, low-carbon, smart, and green products for new economy and industrial ecology. China Telecom (National) Digital Qinghai Green Big Data Center, a project undertaken by the Group as the general contractor, was the first benchmark case in the country for 100% clean energy traceable green big data centers, and it was also the first exemplary model of an integrated green power smart supply system incorporating source-grid-load-storage³ in the field of big data centers, showcasing the industry-leading level in the field of green and low-carbon.

In the field of emergency management and security, the Group firmly grasped the opportunity of public safety emergency management construction, strengthened research and development of proprietary core products and built up industry benchmark cases. In the field of cybersecurity, the Group developed core products such as asset surveying and mapping, situational awareness, and security orchestration, which were selected in the "China Cybersecurity Industry Panorama" by AQNIU⁴. In the field of emergency management, the Group developed products such as a safe production risk monitoring and early warning platform, an integrated intelligent park monitoring platform, and an Industrial IoT security access gateway. The Emergency Capacity Improvement Project undertaken by the Group in Anhui Province was recognized as a benchmark case by the relevant national authority.

² IOC (Intelligent Operations Center) is the intelligent operation center of smart cities.

³ "Source-grid-load-storage" refers to power supply, grid, load, and energy storage.

⁴ "AQNIU" is an influential third-party professional media and flagship think-tank in the domestic cybersecurity sector.

2. Deepening the Expansion of the Three Major Markets

- (A) **The domestic non-operator market showed stable growth and quality improvement and was the largest contributor to the rebound in gross profit margin.** The Group focused on digital transformation of society and seized opportunities from the acceleration in digital technology innovation applications in key industries. By leveraging its “Consultant + Staff + Housekeeper”⁵ service advantages and “Platform + Software + Service”⁶ capability advantages, as well as constructing an “Industry + Region” marketing system, the Group continuously strengthened comprehensive service capabilities and constantly expanded high-value businesses. During the year, revenue from the domestic non-telecom operator (“domestic non-operator”) market reached RMB60,583 million, achieving steady growth with a year-on-year increase of 5.5%.
- (B) **Domestic telecommunications operator market grew continuously and was an important revenue growth driver.** The Group responded in a timely manner to domestic telecommunications operator customers’ investment demand of emerging businesses, such as the “East-to-West Computing Resources Transfer”, digital information infrastructure construction and industrial digitalization. By adhering to the development strategy of “CAPEX + OPEX + Smart Applications”⁷, the Group continued to improve its service quality and strengthened its cooperation with the customers in market expansion, technology research and development, cloud-network construction and supply chain, resulting in remarkable results. After the 5G investment of operator customers reached its peak, revenue from such market maintained steady growth during the year, amounting to RMB77,165 million, representing a year-on-year increase of 4.6%, becoming an important driver and anchor for the growth of total revenues.
- (C) **Overseas market achieved rapid growth, with a stabilizing and improving development trend.** The Group overcame the impact of the macroeconomic environment and the pandemic in overseas regions by strengthening risk prevention, optimizing its market deployment, expanding into upstream and downstream of the industrial chain, and providing integrated services from network construction to operation. The Group continued to provide services in sectors such as digital infrastructure, power and energy for countries and customers along the “Belt and Road”. As a result, there was an improvement in the development in the overseas market, and the Group’s revenue from overseas market achieved relatively fast growth during the year and amounted to RMB2,998 million, representing a year-on-year increase of 9.3%.

⁵ “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 the relevant businesses and creates values for customers.

⁶ “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 solutions.

⁷ “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.

3. Strengthening Empowerment through Reform and Innovation

(A) Technological Innovation Enhanced Development Momentum for High-quality Development

Persisting in innovation-driven development, the Group continuously increased R&D investment and achieved breakthroughs in core products and remarkable results in technological innovation. The total research and development costs for the year were RMB4,952 million, representing a year-on-year increase of 17.0%. Targeting potential markets such as emergency management and security, IoT and cloud computing, the Group launched core products such as IoT Cloud Platform, Maintenance Cloud, Cyberspace Asset Surveying and Mapping, and Innovation Middle Platform. The Group accelerated the digital transformation of internal production and operation, optimized the construction of internal data middle platform, strengthened the internal promotion and implementation of proprietary digital scenarios, such as project onsite management systems, production efficiency enhancement platforms and smart legal affairs platforms, empowering the high-quality development of the Company. The Group's technological strength continues to be recognized by society, ranking 4th in the "100 Most Competitive Software & IT Service Enterprises 2022" by the China Federation of Electronics and Information Industry, being named in the "China Cybersecurity Industry Panorama" and "China AIoT Industry Panoramic Map", and winning a total of 28 provincial and ministerial-level or above awards during the year for its technological innovation achievements.

(B) Deepening Reform Stimulated Vitality for High-quality Development

The Group continued to improve systems for a modern enterprise and deepened reforms. The Group continued to promote human resources mechanism reform, fully implementing tenure system and contract management for management, implementing mid-to-long-term incentive policies such as share appreciation rights scheme and dividend reward for technology-based enterprises. As a result, overall labour productivity increased by about 10% during the year and the development vitality of the Company was fully stimulated. The Group deepened the mixed ownership reform of China Comservice Supply Chain Management Company Ltd., and established China Comservice Smart Property Development Co., Ltd., to promote business consolidation of its property management business.

III. ADOPTING A CUSTOMER-CENTRIC APPROACH AND STRENGTHENING CORE COMPETENCIES

1. Digital Infrastructure Construction Capability

The Group seized the strategic opportunity of “East-To-West Computing Resources Transfer”, grasped the development opportunities of expanding digital information infrastructure construction for government and enterprise customers, and focused on key areas such as data centers, 5G, and Industrial Internet. The Group persisted in technological innovation to drive development and featured innovative products and services. By strengthening technological empowerment through its digital infrastructure industrial research institute, the Group developed “Consultation and Design + General Contracting + Integration + Operation and Maintenance” multi-disciplinary and multi-regional collaboration advantages to provide full-profession, integrated, and full life cycle green and low-carbon digital infrastructure specialized services, built a local industry ecosystem, with a view to becoming the Main Force in Digital Infrastructure Construction.

2. Smart Product Service Capability

The Group closely followed the national strategic deployment of “Crafting Livable, Resilient, Smart Cities”, focusing on new urbanization construction and urban renewal, revitalization of old neighborhoods in urban areas and community development, and important needs of smart transportation, safe cities, smart government services, smart towns, city brains, one platform unified services, and digital villages. The Group capitalized on its advantages of “Consultation + Software + Platform + Service” to build up a “Construction + Sustainable Operation” model, leveraging its benchmark cases of medium to large-scale smart cities as the lead, the Group seized opportunities in urbanization construction and replicated and promoted its capabilities, with a view to becoming the Vanguard in Smart City Services.

3. Industrial Digitalization Service Capability

The Group established industrial research institutes, increased investment in technological research and development, expanded into strategic emerging industries, and leveraged its advantages in software research and development, system integration, and support services to forge benchmark products in the fields of power, Dual Carbon, and digitalization of state-owned enterprises, aiming to establish a virtuous cycle of mutual promotion between technological innovation and market expansion. Meanwhile, facing the digitalization needs of society, industry and customers, the Group strengthened cooperation with domestic telecommunications operator customers and industry-leading enterprises, promoted collaboration in ecosystem and worked together to empower industry customers' digital transformation and explore new potential, new models as well as new values in the industrial digitalization market, striving to become the Leading Enterprise in Industrial Digitalization Services.

4. Smart Operation Support Capability

The Group continuously upgraded its service capabilities such as smart supply chain, smart maintenance and smart property management. It strengthened the construction of a standardized system, and developed a unified production and operation platform to enhance digitalization value and improve its comprehensive smart service capabilities. Adhering to a customer-centric approach, the Group carried out product research and development, market expansion, and operational promotion in tandem to provide customers with safe, reliable, professional, efficient, green and low-carbon digitalized operation services, with a view to establishing an image of a Trusted Expert in Smart Operation.

IV. FULFILLING ENVIRONMENTAL AND SOCIAL RESPONSIBILITY AND ENHANCING CORPORATE GOVERNANCE

The Group upholds the corporate mission of “Building Smart Society, Boosting Digital Economy, Serving a Good Life”, actively fulfilling environmental, social, and governance responsibilities and tracking and monitoring relevant material risks, persisting in compliant operations, promoting green development, striving to give back to society, with a view to achieving coordinated and unified development of enterprises, society and the environment. The Group proactively responded to the concerns from the capital market and continued to enhance the transparency of its ESG information, which was recognized by the market. During the year, the Group was included in “Hang Seng Corporate Sustainability Benchmark Index”, reflecting the Group’s outstanding performance in corporate sustainability.

In 2022, the Group actively responded to the national “Dual Carbon” strategy by establishing a “Carbon Peak, Carbon Neutrality” management organization to research and implement green development work. The Group prepared a rolling development plan and action plan for “Dual Carbon” from 2023 to 2025, actively implemented green operations, and developed a series of green products and services such as green retrofit of old machine rooms, green data centers, and dual carbon energy-saving platforms to help customers save energy and reduce emissions.

The Group actively participated in the communications support work of multiple national strategic projects and major activities. The Group successfully completed project construction and communications services for events such as the “Beijing 2022 Winter Olympics” and the “Boao Forum for Asia Annual Conference 2022” and provided relevant technical support and communications support for national strategic projects such as the “Wentian Lab Module” rocket launch mission, the Long March 8 carrier rocket launch, and the construction of the national cloud.

The Group prioritized the safety of individuals and actively participated in emergency communications support for disaster prevention and relief and pandemic prevention and control across the country. The Group provided informatization construction, operation and maintenance services for government emergency command and various medical institutions, and utilized digital means to assist scientific fight against pandemic and resumption of work and production. In major disasters and public safety incidents such as the earthquakes in Ya’an and Luding in Sichuan, floods in Guangdong, wildfires in Chongqing, and the China Eastern Airlines Flight MU5735 aircraft accident, the Group responded promptly to ensure smooth communications.

The Group actively participated in rural revitalization of poverty-stricken areas, as well as helping distressed small and medium-sized enterprises. The Group formulated key work tasks to help promote comprehensive rural revitalization, established an effective coordination mechanism to consolidate and expand the achievements of poverty alleviation and rural revitalization, introduced assistance funds at no cost, and actively carried out agricultural product procurement assistance activities. The Group also helped small and medium-sized enterprises which were in distress by means of reducing or exempting rent.

The Group continuously optimized its corporate governance, and its good corporate governance has been widely recognized by the capital market. The Group ranked 102nd in the “2022 FORTUNE China 500” released by *FORTUNE China* and was elected for the “2022 FORTUNE China ESG Influential List”. The Group ranked 1,649th in the “2022 Forbes Global 2000” released by *Forbes*. The Group was awarded with awards including “Most Honored Company”, “Best CEO”, “Best CFO”, and “Best ESG” in the “2022 Asia Executive Team Rankings” by *Institutional Investor*. We also won awards such as “Asia’s Best CEO”, “Asia’s Best CFO”, and “Best Investor Relations Company” in the “12th Asian Excellence Award 2022” held by the well-known corporate governance magazine, *Corporate Governance Asia*. In the “7th Zhitong Finance Listed Company Awards” held by a PRC leading financial platform, the Group won the “The Best TMT Company” award.

CHAIRMAN'S STATEMENT

V. OUTLOOK

Currently, digitalization is spawning disruptive industrial changes, and the integration of digital economy and real economy is deepening, bringing rare strategic opportunities to the Group. Capitalizing on the development of industrial digitalization, the Group will deeply participate in the construction of Digital China. By leveraging its positioning of "1 Positioning, 4 Roles", the Group will persist in high-quality development as the principle, value creation as the focus, and digital transformation as the driver and continuously focus on strategic emerging industries with broad prospects and enormous market potential, including digital infrastructure, smart city, green and low-carbon, emergency management and security. The Group will enhance market competitiveness with better quality, superior technological innovation capability for better products, stronger reform impetus, more valuable synergistic capability in ecosystem, and more effective risk control capability. The Group aims to build itself as a First-class Smart Service Innovative Enterprise, creating more value for shareholders, customers, employees, and society.

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 those directors and supervisors who resigned or retired during the year, including Mr. Huang Xiaoqing, Mr. Mai Yanzhou, Mr. Wu Taishi, Mr. Liu Linfei, Mr. Hai Liancheng and Mr. Si Jianfei for their outstanding contributions to the development of the Group during their tenure; and my sincere welcome to Mr. Yan Dong, Mr. Wang Qi and Mr. Wang Chungge who have joined the Board, and Ms. Cai Manli and Ms. Liu Lian who have joined the Supervisory Committee.

**Liu Guiqing***Executive Director and Chairman*

Beijing, PRC
29 March 2023