

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

OVERVIEW

In 2022, 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 overcame multiple difficulties and seized the opportunities brought by digital economy, digital information infrastructure construction and industrial digitalization, thus remaining robust in its operating performance. Total revenues for the year amounted to RMB140,746 million, representing an increase of 5.0% as compared to 2021. Profit attributable to the equity shareholders of the Company was RMB3,358 million, representing an increase of 6.4% as compared to 2021, with basic earnings per share amounted to RMB0.485. Free cash flow was RMB4,353 million with cash conversion ratio⁸ being 146.2%, which continued to remain at a healthy and relatively high level.

TOTAL REVENUES

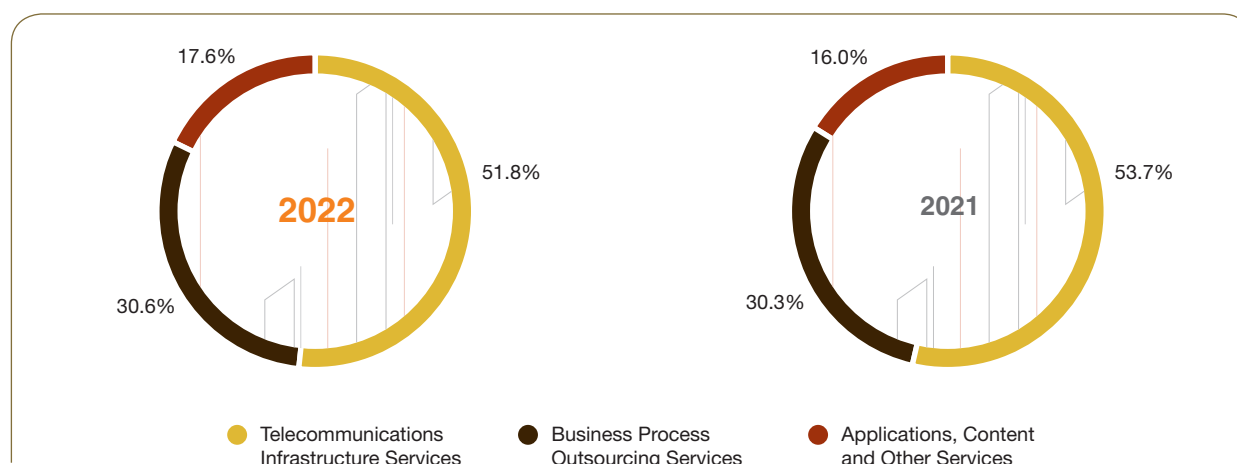
The Group's total revenues in 2022 amounted to RMB140,746 million, representing an increase of 5.0% as compared to 2021. From the business perspective, the revenue from telecommunications infrastructure (“TIS”) services was RMB72,907 million, representing a year-on-year growth of 1.4%; the revenue from business process outsourcing (“BPO”) services was RMB43,072 million, representing a year-on-year increase of 6.0%; the revenue from applications, content and other (“ACO”) services was RMB24,767 million, representing a year-on-year growth of 15.3%. In 2022, the Group seized the opportunities arising from 5G, New Infrastructure and industrial digitalization while enhancing the integrated comprehensive smart service capabilities, thus maintaining the continuous and steady growth of the TIS services. The Group further consolidated its resources and promoted specialized operations, resulting in favourable growth in BPO services that possess attributes such as strong customer loyalty and short cash conversion cycle. Meanwhile, the Group continuously increased investment in technology research, consolidated the capabilities on its research and development as well as product development, and seized opportunities arising from digital transformation of enterprises and informatization construction of emergency management, smart city upgrade, etc. These efforts 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 amounted to RMB60,583 million, representing a year-on-year increase of 5.5%. Revenue from the domestic telecommunications operator market amounted to RMB77,165 million, representing a year-on-year increase of 4.6%; revenue from the overseas market amounted to RMB2,998 million, representing a year-on-year increase of 9.3%. The Group kept abreast of the trend brought by the transformation from industrial digitalization, seized the development opportunities of the digital transformation across industries and focused on key aspects such as digital infrastructure, smart city, green and low-carbon, emergency management and security, etc. Through continuously forging core capabilities and platforms, leveraging the advantage of integrated service capabilities and striving to expand high-value businesses, the Group achieved high-quality business development and continuous optimization of revenue structure in domestic non-operator market. Meanwhile, the Group seized new opportunities of industrial digitalization, 5G and data center construction, and effectively implemented the development strategy of “CAPEX + OPEX + Smart Applications” in the domestic telecommunications operator market, further developed the traditional CAPEX businesses, endeavored to raise the OPEX market share, took initiative to integrate itself into the whole process of operators' transformation and actively participated in the expansion of 5G industry application, operators' industrial digitalization, network information security and other businesses. The above measures stabilized the fundamentals of the Group's business from the domestic telecommunications operators, allowing such market to continue to maintain relatively stable revenue growth after the 5G investment of domestic telecommunications operators reached its peak, and making such market the main driver for business growth during the year.

⁸ Cash conversion ratio = net cash generated from operating activities/profit attributable to equity shareholders of the Company

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BUSINESS REVENUE MIX



The following table sets forth a breakdown of our total revenues for 2021 and 2022, together with their respective changes:

	2022 RMB'000	2021 RMB'000	Change
Telecommunications Infrastructure Services			
Design services	9,621,129	10,521,239	-8.6%
Construction services	59,231,390	57,310,463	3.4%
Project supervision and management services	4,053,998	4,057,546	-0.1%
	72,906,517	71,889,248	1.4%
Business Process Outsourcing Services			
Management of infrastructure for information technology (Network Maintenance)	18,157,716	16,677,957	8.9%
General facilities management (Property Management)	7,740,594	7,127,497	8.6%
Supply chain	12,848,890	11,963,560	7.4%
Sub-total of Core BPO Services	38,747,200	35,769,014	8.3%
Products distribution	4,325,246	4,854,569	-10.9%
	43,072,446	40,623,583	6.0%
Applications, Content and Other Services			
System integration	15,210,749	13,278,131	14.6%
Software development and system support	4,781,207	3,634,339	31.6%
Value added services	2,553,557	2,386,280	7.0%
Others	2,221,279	2,179,736	1.9%
	24,766,792	21,478,486	15.3%
Total	140,745,755	133,991,317	5.0%

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Telecommunications Infrastructure Services

In 2022, the Group's revenue from TIS services amounted to RMB72,907 million, representing an increase of 1.4% as compared to RMB71,889 million in 2021. TIS services was the primary source of revenue of the Group and accounted for 51.8% of the total revenues, representing a decrease of 1.9 percentage points from 53.7% in 2021. As to the customer structure of the TIS services, the Group's TIS revenue from domestic telecommunications operators amounted to RMB38,913 million and accounted for 53.4% of the total TIS revenues, representing a decrease of 1.5 percentage points from 2021. The aggregate TIS revenues from domestic non-operator customers and overseas customers amounted to RMB33,994 million and accounted for 46.6% of the total TIS revenues, representing an increase of 1.5 percentage points from 2021.

In 2022, the aggregate TIS revenues from domestic non-operator customers and overseas customers increased by 4.8% over 2021, in which the TIS revenue from domestic non-operator customers recorded a year-on-year growth of 4.2%, the TIS revenue from overseas customers recorded a year-on-year growth of 13.4%. As a result of the further implementation of Digital China Strategy, the acceleration in the construction of digital information infrastructure and the prosperous development of industrial digitalization, the Group embraced new growth opportunities in the domestic non-operator market and overseas market. The Group's TIS revenue from domestic telecommunications operator customers decreased by 1.4% as compared to 2021. Meanwhile, the Group maintained the market leading position by fully supporting the business demand of domestic telecommunications operator customers and supporting the construction of 5G networks and data centers in China. As domestic telecommunications operators continue to accelerate their digital transformation, increase their investment in new infrastructure such as data centers with a view to accelerating the transformation of cloud-network integration, the Group will further integrate itself into the ecosystem of operators and enhance its product and service capabilities, so as to cater for the integrated network construction services demand of domestic telecommunications operators and continue to maintain the stable development of business from domestic telecommunications operators.

Business Process Outsourcing Services

In 2022, the Group's revenue from BPO services amounted to RMB43,072 million, representing an increase of 6.0% as compared to RMB40,624 million in 2021, accounting for 30.6% of our total revenues, an increase of 0.3 percentage point as compared to 30.3% in 2021. In terms of customer structure of the BPO services, the BPO revenue from domestic telecommunications operators amounted to RMB27,919 million, representing an increase of 7.3% over 2021, and accounting for 64.8% of the total BPO revenues, representing an increase of 0.8 percentage point from 2021. The aggregate BPO revenues from the domestic non-operator customers and overseas customers amounted to RMB15,153 million, representing an increase of 3.7% over 2021, and accounting for 35.2% of the total BPO revenues, representing a decrease of 0.8 percentage point over 2021.

In 2022, among each of the businesses under the Group's BPO services, leveraging its "Maintenance Cloud" professional maintenance digital transformation platform, the revenue from the Network Maintenance business amounted to RMB18,158 million, representing an increase of 8.9% as compared to 2021. The Group set up China Comservice Smart Property Development Co., Ltd., to promote the optimization and consolidation of property management and enhance the capacity of synergistic operation while the revenue from property management business amounted to RMB7,740 million, representing an increase of 8.6% as compared to 2021. Revenue from the supply chain business amounted to RMB12,849 million, representing an increase of 7.4% as compared to 2021. 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 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 RMB4,325 million, representing a decrease of 10.9% as compared to 2021, which was mainly due to the fact that the Group continued to adhere to high-quality development and proactively controlled the business of products distribution with low-efficiency.

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Applications, Content and Other Services

In 2022, the Group's revenue from ACO services amounted to RMB24,767 million, representing an increase of 15.3% as compared to RMB21,478 million in 2021, making it the fastest-growing business segment and the main driver for the growth of total revenues for the year. The revenue from ACO services accounted for 17.6% of total revenues, representing an increase of 1.6 percentage points from 16.0% in 2021, and this proportion has been increasing consistently for several years. Among which, the system integration business recorded revenue of RMB15,211 million, representing an increase of 14.6% as compared to 2021, being the largest contributor to the growth of the total revenues. In addition, software development and systems support was the fastest growing segment of the Company's overall revenue, representing an increase of 31.6% as compared to 2021. In terms of the customer structure of ACO services, the Group's ACO revenue from domestic telecommunications operators amounted to RMB10,333 million and accounted for 41.7% of the total ACO revenues, representing an increase of 2.9 percentage points as compared to 2021. Aggregate ACO revenues from domestic non-operator customers and overseas customers amounted to RMB14,434 million, accounting for 58.3% of the total ACO revenues, representing a decrease of 2.9 percentage points over 2021.

In 2022, the Group's ACO revenue from domestic telecommunications operator customers and domestic non-operator customers grew rapidly by 23.9% and 10.7% respectively as compared with 2021. The growth was mainly attributable to the Group's efforts in leveraging its capabilities and strength in integrated services, system integration and software development, further expanding the ecological cooperation scale, and seizing the opportunities of digital economy, industrial digitalization and other aspects in China. By utilizing its proprietary core platforms and leading smart product series, the Group effectively satisfied the digitalization demand of its customers through vigorously expanding the businesses including 5G, data centers, smart city, transportation, electricity and emergency management, etc.

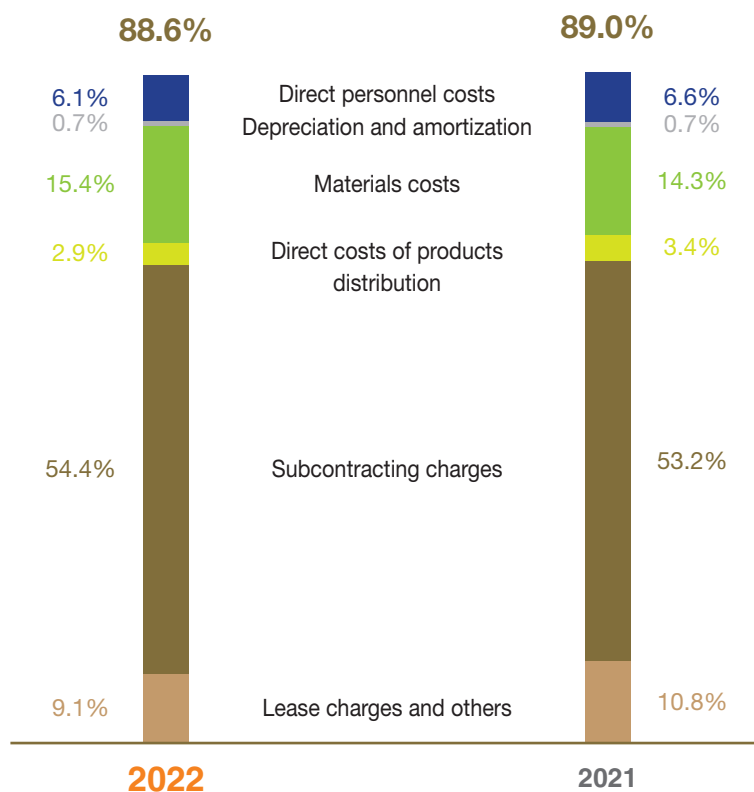
COST OF REVENUES

The Group's cost of revenues in 2022 amounted to RMB124,765 million, representing an increase of 4.7% from 2021 and accounting for 88.6% of the total revenues.

The following table sets out a breakdown of the Group's cost of revenues in 2021 and 2022 and their respective changes:

	2022 RMB'000	2021 RMB'000	Change
Direct personnel costs	8,558,051	8,804,676	-2.8%
Depreciation and amortization	960,995	908,323	5.8%
Materials costs	21,657,339	19,166,225	13.0%
Direct costs of products distribution	4,065,197	4,614,143	-11.9%
Subcontracting charges	76,546,469	71,239,853	7.4%
Lease charges and others	12,977,161	14,473,679	-10.3%
Total cost of revenues	124,765,212	119,206,899	4.7%

COST OF REVENUES AS A % OF TOTAL REVENUES



Direct Personnel Costs

In 2022, direct personnel costs amounted to RMB8,558 million, representing a decrease of 2.8% from RMB8,805 million in 2021. Direct personnel costs accounted for 6.1% of our total revenues, representing a decrease of 0.5 percentage point from 2021. 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 2022, depreciation and amortisation amounted to RMB961 million, representing an increase of 5.8% from RMB908 million in 2021. Depreciation and amortisation cost accounted for 0.7% of our total revenues.

Materials Costs

In 2022, materials costs amounted to RMB21,657 million, representing an increase of 13.0% as compared to RMB19,166 million in 2021. Materials costs accounted for 15.4% of our total revenues, representing an increase of 1.1 percentage points from 2021. The increase was because the Group optimized its business model and undertook major projects in general contracting model proactively. In addition, the fast development of system integration business, which involved relatively more materials, also drove up materials costs. The Group further strengthened the management of general contracting projects and enhanced materials cost control by establishing an internal procurement system and carrying out centralized procurement.

Direct Costs of Products Distribution

In 2022, the direct costs of products distribution amounted to RMB4,065 million, representing a decrease of 11.9% as compared to RMB4,614 million in 2021. Direct costs of products distribution accounted for 2.9% of our total revenues, representing a decrease of 0.5 percentage point over 2021. The decrease of direct costs of products distribution was mainly attributable to the Group's initiative to control certain products distribution business with low operation efficiency.

Subcontracting Charges

In 2022, subcontracting charges amounted to RMB76,546 million, representing an increase of 7.4% as compared to RMB71,240 million in 2021. Subcontracting charges accounted for 54.4% of our total revenues, representing an increase of 1.2 percentage points from 2021. The Group continued its transformation towards a management and technology-intensive business model. It focused on the high-end businesses and increased its subcontracting of the low-end businesses. In addition, there was more demand for specialized subcontracting as the Group undertook more general contracting projects in the domestic non-operator market during the reporting period. 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 2022, lease charges and others were RMB12,978 million, representing a decrease of 10.3% over RMB14,474 million in 2021. Lease charges and others accounted for 9.1% of our total revenues, representing a decrease of 1.7 percentage points from 2021.

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GROSS PROFIT

In 2022, the Group recorded gross profit of RMB15,981 million, representing an increase of 8.1% over RMB14,784 million in 2021. The Group's gross profit margin in 2022 was 11.4%, representing an increase of 0.4 percentage point from 11.0% in 2021, and the gross profit margin has stabilized and rebounded. During the year, the Group focused on improving quality and efficiency while balancing its development scale, and guided the Group's subsidiaries to strictly select and develop high-margin projects through appraisal. At the same time, the Group continuously strengthened project management and cost control and strived to enhance the value creation capability of its business. As a result of the above measures, gross profit margin reversed the declining trend for more than a decade and achieved significant improvement. With the Group's deepening deployment in digital economy, New Infrastructure and industrial digitalization areas, it is expected that the proportion of high-value businesses will gradually increase and thereby driving the Group's overall gross profit margin.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

In 2022, the selling, general and administrative expenses of the Group were RMB13,960 million, representing an increase of 7.8% as compared to RMB12,952 million in 2021. The selling, general and administrative expenses accounted for 9.9% of our total revenues, representing an increase of 0.2 percentage point from 2021. During the year, the Group proactively increased the investment in technology research. In the selling, general and administrative expenses, the research and development costs were RMB4,952 million, representing an increase of 17.0% as compared to RMB4,233 million in 2021, and accounted for 3.5% of our total revenues, representing an increase of 0.3 percentage point from 2021.

FINANCE COSTS

In 2022, the finance costs of the Group were RMB91 million, representing an increase of 15.7% as compared to RMB79 million in 2021. The increase in finance costs was mainly due to the increase in interest expenses as a result of the growth in short-term borrowings required by certain member companies of the Group to carry out their business.

INCOME TAX

In 2022, the income tax of the Group was RMB356 million and its effective tax rate was 9.3%, representing a decrease of 1.7 percentage points from 11.0% in 2021. 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 2022, certain subsidiaries of the Group that fell 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 that, 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 2022, profit attributable to equity shareholders of the Company was RMB3,358 million, representing an increase of 6.4% over RMB3,157 million in 2021. Profit attributable to equity shareholders of the Company accounted for 2.4% of our total revenues, which maintained overall stability while showing improvement as compared to 2021. Basic earnings per share of the Company were RMB0.485 (2021: RMB0.456).

CAPITAL EXPENDITURE

The Group implements stringent budget management over capital expenditure and makes adjustment according to changes in market condition. In 2022, capital expenditure of the Group amounted to RMB921 million, representing a decrease of 14.2% from RMB1,074 million in 2021. The capital expenditure in 2022 accounted for 0.7% of the total revenues, representing a decrease of 0.1 percentage point from 2021. The Group's capital expenditure included the purchase of production equipment and tools, instrumentation, manufacture and office buildings, intangible assets and other operating assets.

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CASH FLOW

The Group recorded a net cash inflow of RMB875 million in 2022, representing an increase of RMB667 million from RMB208 million in 2021. As at the end of 2022, the balance of cash and cash equivalents of the Group amounted to RMB22,085 million, of which 97.1% was denominated in Renminbi.

The following table sets out our cash flow positions in 2021 and 2022, respectively:

	2022 RMB'000	2021 RMB'000
Net cash generated from operating activities	4,908,283	4,505,957
Net cash used in investing activities	(2,289,201)	(3,669,549)
Net cash used in financing activities	(1,743,877)	(628,351)
Net increase in cash and cash equivalents	875,205	208,057

In 2022, net cash generated from operating activities of the Group was RMB4,908 million, representing an increase of RMB402 million from RMB4,506 million in 2021. The increase in operating cash flow was mainly due to the Group's persistence in value-driven approach, strengthening the integrated management of cash flow and carrying out the clearing and settlement of accounts receivable while developing its businesses.

In 2022, net cash used in investing activities of the Group was RMB2,289 million, representing a decrease of RMB1,381 million from RMB3,670 million in 2021. The decrease was mainly due to the reduction in the purchase of short-term banking wealth management products and the bank structured deposits after the Group's coordination and arrangement of its funds.

In 2022, net cash used in financing activities of the Group was RMB1,744 million, representing an increase of RMB1,116 million from RMB628 million in 2021. The increase was mainly because China Comservice Supply Chain Management Company Ltd. (subsidiary of the Group) introduced strategic investors with the capital injection of RMB900 million from minority shareholders in 2021.

WORKING CAPITAL

As at the end of 2022, the Group's working capital (i.e. current assets net of current liabilities) was RMB17,606 million, representing a decrease of RMB3,356 million from RMB20,962 million as at the end of 2021. The decrease in working capital was mainly due to the Group's strengthening of overall management of working capital to support project operation.

ASSETS AND LIABILITIES

The Group continued to maintain its solid financial position. As at the end of 2022, the Group's total assets was RMB110,264 million, representing an increase of RMB10,236 million from RMB100,028 million as at the end of 2021; and total liabilities was RMB68,641 million, representing an increase of RMB8,223 million from RMB60,418 million as at the end of 2021. The liabilities-to-assets ratio was 62.3%, representing an increase of 1.9 percentage points from 60.4% as at the end of 2021.

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INDEBTEDNESS

As at the end of 2022, total indebtedness of the Group was RMB881 million, representing an increase of RMB68 million from RMB813 million as at the end of 2021. Indebtedness of the Group was mainly denominated in US dollar, of which Renminbi loan accounted for 10.6% and US dollar loan accounted for 79.6%; and of which 39.0% was the loans with a fixed interest rate and 61.0% was those with a floating interest rate.

As at the end of 2022, our gearing ratio⁹ was 2.1%, which was basically the same as at the end of 2021.

CONTRACTUAL OBLIGATIONS

The following table sets out our contractual commitments as at 31 December 2022:

	Total	2023	2024	2025	2026	2027
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	and after RMB'000
Short-term debt	752,001	752,001	–	–	–	–
Long-term debt	129,120	–	20,058	20,058	20,058	68,946
Lease commitments	137,293	53,847	32,427	19,946	14,592	16,481
Contracted for but not provided capital commitments	217,583	217,583	–	–	–	–
Total of contractual obligations	1,235,997	1,023,431	52,485	40,004	34,650	85,427

EXCHANGE RATE

Most of the Group's revenues and expenses are denominated in Renminbi. As at the end of 2022, the balance of the Group's cash and cash equivalents in foreign currencies accounted for 2.9% of the balance of its total cash and cash equivalents, and 1.3% and 0.2% of the balance of its total cash and cash equivalents were denominated in US dollars and Hong Kong dollars, respectively.

⁹ 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.