

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

OVERVIEW

In 2023, 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 leveraged its strengths as “Builder of Digital Infrastructure”, “Provider of Smart Products and Platforms”, “Provider of Industrial Digitalization Services” and “Guard of Smart Operation”, and accelerated the cultivation of new momentum from strategic emerging businesses. With value creation as the focus and technological innovation as the driver, the Group continued to achieve steady growth in operating performance. Total revenues for the year amounted to RMB148,615 million, representing an increase of 5.6% as compared to 2022. Profit attributable to the equity shareholders of the Company was RMB3,584 million, representing an increase of 6.7% as compared to 2022, with basic earnings per share amounting to RMB0.518. Free cash flow was RMB4,333 million with cash conversion ratio⁹ being 149.4%, which continued to remain at a healthy level.

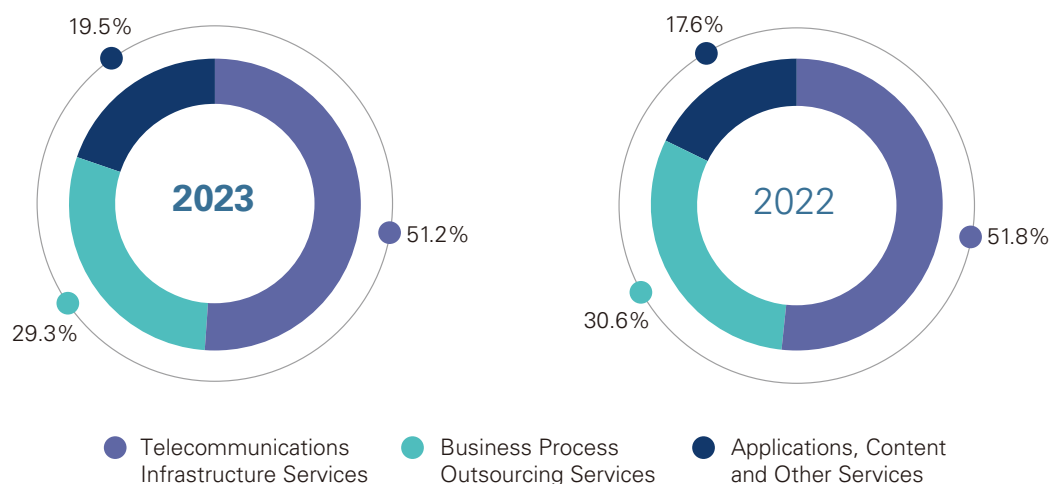
TOTAL REVENUES

The Group’s total revenues in 2023 amounted to RMB148,615 million, representing an increase of 5.6% as compared to 2022. From the business perspective, the revenue from telecommunications infrastructure (“TIS”) services was RMB76,137 million, representing a year-on-year growth of 4.4%; the revenue from business process outsourcing (“BPO”) services was RMB43,551 million, representing a year-on-year increase of 1.1%; the revenue from applications, content and other (“ACO”) services was RMB28,927 million, representing a year-on-year growth of 16.8%. During the year, by seizing the opportunities arising from 5G, new infrastructure and industrial digitalization and consistently improving its integrated comprehensive smart service capabilities, the Group supported the construction of domestic computing power and 5G network, and at the same time, continuously made breakthroughs in strategic emerging industries such as digital infrastructure, smart city, green and low-carbon, emergency management and security, thus maintaining the steady growth of the TIS services. The Group further consolidated its resources and promoted specialized operations, resulting in a continuous stable growth in BPO services that possess attributes such as strong customer loyalty and short cash conversion cycle. Meanwhile, the Group continuously strengthened its technological innovation, consolidated the capabilities on its research and development as well as product development, and seized informatization construction opportunities arising from smart city upgrade, digital transformation of enterprises and emergency management, etc. These efforts stimulated the development of its businesses such as system integration and software development, making the ACO services continue to be the business segment with the fastest-growing revenue.

⁹ Cash conversion ratio = net cash generated from operating activities/profit attributable to equity shareholders of the Company

From the market perspective, revenue from the domestic non-operator market amounted to RMB63,433 million, representing a year-on-year increase of 6.3%; revenue from the domestic telecommunications operator market amounted to RMB81,726 million, representing a year-on-year increase of 4.7%; revenue from the overseas market amounted to RMB3,456 million, representing a year-on-year increase of 15.3%. In the domestic non-operator market, the Group kept abreast of the trend brought by the reform of industrial digitalization, seized the development opportunities of the digital transformation across industries and focused on strategic emerging industries such as digital infrastructure, smart city, green and low-carbon, emergency management and security, etc. Through continuously forging core capabilities and platforms as well as leveraging the advantage of integrated service capabilities, the Group strove to expand high-value businesses, thus achieving high-quality business development and continuous optimization of revenue mix in domestic non-operator market. In the domestic telecommunications operator market, with the effective implementation of its “CAPEX + OPEX + Smart Applications” development strategy, the Group seized opportunities of AI computing power construction, industrial digitalization, 5G+ and cloud-network construction and further developed the traditional CAPEX businesses; endeavored to increase OPEX market share by penetrating the market opportunities including maintenance, property management and supply chain services; and fully supported operators’ demand for industrial digitalization amid their transformation by its active participation in the expansion of 5G industrial applications, industrial digitalization as well as network information security market, etc. In addition, the Group bolstered operators’ green development by supporting the construction of “zero carbon” data centers, green retrofit of old machine rooms, and the construction of “dual carbon” energy-saving platforms. The above measures stabilized the fundamentals of the Group’s businesses from the domestic telecommunications operators. In the overseas market, the Group actively responded to the demands in relation to digital economy along the “Belt and Road” by strengthening synergistic expansion and ecological cooperation with “Go Abroad” Chinese enterprises as well as replicating its domestic advantages and capabilities, to provide digital infrastructure construction, new energy construction and smart services for key regions and customers overseas, thereby achieving a rapid growth in operating revenue from overseas market.

BUSINESS REVENUE MIX



The following table sets forth a breakdown of the Group's total revenues for 2022 and 2023, together with their respective changes:

	2023 RMB'000	2022 RMB'000	Change
Telecommunications Infrastructure Services			
Design services	10,550,076	9,621,129	9.7%
Construction services	61,188,251	59,231,390	3.3%
Project supervision and management services	4,398,429	4,053,998	8.5%
	76,136,756	72,906,517	4.4%
Business Process Outsourcing Services			
Management of infrastructure for information technology (Network Maintenance)	18,567,843	18,157,716	2.3%
General facilities management (Property Management)	7,884,713	7,741,298	1.9%
Supply chain	13,371,776	12,848,890	4.1%
Sub-total of Core BPO Services	39,824,332	38,747,904	2.8%
Products distribution	3,726,282	4,325,246	(13.8%)
	43,550,614	43,073,150	1.1%
Applications, Content and Other Services			
System integration	17,527,742	15,210,749	15.2%
Software development and system support	5,979,240	4,781,207	25.1%
Value added services	2,637,805	2,553,557	3.3%
Others	2,782,519	2,222,389	25.2%
	28,927,306	24,767,902	16.8%
Total	148,614,676	140,747,569	5.6%

Telecommunications Infrastructure Services

In 2023, the Group's revenue from TIS services amounted to RMB76,137 million, representing an increase of 4.4% as compared to RMB72,907 million in 2022. TIS services was the primary source of revenue of the Group and accounted for 51.2% of the total revenues, representing a decrease of 0.6 percentage point from 51.8% in 2022. As to the customer structure, the Group's TIS revenue from domestic telecommunications operator customers amounted to RMB40,886 million and accounted for 53.7% of the total TIS revenues, representing a decrease of 0.7 percentage point from 2022. The aggregate TIS revenues from domestic non-operator customers and overseas customers amounted to RMB35,251 million and accounted for 46.3% of the total TIS revenues, representing an increase of 0.7 percentage point from 2022.

In 2023, the Group's TIS revenue from domestic telecommunications operator customers increased by 3.0% as compared to 2022. 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 continued to accelerate their digital transformation, increase their investment in new infrastructure such as computing power and 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. The aggregate TIS revenues from domestic non-operator customers and overseas customers increased by 6.1% over 2022, in which the TIS revenue from domestic non-operator customers recorded a year-on-year growth of 6.2%, the TIS revenue from overseas customers recorded a year-on-year growth of 5.1%. Pursuant to 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 will embrace new growth opportunities in the domestic non-operator market and overseas market.

Business Process Outsourcing Services

In 2023, the Group's revenue from BPO services amounted to RMB43,551 million, representing an increase of 1.1% as compared to RMB43,073 million in 2022, accounting for 29.3% of our total revenues, representing a decrease of 1.3 percentage points as compared to 30.6% in 2022. In terms of customer structure, the BPO revenue from domestic telecommunications operator customers amounted to RMB28,298 million, representing an increase of 1.2% over 2022, and accounting for 65.0% of the total BPO revenues, representing an increase of 0.1 percentage point from 2022. The aggregate BPO revenues from the domestic non-operator customers and overseas customers amounted to RMB15,253 million, representing an increase of 1.0% over 2022, and accounting for 35.0% of the total BPO revenues, representing a decrease of 0.1 percentage point over 2022.

In 2023, among each of the businesses under the Group's BPO services, the revenue from the network maintenance business amounted to RMB18,568 million, representing an increase of 2.3% as compared to 2022. The revenue from property management business amounted to RMB7,885 million, representing an increase of 1.9% as compared to 2022. Revenue from the supply chain business amounted to RMB13,372 million, representing an increase of 4.1% as compared to 2022. 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. Besides, revenue from the products distribution business amounted to RMB3,726 million, representing a decrease of 13.8% as compared to 2022, which was mainly due to the fact that the Group adhered to high-quality development and proactively controlled the business of products distribution with low efficiency.

Applications, Content and Other Services

In 2023, the Group's revenue from ACO services, which amounted to RMB28,927 million, representing an increase of 16.8% as compared to RMB24,768 million in 2022, remained as 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 19.5% of total revenues, representing an increase of 1.9 percentage points from 17.6% in 2022, and this proportion has been increasing for several years. Among which, the system integration business recorded revenue of RMB17,528 million, representing an increase of 15.2% as compared to 2022, being the largest contributor to the growth of the total revenues. In terms of the customer structure, the Group's ACO revenue from domestic telecommunications operator customers amounted to RMB12,542 million and accounted for 43.4% of the total ACO revenues, representing an increase of 1.4 percentage points as compared to 2022. Aggregate ACO revenues from domestic non-operator customers and overseas customers amounted to RMB16,385 million, accounting for 56.6% of the total ACO revenues, representing a decrease of 1.4 percentage points over 2022.

In 2023, the Group's ACO revenue from domestic telecommunications operator customers and domestic non-operator customers grew rapidly by 20.7% and 13.2% respectively as compared with 2022. The growth was mainly attributable to the Group's efforts in leveraging its capabilities and strength in integrated services, system integration and software development to further expand the scope of ecological cooperation and seize the domestic opportunities of new infrastructure, digital transformation, etc. 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 markets including 5G+, data center, smart city, green and low-carbon and emergency management and security, etc.

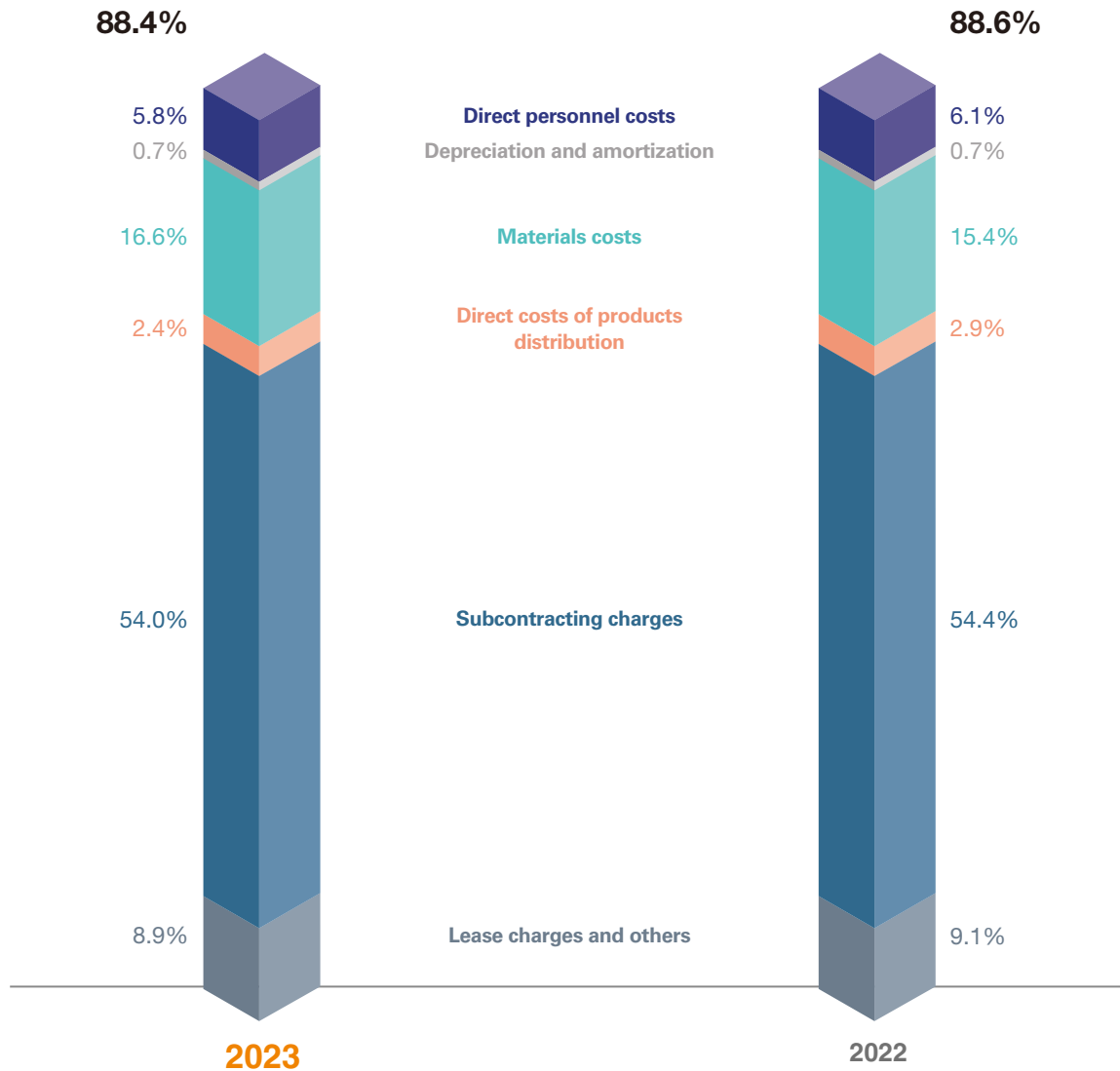
COST OF REVENUES

The Group's cost of revenues in 2023 amounted to RMB131,358 million, representing an increase of 5.3% from 2022 and accounting for 88.4% of the total revenues.

The following table sets out a breakdown of the Group's cost of revenues in 2022 and 2023 and their respective changes:

	2023 RMB'000	2022 RMB'000	Change
Direct personnel costs	8,644,005	8,558,400	1.0%
Depreciation and amortization	1,017,154	961,218	5.8%
Materials costs	24,670,341	21,657,339	13.9%
Direct costs of products distribution	3,517,360	4,065,197	(13.5%)
Subcontracting charges	80,233,245	76,546,469	4.8%
Lease charges and others	13,275,321	12,977,295	2.3%
Total cost of revenues	131,357,426	124,765,918	5.3%

COST OF REVENUES AS A % OF TOTAL REVENUES



Direct Personnel Costs

In 2023, direct personnel costs amounted to RMB8,644 million, representing an increase of 1.0% from RMB8,559 million in 2022. Direct personnel costs accounted for 5.8% of our total revenues, representing a decrease of 0.3 percentage point from 2022. The Group kept a reasonable control over its total headcount and continued to optimize the employee structure, which resulted in the continuous decrease of the proportion of direct personnel costs to total revenues. Remuneration per capita increased by 6.9%, which rose at a faster rate than the growth of total revenues, indicating that employees could share the results of corporate development.

Depreciation and Amortisation

In 2023, depreciation and amortisation amounted to RMB1,017 million, representing an increase of 5.8% from RMB961 million in 2022. Depreciation and amortisation cost accounted for 0.7% of our total revenues.

Materials Costs

In 2023, materials costs amounted to RMB24,671 million, representing an increase of 13.9% as compared to RMB21,657 million in 2022. Materials costs accounted for 16.6% of our total revenues, representing an increase of 1.2 percentage points from 2022. 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 will continue to strengthen the management of general contracting projects and enhance materials cost control by improving its internal procurement system and further implementing centralized procurement.

Direct Costs of Products Distribution

In 2023, direct costs of products distribution amounted to RMB3,518 million, representing a decrease of 13.5% as compared to RMB4,065 million in 2022. Direct costs of products distribution accounted for 2.4% of our total revenues, representing a decrease of 0.5 percentage point over 2022. 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 2023, subcontracting charges amounted to RMB80,233 million, representing an increase of 4.8% as compared to RMB76,547 million in 2022. Subcontracting charges accounted for 54.0% of our total revenues, representing a decrease of 0.4 percentage point from 2022. By strengthening the full-process management of subcontracting continuously, enhancing the management and supervision through systems, technologies and personnel, as well as improving the self-sufficient delivery capability, the Group effectively controlled the subcontracting costs, with the proportion of subcontracting costs to total revenues declined and the growth rate of subcontracting costs being lower than the growth rate of total revenues by 0.8 percentage point. 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 2023, lease charges and others were RMB13,275 million, representing an increase of 2.3% over RMB12,977 million in 2022. Lease charges and others accounted for 8.9% of our total revenues, representing a decrease of 0.2 percentage point from 2022.

GROSS PROFIT

In 2023, the Group recorded gross profit of RMB17,257 million, representing an increase of 8.0% over RMB15,982 million in 2022. The Group's gross profit margin in 2023 was 11.6%, representing an increase of 0.2 percentage point from 11.4% in 2022, and the gross profit margin has continued to rebound steadily. During the year, while catering for the scale of its development, the Group focused more on improving quality and efficiency, and guided its subsidiaries through appraisal to strictly select and develop high-margin projects. At the same time, the Group continuously strengthened project management and cost control and strove to enhance the value creation capability of its business. As a result of the above measures, gross profit margin continued to improve. 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 trend of the Group's overall gross profit margin to improve.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

In 2023, the selling, general and administrative expenses of the Group were RMB14,913 million, representing an increase of 6.8% as compared to RMB13,960 million in 2022. The selling, general and administrative expenses accounted for 10.0% of our total revenues, representing an increase of 0.1 percentage point from 2022. During the year, the Group proactively increased the investment in technological research. In the selling, general and administrative expenses, the research and development costs were RMB5,552 million, representing an increase of 12.1% as compared to RMB4,952 million in 2022, and accounted for 3.7% of our total revenues, representing an increase of 0.2 percentage point from 2022.

FINANCE COSTS

In 2023, the finance costs of the Group were RMB114 million, representing an increase of 24.9% as compared to RMB91 million in 2022. The majority of the Group's borrowings were in Hong Kong dollar and US dollar, and the increase in finance cost was mainly due to the impact of the increase in the interest rates of Hong Kong dollar and US dollar.

INCOME TAX

In 2023, the income tax of the Group was RMB378 million and its effective tax rate was 9.2%, representing a decrease of 0.1 percentage point from 9.3% in 2022. 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 2023, 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 2023, profit attributable to equity shareholders of the Company was RMB3,584 million, representing an increase of 6.7% over RMB3,360 million in 2022. Profit attributable to equity shareholders of the Company accounted for 2.4% of our total revenues, which remained essentially unchanged from 2022. Basic earnings per share of the Company were RMB0.518 (2022: RMB0.485).

CAPITAL EXPENDITURE

The Group implements stringent budget management over capital expenditure and makes adjustment according to changes in market condition. In 2023, capital expenditure of the Group amounted to RMB1,245 million, representing an increase of 35.1% from RMB922 million in 2022. The capital expenditure in 2023 accounted for 0.8% of the total revenues, representing an increase of 0.1 percentage point from 2022. In response to the needs for market expansion and capacity enhancement, the Group procured equipment for submarine cable construction and maintenance in 2023 to strengthen its capacity for the submarine cable business. Other than the above, the Group's capital expenditure included the purchase of production equipment and tools, instrumentation, intangible assets and other operating assets.

CASH FLOW

The Group recorded a net cash inflow of RMB838 million in 2023, representing a decrease of RMB38 million from RMB876 million in 2022. As at the end of 2023, the balance of cash and cash equivalents of the Group amounted to RMB22,915 million, of which 97.0% was denominated in Renminbi.

The following table sets out our cash flow positions in 2022 and 2023, respectively:

	2023 RMB'000	2022 RMB'000
Net cash generated from operating activities	5,356,247	4,909,042
Net cash used in investing activities	(2,115,504)	(2,289,478)
Net cash used in financing activities	(2,402,308)	(1,743,877)
Net increase in cash and cash equivalents	838,435	875,687

In 2023, net cash generated from operating activities of the Group was RMB5,356 million, representing an increase of RMB447 million from RMB4,909 million in 2022. The increase in operating cash flow was mainly due to the Group's persistence in value-driven approach and the strengthening of its planning and management of cash flow. While pursuing business development, the Group carried out effective measures in clearing and settling accounts receivable and strengthened the management of accounts payable at the same time.

In 2023, net cash used in investing activities of the Group was RMB2,116 million, representing a decrease of RMB173 million from RMB2,289 million in 2022. 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 2023, net cash used in financing activities of the Group was RMB2,402 million, representing an increase of RMB658 million from RMB1,744 million in 2022. The increase was mainly due to the Group's buy back of minority shareholder's equity in its subsidiary and the increase in shareholders' dividend in 2023.

WORKING CAPITAL

As at the end of 2023, the Group's working capital (i.e. current assets net of current liabilities) was RMB20,708 million, representing an increase of RMB3,101 million from RMB17,607 million as at the end of 2022. The increase in working capital was mainly due to the Group's further effort in business expansion and the implementation of effective working capital management, resulting in the increase in operating cash flow and current assets.

ASSETS AND LIABILITIES

The Group continued to maintain its solid financial position. As at the end of 2023, the Group's total assets was RMB121,790 million, representing an increase of RMB11,521 million from RMB110,269 million as at the end of 2022. Total liabilities was RMB78,122 million, representing an increase of RMB9,477 million from RMB68,645 million as at the end of 2022. The liabilities-to-assets ratio was 64.1%, representing an increase of 1.8 percentage points from 62.3% as at the end of 2022.

INDEBTEDNESS

As at the end of 2023, total indebtedness of the Group was RMB861 million, representing a decrease of RMB20 million from RMB881 million as at the end of 2022. Indebtedness of the Group was mainly denominated in Hong Kong dollar, of which Renminbi loan accounted for 15.3%, US dollar loan accounted for 29.1% and Hong Kong dollar loan accounted for 43.1%; and of which 52.3% was the loans with a fixed interest rate and 47.7% was those with a floating interest rate.

As at the end of 2023, our gearing ratio¹⁰ was 2.0%, representing a decrease of 0.1 percentage point from the end of 2022.

CONTRACTUAL OBLIGATIONS

The following table sets out our contractual commitments as at 31 December 2023:

	Total	2024	2025	2026	2027	2028 and after
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Short-term debt	807,499	807,499	–	–	–	–
Long-term debt	53,557	–	20,398	20,398	12,761	–
Lease commitments	82,391	26,770	20,392	15,666	10,932	8,631
Contracted for but not provided capital commitments	160,072	160,072	–	–	–	–
Total of contractual obligations	1,103,519	994,341	40,790	36,064	23,693	8,631

EXCHANGE RATE

Most of the Group's revenues and expenses are denominated in Renminbi. As at the end of 2023, the balance of the Group's cash and cash equivalents in foreign currencies accounted for 3.0% of the balance of its total cash and cash equivalents, and 1.1% and 0.3% of the balance of its total cash and cash equivalents were denominated in US dollar and Hong Kong dollar, respectively.

¹⁰ 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.