



MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

Overview

In 2024, 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”, united hearts and efforts, overcame difficulties, and firmly grasped the opportunities presented by the development of digital economy. By upholding technological innovation as its guiding principle, the Group accelerated the expansion of strategic emerging businesses, developed new quality productive forces tailored to local conditions, and achieved “Effective Improvement in Quality” and “Reasonable Growth in Quantity”, thereby solidly propelling the sustainable and high-quality development of the enterprise and maintaining steady growth in operating performance. Total revenues for the year amounted to RMB150,000 million, representing an increase of 0.9% compared to 2023. Profit attributable to equity shareholders of the Company was RMB3,607 million, representing an increase of 0.6% compared to 2023. Basic earnings per share were RMB0.521. Free cash flow was RMB5,214 million, with cash conversion ratio of 172.5%, continuing to remain at a healthy level.

Total Revenues

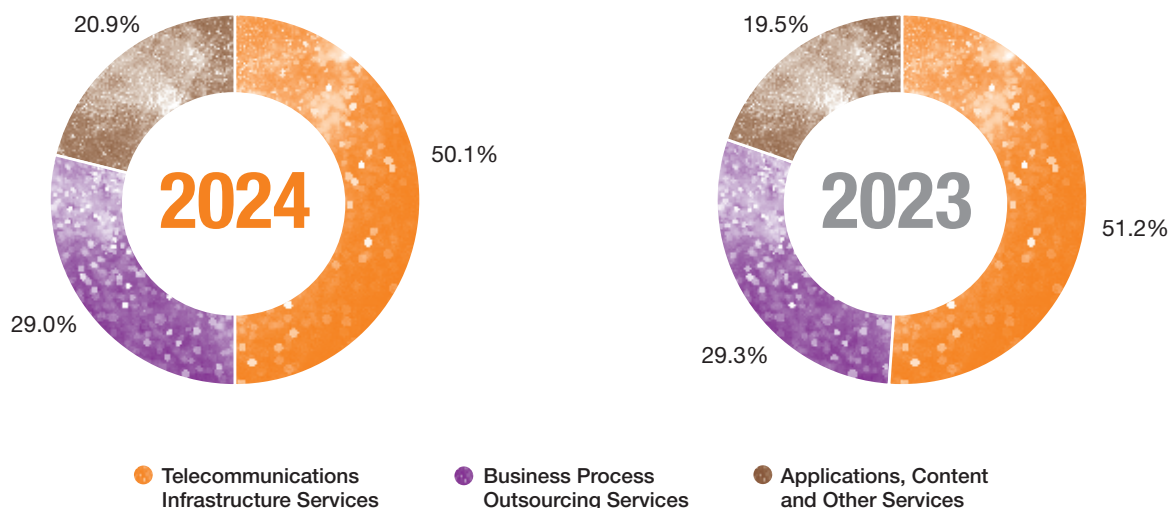
In 2024, the Group’s total revenues amounted to RMB150,000 million, representing an increase of 0.9% compared to 2023. From a business perspective, revenue from telecommunications infrastructure (“TIS”) services was RMB75,172 million, representing a year-on-year decrease of 1.3%; revenue from business process outsourcing (“BPO”) services was RMB43,459 million, remaining largely unchanged year-on-year; and revenue from applications, content, and other (“ACO”) services was RMB31,369 million, representing a year-on-year increase of 8.4%. The decline in revenue from the Group’s TIS services was primarily due to the reduced capital expenditure (CAPEX) by domestic telecommunications operators, the conservative investment by domestic non-operator customers, as well as the proactive control and reduction of low-value projects by the Group. With the deepened implementation of the Digital China strategy and the accelerated pace of digital information infrastructure construction, competition in the digital construction sector has evolved towards a higher level and greater refinement. During the year, facing a complex external environment and intense market competition, the Group seized opportunities in the construction of domestic computing power networks, data centers, and intelligent computing centers, enhanced its comprehensive integrated smart service capabilities, and strived to overcome the impact of the decline in CAPEX from domestic telecommunications operators and the investment from domestic non-operator customers, thereby maintaining relatively stable revenue from TIS services. The Group further consolidated its resources and promoted specialized operations, ensuring stable revenue from BPO services, which possess attributes such as strong customer loyalty and short cash conversion cycles. At the same time, with technological innovation as the lead, the Group aggregated its capabilities in research and development as well as product development, and focused on the business opportunities in informatization construction such as smart city upgrades, enterprise digital transformation, and emergency management. As a result, the Group effectively met customer needs for digitalization, driving the development of its businesses such as system integration and software development, and sustaining robust growth in revenue from ACO services.

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From a market perspective, revenue from the domestic telecommunications operator market was RMB83,603 million, representing a year-on-year increase of 2.3%; revenue from the domestic non-operator market reached RMB62,169 million, representing a year-on-year decrease of 2.0%; and revenue from the overseas market was RMB4,228 million, representing a year-on-year increase of 22.3%. In the domestic telecommunications operator market, with the effective implementation of its “CAPEX + OPEX + Smart Applications” development strategy, the Group actively addressed challenges posed by the reduced CAPEX investments from domestic operator customers. The Group focused on opportunities in computing power infrastructure construction, industrial digitalization, 5G+, and low-altitude economy, further developing the traditional CAPEX businesses. The Group also explored market opportunities in maintenance, property management and supply chain services, striving to increase its OPEX market share. The Group fully supported operators’ transformation needs in industrial digitalization, actively participating in the market expansion such as 5G industrial applications, industrial digitalization and network information security. Besides, the Group supported operators to achieve green development initiatives, contributing to the construction of “zero-carbon” data centers, green retrofit of machine rooms and the development of “dual carbon” energy-saving platforms, thereby stabilizing the fundamentals of the Group’s businesses from the domestic telecommunications operators. In the domestic non-operator market, the Group kept abreast of the trends in social technological revolutions and industrial transformations, seizing opportunities in digital economy development and digital transformation. It focused on strategic emerging industries such as digital infrastructure, smart city, green and low-carbon, and emergency management and security. Through continuously forging core capabilities and platforms as well as leveraging its advantages of integrated service capabilities, proactively reducing low-value businesses and strictly controlling project risks, the Group expanded its businesses with due consideration of project quality and the prevention of operational risks, thereby realizing high-quality development and continuous optimization of the revenue structure in the domestic non-operator market. The Group actively integrated itself into the new development paradigm of “dual-circulation with domestic and international development reinforcing each other”, seizing important opportunities presented by the “Belt and Road” and overseas industrial transformation and upgrading. It provided digital infrastructure construction, “dual carbon” services, smart government services and industrial informatization services to key regions and customers overseas, achieving rapid growth in revenue from the overseas market.

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Business Revenue Mix



The following table sets forth a breakdown of the Group's total revenues for 2023 and 2024, together with their respective changes:

	2024 RMB'000	2023 RMB'000	Change
Telecommunications Infrastructure Services			
Design services	9,917,391	10,550,076	(6.0%)
Construction services	60,673,388	61,188,251	(0.8%)
Project supervision and management services	4,581,458	4,398,429	4.2%
	75,172,237	76,136,756	(1.3%)
Business Process Outsourcing Services			
Management of infrastructure for information technology (Network Maintenance)	18,754,785	18,567,843	1.0%
General facilities management (Property Management)	8,122,502	7,884,713	3.0%
Supply chain	13,559,545	13,371,776	1.4%
Sub-total of Core BPO Services	40,436,832	39,824,332	1.5%
Products distribution	3,022,186	3,726,282	(18.9%)
	43,459,018	43,550,614	(0.2%)
Applications, Content and Other Services			
System integration	19,594,996	17,527,742	11.8%
Software development and system support	6,241,050	5,979,240	4.4%
Value added services	2,749,632	2,637,805	4.2%
Others	2,783,170	2,782,519	0.02%
	31,368,848	28,927,306	8.4%
Total	150,000,103	148,614,676	0.9%

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Telecommunications Infrastructure Services

In 2024, the Group's revenue from TIS services amounted to RMB75,172 million, representing a decrease of 1.3% as compared to RMB76,137 million in 2023. TIS services was the primary source of revenue of the Group and accounted for 50.1% of the total revenues, representing a decrease of 1.1 percentage points from 51.2% in 2023. As to the customer structure, the Group's TIS revenue from domestic telecommunications operator customers amounted to RMB41,087 million and accounted for 54.7% of the total TIS revenues, representing an increase of 1.0 percentage point from 2023. The aggregate TIS revenues from domestic non-operator customers and overseas customers amounted to RMB34,085 million and accounted for 45.3% of the total TIS revenues, representing a decrease of 1.0 percentage point from 2023.

In 2024, the Group's TIS revenue from domestic telecommunications operator customers increased by 0.5% compared to 2023. While maintaining its market leading position, the Group fully supported the business demand of domestic telecommunications operator customers and supported the construction of domestic computing power and 5G/5G-A networks. As domestic telecommunications operators continued to accelerate their digital transformation and increase investments in new infrastructure, such as computing power and data centers, and accelerated their pace of transformation and upgrading, the Group further integrated itself into the operators' ecosystem and enhanced its product and service capabilities to cater to the integrated network construction service demands of domestic telecommunications operators, thereby maintaining stable business development of the domestic telecommunications operators. The aggregate TIS revenue from domestic non-operator customers and overseas customers decreased by 3.3% compared to 2023, in which, the TIS revenue from domestic non-operator customers recorded a year-on-year decrease by 5.0%, and the TIS revenue from overseas customers recorded a year-on-year increase by 17.5%. The Group emphasized the business development quality in domestic non-operator market and reduced the undertaking of projects with low gross margins, high risks, and long collection cycles. Pursuant to the further implementation of the Digital China strategy, the acceleration in the pace of digital information infrastructure construction, the flourishing development of industrial digitalization, and the increasing demand for energy saving and carbon reduction, the Group will embrace new growth opportunities in the domestic non-operator market and overseas market.

Business Process Outsourcing Services

In 2024, the Group's revenue from BPO services amounted to RMB43,459 million, remaining largely unchanged as compared to RMB43,551 million in 2023, and accounted for 29.0% of our total revenues, representing a decrease of 0.3 percentage point as compared to 29.3% in 2023. In terms of customer structure, the BPO revenue from domestic telecommunications operator customers amounted to RMB28,789 million, representing an increase of 1.7% over 2023, and accounting for 66.2% of the total BPO revenues, representing an increase of 1.2 percentage points from 2023. The aggregate BPO revenues from the domestic non-operator customers and overseas customers amounted to RMB14,670 million, representing a decrease of 3.8% over 2023, and accounting for 33.8% of the total BPO revenues, representing a decrease of 1.2 percentage points over 2023.

In 2024, among each of the businesses under the Group's BPO services, revenue from network maintenance amounted to RMB18,755 million, representing an increase of 1.0% as compared to 2023. The Group further optimized and integrated its business of property management, enhancing its synergistic operational capabilities and building smart service capabilities, resulting in revenue from property management of RMB8,122 million, representing an increase of 3.0% as compared to 2023. Revenue from the supply chain business reached RMB13,560 million, representing an increase of 1.4% as compared to 2023. The Group focused on the upstream and downstream customers, continuously leveraged its advantages in full-process and network-wide synergistic operation in the supply chain, providing integrated and full life cycle supply chain services to domestic telecommunications operators, government, and enterprise customers. Besides, revenue from products distribution business amounted to RMB3,022 million, representing a decrease of 18.9% as compared to 2023, which was mainly due to the Group's commitment to high-quality development and proactive control of the products distribution businesses with low efficiency.

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Applications, Content and Other Services

In 2024, the Group's revenue from ACO services amounted to RMB31,369 million, representing an increase of 8.4% as compared to RMB28,927 million in 2023, and remaining 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 20.9% of total revenues, representing an increase of 1.4 percentage points from 19.5% in 2023, and this proportion has been increasing for several years. Among which, the system integration business recorded revenue of RMB19,595 million, representing an increase of 11.8% as compared to 2023, being the largest contributor to the growth of the total revenues. In terms of the customer mix, the Group's ACO revenue from domestic telecommunications operator customers amounted to RMB13,727 million and accounted for 43.8% of the total ACO revenues, representing an increase of 0.4 percentage point as compared to 2023. Aggregate ACO revenues from domestic non-operator customers and overseas customers amounted to RMB17,642 million, accounting for 56.2% of the total ACO revenues, representing a decrease of 0.4 percentage point over 2023.

In 2024, the Group's ACO revenue from both domestic telecommunications operator customers and domestic non-operator customers grew relatively fast and increased by 9.4% and 6.6% respectively as compared to 2023. The growth was mainly attributed to the Group's efforts in leveraging its capabilities and strengths in integrated services, system integration and software development to further expand the scope of ecological cooperation and seize domestic opportunities in new infrastructure construction and digital transformation, etc. By utilizing its proprietary core platforms and industry-leading smart product series, the Group effectively satisfied digitalization demand of its customers through vigorous expansion in markets such as 5G+, data center, smart city, green and low-carbon, emergency management and security, and low-altitude economy.

Cost of Revenues

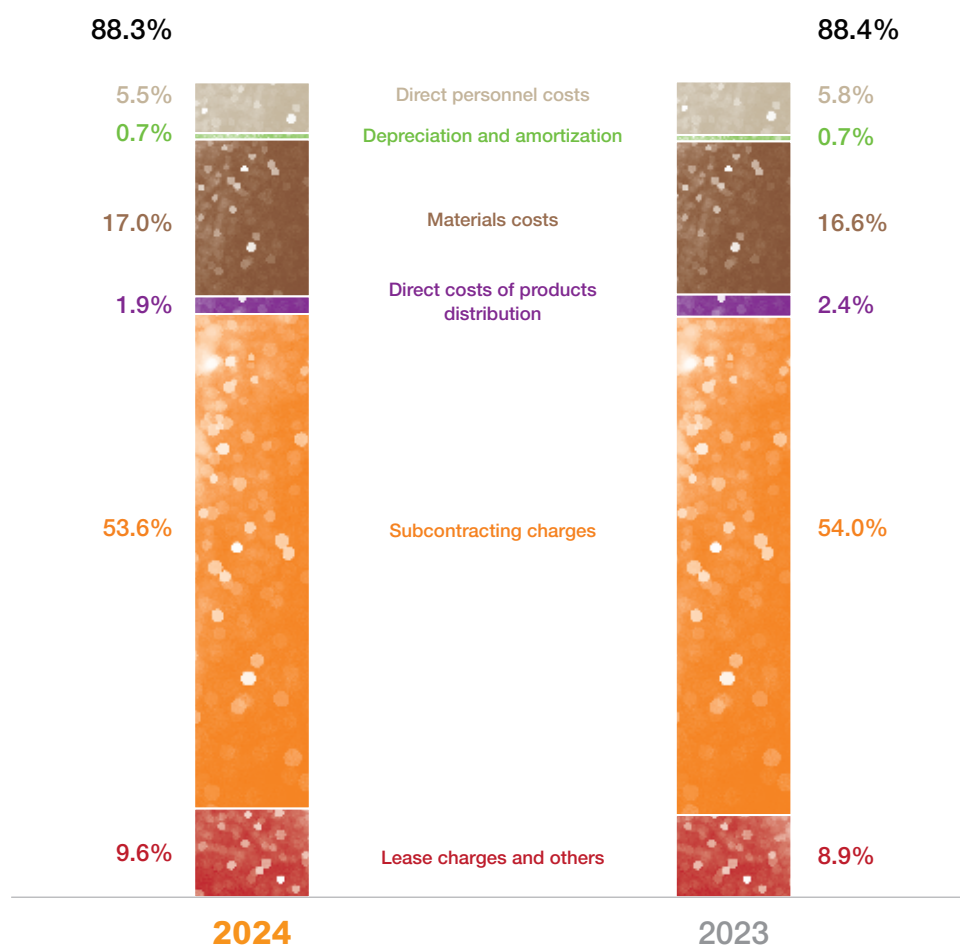
The Group's cost of revenues in 2024 amounted to RMB132,404 million, representing an increase of 0.8% from 2023 and accounting for 88.3% of the total revenues.

The following table sets out a breakdown of the Group's cost of revenues in 2023 and 2024 and their respective changes:

	2024 RMB'000	2023 RMB'000	Change
Direct personnel costs	8,208,384	8,644,005	(5.0%)
Depreciation and amortization	1,025,761	1,017,154	0.8%
Materials costs	25,579,237	24,670,341	3.7%
Direct costs of products distribution	2,815,082	3,517,360	(20.0%)
Subcontracting charges	80,405,717	80,233,245	0.2%
Lease charges and others	14,369,701	13,275,321	8.2%
Total cost of revenues	132,403,882	131,357,426	0.8%

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Cost of Revenues as a % of Total Revenues



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Direct Personnel Costs

In 2024, direct personnel costs amounted to RMB8,208 million, representing a decrease of 5.0% from RMB8,644 million in 2023. Direct personnel costs accounted for 5.5% of our total revenues, representing a decrease of 0.3 percentage point from 2023. 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. In terms of the Company's overall employee remuneration, remuneration per capita increased by 3.2%, 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 2024, depreciation and amortisation amounted to RMB1,026 million, representing an increase of 0.8% from RMB1,017 million in 2023. Depreciation and amortisation cost accounted for 0.7% of our total revenues.

Materials Costs

In 2024, materials costs amounted to RMB25,579 million, representing an increase of 3.7% from RMB24,671 million in 2023. Materials costs accounted for 17.0% of our total revenues, representing an increase of 0.4 percentage point from 2023. 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 2024, direct costs of products distribution amounted to RMB2,815 million, representing a decrease of 20.0% from RMB3,518 million in 2023. Direct costs of products distribution accounted for 1.9% of our total revenues, representing a decrease of 0.5 percentage point from 2023. 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 2024, subcontracting charges amounted to RMB80,406 million, representing an increase of 0.2% from RMB80,233 million in 2023. Subcontracting charges accounted for 53.6% of our total revenues, representing a decrease of 0.4 percentage point from 2023. 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 charges, with the proportion of subcontracting charges costs to total revenues declined and the growth rate of subcontracting charges being lower than the growth rate of total revenues by 0.7 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 2024, lease charges and others were RMB14,370 million, representing an increase of 8.2% from RMB13,275 million in 2023. Lease charges and others accounted for 9.6% of our total revenues, representing an increase of 0.7 percentage point from 2023. The increase was mainly due to the increase in leasing costs arising from the rapid growth of the Group's logistics, transportation and warehousing services among its supply chain business.

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Gross Profit

In 2024, the Group recorded gross profit of RMB17,596 million, representing an increase of 2.0% from RMB17,257 million in 2023. The Group's gross profit margin in 2024 was 11.7%, representing an increase of 0.1 percentage point from 11.6% in 2023, and the gross profit margin has continued to increase steadily. During the year, while catering for the scale of its development, the Group focused more on improving quality and efficiency, guided its subsidiaries through appraisal to strictly select and develop high-margin projects and increased the proportion of high-value businesses. 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 steadily. With the Group's deepening deployment in digital economy, new infrastructure construction 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 2024, the selling, general and administrative expenses of the Group were RMB15,054 million, representing an increase of 0.9% from RMB14,913 million in 2023. The selling, general and administrative expenses accounted for 10.0% of our total revenues, remaining largely unchanged from 2023. Among them, the research and development expenses were RMB5,568 million, representing an increase of 0.3% from RMB5,552 million in 2023, and accounted for 3.7% of our total revenues, remaining largely unchanged as compared to 2023.

Finance Costs

In 2024, the finance costs of the Group were RMB106 million, representing a decrease of 7.2% from RMB114 million in 2023. The majority of the Group's borrowings were in Hong Kong dollar and US dollar, and the decrease in finance cost was mainly due to the impact of the end of interest rate hike cycle of the US Federal Reserve and the stabilization and slight decrease in the cost of funds in international capital market.

Income Tax

In 2024, the income tax of the Group was RMB357 million and its effective tax rate was 8.7%, representing a decrease of 0.5 percentage point from 9.2% in 2023. The decrease in the Group's effective tax rate and the difference between such effective tax rate and the statutory tax rate was mainly attributable to the Group's investment in research and development being maintained at a relatively large scale. In accordance with the relevant national policies, the Group enjoyed 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 2024, 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 2024, profit attributable to equity shareholders of the Company was RMB3,607 million, representing an increase of 0.6% over RMB3,584 million in 2023. Profit attributable to equity shareholders of the Company accounted for 2.4% of our total revenues, remaining largely unchanged from 2023. Basic earnings per share of the Company were RMB0.521 (2023: RMB0.518).

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Capital Expenditure

The Group implements stringent budget management over capital expenditure and makes adjustment according to changes in market condition. In 2024, capital expenditure of the Group amounted to RMB1,082 million, representing a decrease of 13.1% from RMB1,245 million in 2023. The capital expenditure in 2024 accounted for 0.7% of the total revenues, representing a decrease of 0.1 percentage point from 2023. The Group's capital expenditure included the purchase of production equipment and tools, instrumentation, manufacture and office buildings, intangible assets and other operating assets.

Cash Flow

In 2024, the Group recorded a net cash outflow of RMB3,286 million, representing a decrease of RMB4,124 million from a net cash inflow of RMB838 million in 2023. As at the end of 2024, the balance of cash and cash equivalents of the Group amounted to RMB19,638 million, of which 96.3% was denominated in Renminbi.

The following table sets out our cash flow positions in 2023 and 2024, respectively:

	2024 RMB'000	2023 RMB'000
Net cash generated from operating activities	6,220,990	5,356,247
Net cash used in investing activities	(7,165,349)	(2,115,504)
Net cash used in financing activities	(2,341,786)	(2,402,308)
Net (decrease)/increase in cash and cash equivalents	(3,286,145)	838,435

In 2024, net cash generated from operating activities of the Group was RMB6,221 million, representing an increase of RMB865 million from RMB5,356 million in 2023. The increase in operating cash flow was mainly due to the Group's persistence in value-driven approach and the strengthening of its coordination and management of cash flow. While pursuing business development, the Group carried out effective measures in clearing and settling accounts receivables.

In 2024, net cash used in investing activities of the Group was RMB7,165 million, representing an increase of RMB5,049 million from RMB2,116 million in 2023. The increase was mainly due to the Group's strengthening of cash management as well as the coordination and arrangement of its funds.

In 2024, net cash used in financing activities of the Group was RMB2,342 million, representing a decrease of RMB60 million from RMB2,402 million in 2023.

Working Capital

As at the end of 2024, the Group's working capital (i.e. current assets net of current liabilities) was RMB16,718 million, representing a decrease of RMB3,990 million from RMB20,708 million as at the end of 2023. The decrease in working capital was mainly due to the Group's strengthening of cash management as well as the coordination and arrangement of its funds.

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Assets and Liabilities

The Group continued to maintain its solid financial position. As at the end of 2024, the Group's total assets was RMB136,618 million, representing an increase of RMB14,828 million from RMB121,790 million as at the end of 2023. Total liabilities was RMB90,004 million, representing an increase of RMB11,882 million from RMB78,122 million as at the end of 2023. The liabilities-to-assets ratio was 65.9%, representing an increase of 1.8 percentage points from 64.1% as at the end of 2023.

Indebtedness

As at the end of 2024, total indebtedness of the Group was RMB706 million, representing a decrease of RMB155 million from RMB861 million as at the end of 2023. Indebtedness of the Group was mainly denominated in Hong Kong dollar, of which Renminbi loan accounted for 11.6%, US dollar loan accounted for 25.4% and Hong Kong dollar loan accounted for 55.1%; and of which 1.1% was the loans with a fixed interest rate and 98.9% was those with a floating interest rate.

As at the end of 2024, our gearing ratio¹⁰ was 1.5%, representing a decrease of 0.5 percentage point from the end of 2023.

Contractual Obligations

The following table sets out our contractual commitments as at 31 December 2024:

	Total	2025	2026	2027	2028	2029 and after
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Short-term debt	706,249	706,249	—	—	—	—
Lease commitments	90,482	36,553	20,490	14,150	10,819	8,470
Contracted for but not provided capital commitments	54,189	54,189	—	—	—	—
Total of contractual obligations	850,920	796,991	20,490	14,150	10,819	8,470

Exchange Rate

Most of the Group's revenues and expenses are denominated in Renminbi. As at the end of 2024, the balance of the Group's cash and cash equivalents in foreign currencies accounted for 3.7% of the balance of its total cash and cash equivalents, and 1.5% 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 borrowings divided by the sum of equity attributable to equity shareholders of the Company and interest-bearing borrowings at the end of the financial year.