

CHAIRMAN'S STATEMENT

Dear Shareholders,

In the first half of 2020, the novel coronavirus (the "COVID-19") pandemic made a huge impact on the overall social economic development, in which the Group also faced unprecedented pressure and challenges on its operation. Due to the pandemic, we faced difficulties including deferred tendering from our major customers, delay in the commencement of work and project delivery as well as the constraints on cross-regional works. In particular for the first quarter, it was a critical period in China for fighting against the pandemic and most of the Group's businesses could not be carried out normally. Meanwhile, rigid costs were incurred while anti-pandemic expenses increased, and there was an overall dislocation of our operation, leading to immense pressure on its revenue and profit.

Facing the challenges brought by the pandemic, the Group put the lives, health and safety of its employees as first priority and took measures to fight against the pandemic, thus no transmission occurred within the Group. The Group was determined to assume corporate social responsibility, and gave its best effort to provide communications support during the anti-pandemic work and in assisting the society and industries to prevent the pandemic with smart measures, contributing to the pandemic prevention and control across the nation.

The Group seized the accelerating informatization construction such as "Emergency Management", "5G construction", "Digital Society", and also the demand on "New Infrastructure" prompted by the pandemic. The Group sought to overcome challenges by broadening the sources of revenue while cutting costs and adopting various measures to proactively promote resumption of work and production. With the pandemic situation in China turned relatively stable in the second quarter, the Group's overall operating performance was marked with a recovering year-on-year growth.

The Group has been adhering to the "value-driven" principle since 2015 with continuous investment and experience accumulation on the informatization for serving the society, which helped us overcome the challenges and quickly resume normal operating conditions in an effective manner during this extraordinary period in history. In view of this, the Group is confident with the outlook for the second half of this year, as well as the sustainable and healthy development in the future.

Operating Performance

In the first half of 2020, the Group's total revenues recorded RMB53,834 million, representing a year-on-year decrease of 4.0%. Revenue from Core Businesses¹ accounted for 96.6% of the total revenues, representing a year-on-year increase of 0.7 percentage point. Cost of revenues recorded RMB47,931 million, representing a year-on-year decrease of 3.7%. Gross profit recorded RMB5,903 million, representing a year-on-year decrease of 6.3%. Gross profit margin was 11.0%, representing a year-on-year decrease of 0.2 percentage point. With the benefits from developing high-margin businesses, optimizing business structure, controlling costs and enhancing efficiency, the Group effectively mitigated the impact of the pandemic on its gross profit margin, thus the decline of the gross profit margin slowed down noticeably². Having considered both the pandemic situation and the needs for its own development, the Group sped up the pace of its digital transformation and leveraged various supplemental measures such as "online" and "remote" to promote sales and marketing and strengthen communications, thereby enhancing operating and management efficiency. As a result, selling,

¹ Core Businesses include telecommunications infrastructure services, business process outsourcing services (excluding products distribution), as well as applications, content and other services.

² In the first half of 2019, the gross profit margin of the Group was 11.2% and recorded a year-on-year decrease of 1.0 percentage point.

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general and administrative expenses amounted to RMB4,785 million, representing a year-on-year decrease of 4.0% and accounting for 8.9% of total revenues, which remained at the same level as compared with the same period of last year. Profit attributable to equity shareholders of the Company was RMB1,588 million, representing a year-on-year decrease of 7.2%; net profit margin was 2.9%, representing a year-on-year decrease of 0.2 percentage point. Basic earnings per share amounted to RMB0.229, representing a year-on-year decrease of 7.2%. Free cash flow³ was RMB-1,596 million.

Market Expansion

In the first half of 2020, notwithstanding the onslaught of the pandemic, the Group overcame difficulties and challenges resulting from the sharp decline in tenders and business volume, and project suspension brought by the pandemic. By focusing on key operation aspects, namely, key regions, major customers, tender volume, key projects, new contracts, and production volume since work resumption ("the Six Key Focuses"), the Group endeavored to resume work and production while combating the pandemic, thus safeguarding the stable fundamentals for its development and laying a solid foundation for the year's operating performance.

Domestic non-telecom operator ("domestic non-operator") customers, as the Group's largest customer group⁴, maintained the growth momentum and played a decisive role in stabilizing the overall operating performance in the first half of 2020. Revenue generated from such market recorded RMB21,851 million, representing a year-on-year increase of 3.7%. The contribution to the total revenues from the domestic non-operator market exceeded 40% for the first time and reached 40.6%. Among which, the Core Businesses revenue recorded a year-on-year increase of 5.9% and accounted for 93.4% of the overall revenue from such market, representing a year-on-year increase of 1.9 percentage points. The Group took up the mission of "Building Smart Society, Boosting Digital Economy, Serving a Good Life", strived to look into the needs of customers in the vertical industries and leveraged its unique "Consultant + Staff + Housekeeper" service model⁵ and "Platform + Software + Service" competitive capabilities⁶ to provide its customers with vast variety of smart products and solutions. The Group achieved major breakthroughs in the fields of Emergency Management, Data Center, Digital Government, Smart Game and Smart Airport. The proportion of new contracts in the domestic non-operator market with a size of over RMB100 million (per contract) increased from 8% in 2019 to 14% in the first half of 2020. The new contract value for the Core Businesses in the domestic non-operator market increased by 6.7% year-on-year.

³ Free cash flow = Profit for the year + Depreciation and amortization – Changes in working capital – Capital expenditure

⁴ Customers here are classified into four categories, including the domestic non-operator customers, China Telecom, other domestic telecommunications operator customers and overseas customers.

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 business and creates values for customers.

⁶ "Platform + Software + Service" capabilities: utilize core foundation platforms, including Cloud and IoT, focus on the application of 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.

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Owing to the pandemic, the bidding and tendering process and project commencement of the domestic telecommunications operators were behind schedule early in the year, and the Group's performance in the domestic telecommunications operator market experienced some fluctuation. Revenue from such market recorded RMB30,546 million, representing a year-on-year decrease of 9.2% and accounting for 56.7% of total revenues; among which, revenue from China Telecom amounted to RMB17,162 million, representing a year-on-year decrease of 6.5% while accounting for 31.9% of the total revenues. Revenue from domestic telecommunications operators other than China Telecom recorded RMB13,384 million, representing a year-on-year decrease of 12.5% while accounting for 24.8% of the total revenues. Although the development in the first half was affected by the pandemic, the Group continued to persist in its "Dual Growth Drivers+"⁷ development strategy, and supported its customers' 5G development and cloud-network integration construction. In addition, pursuant to the change in our customers' needs, the Group made use of the EPC general contracting service model to support our customers' constructions such as 5G, and the relevant business volume increased steadily.

The Group's revenue from the overseas market recorded RMB1,437 million in the first half of 2020, representing a year-on-year increase of 7.3% and accounting for 2.7% of the total revenues. Benefiting from the smooth execution of projects in Nepal, Saudi Arabia, etc., and revenue from the respective projects being recognized in phases, overseas business achieved growth amid the headwind in the first half of 2020. The Group strictly implemented the scientific prevention and control measures for the pandemic, and its staff stationed in overseas business regions recorded zero infection in the first half of 2020.

Business Development

In the first half of 2020, the impact brought by the pandemic on domestic construction projects was particularly evident. The Group's revenue from telecommunications infrastructure ("TIS") services recorded RMB29,037 million, representing a year-on-year decrease of 5.7% and accounting for 53.9% of the total revenues. Among which, TIS revenue from domestic non-operator customers amounted to RMB11,185 million, representing a year-on-year increase of 4.9%. TIS revenue from overseas customers amounted to RMB1,108 million, recording a robust year-on-year growth of 18.3%. TIS revenue from domestic telecommunications operators amounted to RMB16,744 million, representing a year-on-year decrease of 12.8%.

Revenue from business process outsourcing ("BPO") services recorded RMB16,959 million, representing a year-on-year decrease of 6.4% and accounting for 31.5% of the total revenues. Among which, revenue from network maintenance business decreased by 0.4% year-on-year, and revenue from general facilities management (property management) business increased by 4.7% year-on-year. The impact inflicted by the pandemic on the supply chain business was relatively more apparent and revenue from such business recorded a decrease of 13.9% year-on-year. The Group continued to exercise proactive control over its products distribution business, with the revenue from such business recording a decrease of 20.3% year-on-year, and accounting for 3.4% of the total revenues, which represented a decrease of 0.7 percentage point year-on-year.

⁷ "Dual Growth Drivers+" refers to CAPEX and OPEX + Smart Applications. CAPEX refers to the capital expenditure of domestic telecommunications operators while OPEX refers to the operating expenditure of domestic telecommunications operators.

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Revenue from applications, content and other (“ACO”) services amounted to RMB7,838 million, representing a year-on-year increase of 10.1% and accounting for 14.6% of the total revenues, up by 1.9 percentage points. Among which, revenue from system integration business recorded a year-on-year increase of 15.6%, whereas revenue from software development and system support business recorded a year-on-year increase of 21.1%. The rapid growth of ACO services and its positive contribution to the overall operating performance reflected the favorable results of the early deployment of the Group’s software and digital service capabilities in recent years, which also facilitated the development of its traditional TIS business.

Identification of and Adaptation to Changes

Currently, the “New Infrastructure” led by 5G is making an impressive debut. 5G is not only the key task of the “New Infrastructure”, but also serves as a growth driver to support the elevated development on digitalization, cyberization, and intelligentization of industries and society. 5G also promotes the high-quality development of other industries, and provides “technology support” for the shift from old to new growth momentums. The new market environment has exposed the Group to new demand, with the 5G era calling for integrated service providers of digital infrastructure. Acting as a “Builder of Digital Infrastructure”, the Group has been devoted to seizing the opportunities arising from 5G investment and co-build and co-share by domestic telecommunications operators. The Group has set up dedicated project management teams, strengthened its capabilities, and expanded the 5G construction business by adopting a new general contracting model. For instance, the Group has adopted the 5G general contracting model in 27 provinces when serving China Telecom, of which the proportion of contracts that utilized the general contracting model accounted for more than 50% in 12 provinces.

Given the arrival of 5G and the accelerated digitalization of society, this will lead to new demand for Internet of Everything, the Group’s maintenance business will be seeing an explosive growth opportunity. Acting as the “Guard of Smart Operation”, the Group adapts to the changes in market trends by building up China Comservice Maintenance Cloud Platform, and expediting the enhancement of our digital maintenance capabilities. The Group will utilize Cloud Computing and IoT technologies to provide customers with multi-dimensional, integrated, efficient and predictive smart maintenance service. Through consolidation and synergistic operation, the Group’s supply chain business also shows favorable development potential. In the first half of 2020, a subsidiary of the Group, China Comservice Supply Chain Management Company Ltd., was selected as one of the top 50 logistics enterprises in the country. It serves as the Group’s digital centralized procurement center, and opens up a new path for the Group to improve operating efficiency.

The pandemic has accelerated the pace of digitalization, cyberization, and intelligentization of society, and brought defining changes to both social governance models and people’s way of living. The popularization of the new generation information technology promotes the deep integration of digital economy and real economy. Acting as the “Service Provider of Data Production” and “Provider of Smart Products and Platforms”, the Group has focused on the changes in industries and customers’ demand, and achieved major breakthroughs and was rewarded with achievements in the fields of Emergency Management, Data Center, Digital Government, Smart Game and Smart Airport, with our brand awareness and reputation further elevated. In order to better cope with the profound changes in technologies and markets, and to achieve the strategic goal of high-quality development for the enterprise, the Group has stepped up its R&D and innovation efforts. By setting up China Comservice General Research Institute, the Group would be able to enhance its dispersed research and development system and leverage its Cloud Computing, Big Data and IoT technologies to forge its

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innovative capabilities platforms (including CCSYUN (our cloud service) Platform, CCS IoT Platform⁸, Network Security Service Platform, etc.), promoting the cloud migration of R&D and operation of its smart products. Meanwhile, as it faces the changing development needs of markets and customers, the Group will provide integrated and innovative services to help customers achieve digital transformation and upgrade.

Corporate Governance

The Group's good corporate governance work and governance standards have always been recognized by the capital market. In the first half of 2020, the Group ranked 86th in *Fortune China's* "2020 Fortune China 500" and 1,488th in *Forbes'* "2020 Forbes Global 2000 — The World's Largest Public Companies". The Group was named as "Honored Companies in Asia" in *Institutional Investor's* 2020 "All-Asia Executive Team" Rankings for the first time. Mr. Si Furong, the President, and Ms. Zhang Xu, the Chief Financial Officer, ranked third in the "Best CEO" and "Best CFO" respectively in the relevant rankings in the telecommunications sector. In addition, the Group also received accolades for "Best ESG" and in the field of investor relations. The Group places great importance on system construction in respect of our own transformation and development. In the first half of 2020, prompted by the State-owned Enterprise Reform "Double-hundred Action", the Group undertook an in-depth review of its corporate governance structure, talent incentive mechanism and professional talent team building and began making long-term preparations to improve them.

Social Responsibility

In the first half of 2020, against the backdrop of the COVID-19, the Group courageously assumed the responsibility of a state-owned enterprise and hastened to the frontline of combating the pandemic. In just three days, the Group rapidly completed planning and construction of the 4G/5G wireless network for Huoshenshan Hospital and Leishenshan Hospital in Wuhan. The Group also provided various medical institutions, including Beijing Xiaotangshan Hospital, West China Hospital of Sichuan University, Xixi Hospital of Hangzhou and the temporary treatment base for COVID-19 patients in Jingzhou, with emergency communication construction and support to ensure smooth communication at the frontline of the fight against the pandemic.

Meanwhile, in response to the anti-pandemic demands from governments, communities, enterprises and relevant industries, the Group has capitalized on the strength of its dispersed research and development system. It swiftly developed and promoted more than 40 smart applications for pandemic prevention based on its foundation platforms, including CCSYUN (our cloud service) platform and CCS IoT platform. Among them, the "Health Declaration and Enquiry System for Migrant Workers of Sichuan Province" received recognition from society and the public.

In the first half of 2020, the Group proactively sourced supplies and donated these to Hubei and other pandemic-ridden areas. These supplies included approximately 30,000 N95 masks, 200,000 medical masks and other protective masks, 1,400 sets of protective clothing, 10,000 protective glasses, 155,000 pairs of gloves and various disinfection products. The Group praised the staff working on the frontline, and recognized them as "the most respectable rescuers" for their spirit of selfless dedication and bravery in fighting against the pandemic. The spreading of such positive energy boosted staff morale, conjuring up spiritual power for the company's sustainable development in the future.

⁸ CCS IoT Platform was honored with the "2020 Best Platform for New Infrastructure and Industry Innovative Application" award, hosted by China Industrial Cooperation Association and with other units in July 2020.

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In the first half of 2020, many Southern provinces in China experienced multiple floods which were caused by disastrous rainstorm. The Group proactively participated in the rescue effort, providing disaster relief and communication support by engaging hundreds of thousands of person-times and more than one hundred thousand vehicle-times to repair approximately 180,000 communication facilities.

Future Outlook

The Group fully understands that, although the COVID-19 has had a relatively large impact on both society and the economy, there is no change in the fundamental development trends for China's macro-economy, which is still heading for long-term prosperity, steady improvement and high-quality development. China is continuing its determination to provide policy support in promoting synergistic development among industries and facilitating innovation and transformation of enterprises. There is no change on the penetrative and extensive implementation of the "Belt and Road". The advent of the pandemic brings both crises and opportunities, including the acceleration in the progress of digitalization, cyberization and intelligentization of society, the acceleration in the development of New Infrastructure as represented by 5G, and the acceleration in the process of upgrading social governance as represented by Emergency Management. All of the above opportunities will expedite the process of deep integration of digital economy and real economy. As a "New Generation Integrated Smart Service Provider", the Group will implement the government's requirement for "stability on the six fronts" and "security in the six areas" and focus on its "three main tracks of development"⁹ to seize opportunities brought by the government's new growth momentum as leveraged and cultivated by informatization and intelligentization. Meanwhile, we will proactively explore the vast development potential brought by the deep integration of the digital and real economies, whilst accelerating our transformation and upgrade, and facilitating integration into the digital society ecosystem, with a view to achieving high-quality development of the Group.

In the domestic non-operator market, the Group will grasp the window of opportunity in the post-pandemic era and focus on new market potential, including the "New Infrastructure" represented by 5G, modern Smart City upgrade, Digital Governance and the digitalization of industries. Besides, we will be focusing on the massive potential for incremental business volume brought by the integration and upgrade of traditional infrastructure with the digital technologies and accelerating our deployment in this area. Meanwhile, the Group will focus on the key sectors such as government, transportation, electricity and games, and provide our customers with a rich portfolio of products and services such as smart solutions, emergency management and security. As such, we would be able to realize the in-depth promotion of our smart business and market share expansion leading to another breakthrough in the domestic non-operator market.

⁹ "Three main tracks of development" refer to the domestic telecommunications operator market, the domestic non-operator market, and the overseas market.

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In the domestic telecommunications operator market, the Group will continue the “Dual Growth Drivers+” development strategy. By focusing on the CAPEX investment planning of the domestic telecommunications operators and adapting to the demand of the acceleration in 5G construction and the change in construction model, the Group will undertake projects using the general contracting model and take full advantage of the CAPEX opportunities. Meanwhile, the Group will focus on OPEX business opportunities and help customers to build competitive edges by consolidating and improving their network operation and service capabilities. The Group will seize the window of opportunity regarding our customers’ transformation, leveraging its unique position in terms of smart applications, industry solutions, network information security and project implementation to fully support the cloud-network integration of our customers, proactively integrating into the customers’ value chain and symbiotic ecosystem. We will jointly expand the new ICT market with customers while expanding our own value to ensure the sustainable and stable development of the domestic telecommunications operator market.

In the overseas market, the Group will seize opportunities from the continuous opening-up of China and in-depth promotion of the “Belt and Road” to accelerate the transformation and upgrade of its “EPC+F+I+O+S”¹⁰ model. The Group will accelerate its business expansion by focusing on key regions including Southeast Asia, the Middle East and Africa and developing key businesses including “New Infrastructure” overseas represented by 5G, maintenance, data center and electricity. At the same time, by integrating digitalization demand from overseas customers, the Group will promote the launch of smart products and services in overseas market. Meanwhile, the Group will enhance its collaboration with domestic telecommunications operators and “Go Abroad” Chinese enterprises to explore new room for development in overseas business.

Meanwhile, pursuant to the needs of its market and customers, the Group will continue to enhance its core capabilities and build a business system that could better fulfill its customers’ demand and value, conform with its internal development needs and the capital market’s requirements. Leveraging the opportunities provided by general contracting for 5G from domestic telecommunications operators, the Group will strengthen its EPC general contracting capabilities for the digital infrastructure and expand construction opportunities, including enterprise dedicated networks, data centers, and industrial ICT. The Group will continue to increase its R&D investment. Capitalizing on the establishment of the China Comservice General Research Institute, the Group will enhance its dispersed R&D system, expedite the R&D and construction of the CCSYUN (our cloud service) Platform, CCS IoT Platform, and Network Security Service Platform to accelerate its digital transformation, and build smart products based on cloud-native ecosystem, thus improving service capabilities and standards for different customers under various business scenarios. The Group will strive to enhance the construction of ecosystem and optimize its internal ecosystem whilst building a symbiotic ecosystem with our business partners to facilitate capabilities accumulation and capabilities enabling to realize the rapid iteration and upgrade of technology and R&D, as well as the rapid penetration into local markets. The Group will make the best use of capital resources and promote the integration of finance with industrial development through capital investment and innovative business models for external co-operation to create value for corporate development. We will continue to strengthen the training and recruitment of high-technology talents, and nurture core experts and talent teams in design and consultation, product R&D, project management, sales and marketing, delivery and implementation, with a view to enhancing the core competitiveness of our technologies and talents.

¹⁰ “EPC+F+I+O+S”: EPC (Engineering, Procurement, Construction) + Finance + Investment + Operation + Solution

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Though the impact posed by the pandemic on the overall economy in China is still present, it is generally under control. The Group will seize the opportunities to accelerate its business development with full force and restore the pace of its operation. The Group will continue to focus on "the Six Key Focuses", strengthening online marketing and riding on the trend, turning crises into opportunities, and striving to accomplish the full-year goals and tasks. We will exercise resilience and confidence, diligence and perseverance to press ahead with development and transformation, thus facilitating the Group in marching towards high-quality development.

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 our employees for their continued dedication and hard work. I would also like to extend my sincere welcome to Mr. Gao Tongqing and Mr. Mai Yanzhou who have joined the Board as non-executive directors.



Zhang Zhiyong
Chairman

Beijing, PRC
26 August 2020