

FINANCIAL REVIEW

Total Revenues

In the first half of 2020, the Group adhered to the overall roadmap of “value-driven, seeking steady yet progressive growth and high-quality development” and positions itself as “New Generation Integrated Smart Service Provider”. To overcome the pressure posed by the pandemic and seize development opportunities, the Group persisted in placing equal importance on fighting the pandemic and production, which ensured stable fundamentals for development of the Group. The Group recorded total revenues of RMB53,834 million, representing a decrease of 4.0% compared to RMB56,049 million in the first half of 2019.

Revenue by Businesses

In the first half of the year, the revenue from telecommunications infrastructure (“TIS”) services was RMB29,037 million, representing a year-on-year decrease of 5.7%. Revenue from business process outsourcing (“BPO”) services was RMB16,959 million, representing a year-on-year decrease of 6.4%, of which the revenue from Core BPO services (i.e. excluding products distribution business) was RMB15,143 million, representing a year-on-year decrease of 4.4%. Revenue from applications, content and other (“ACO”) services was RMB7,838 million, representing a year-on-year increase of 10.1%.

In the first half of the year, most of the Group’s business development suffered from the sudden outbreak of the pandemic. In particular, infrastructure and construction businesses were relatively severely affected. Amidst the pandemic, the Group responded promptly and took various measures such as providing anti-pandemic guidance, making comprehensive plans and giving priority to those in need. On the condition that production safety was guaranteed, the Group vigorously promoted the resumption of work and production. As a result, the Group’s operating performance was significantly boosted and rebounded noticeably in the second quarter as compared to the first quarter. Though the improved performance in the second quarter did not fully compensate the impact caused by the decreased revenue for the first quarter, it significantly mitigated the impact of the pandemic on our operating performance in the first half of the year. Meanwhile, by firmly seizing the business opportunities arising from digital transformation of enterprises and informatization construction such as Emergency Management and Smart City upgrade amid the pandemic, the Group was able to achieve sustained growth in revenue from ACO services. Of which, revenue from system integration, software development and system support businesses amounted to RMB4,893 million and RMB1,278 million, representing a rapid year-on-year increase of 15.6% and 21.1%, respectively.

Revenue by Markets

In the first half of the year, the revenue from the domestic non-telecom operator (the “domestic non-operator”) market amounted to RMB21,851 million, representing a year-on-year increase of 3.7%, in which, revenue from the Core Businesses of such market amounted to RMB20,401 million, representing a year-on-year increase of 5.9%. Revenue from the domestic telecommunications operator market amounted to RMB30,546 million, representing a year-on-year decrease of 9.2%. Revenue from the overseas market amounted to RMB1,437 million, representing a year-on-year increase of 7.3%.

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During the first half of 2020, the pandemic impacted upon the pace of investment by domestic telecommunications operators, leading to a decrease in the Group's revenue in such market. By coordinating the allocation of resources, paying close attention to the 5G construction and transformation demand of operators and improving delivery capability and service quality, the Group strived to minimize the impact of the pandemic on the domestic telecommunications operator market. Meanwhile, by focusing on the demand for constructing New Infrastructure, Digital Infrastructure and Smart Society and providing comprehensive integrated smart services, the Group has vigorously expanded the domestic non-operator market which has enabled the revenue from such market to maintain growth.

Cost of Revenues

In the first half of 2020, the cost of revenues of the Group amounted to RMB47,931 million, representing a year-on-year decrease of 3.7%, of which direct personnel costs amounted to RMB3,670 million, representing a decrease of 9.1% from RMB4,040 million in the first half of 2019. Subcontracting charges amounted to RMB30,126 million, representing a decrease of 3.4% from RMB31,188 million in the first half of 2019. The Group strictly controlled its costs by proactively and reasonably allocating controllable costs with its business development needs to mitigate the impact of the pandemic on the Company's operating efficiency. As a result, direct personnel costs, subcontracting charges, direct costs of products distribution as well as other expenses decreased by different degrees.

Gross Profit

In the first half of 2020, the Group recorded gross profit of RMB5,903 million, representing a decrease of 6.3% from RMB6,300 million in the first half of 2019. The Group's gross profit margin in the first half of 2020 was 11.0%, representing a decrease of 0.2 percentage point from 11.2% in the first half of 2019. Amid the impact from the negative revenue growth caused by the pandemic, there was additional pressure on gross profit due to the rigid costs and the additional anti-pandemic costs. However, benefiting from the Group's efforts to expand high-margin business, optimize business structure and control costs strictly, it effectively alleviated the impact of the pandemic on the gross profit margin, which showed a noticeably moderating decline.

Selling, General and Administrative Expenses

In the first half of 2020, the selling, general and administrative expenses of the Group were RMB4,785 million, representing a decrease of 4.0% from RMB4,985 million in the first half of 2019. As the Group continued to increase its investment in research and development, the research and development costs under the selling, general and administrative expenses recorded a year-on-year increase. In addition, there were relative high portion of rigid costs within the selling, general and administrative expenses and so the negative growth in the total revenues caused by the pandemic in the first half of the year also affected the selling, general and administrative expenses as a percentage of the total revenues. However, the Group took various control measures proactively and reduced the administrative and management expenses by enhancing its management and cutting down costs. As such, selling, general and administrative expenses as a percentage of the total revenues remained at 8.9% in the first half of the year, which remained stable compared to same period last year.

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Profit Attributable to Equity Shareholders of the Company

In the first half of 2020, profit attributable to equity shareholders of the Company was RMB1,588 million, representing a decrease of 7.2% from RMB1,712 million in the first half of 2019.

Cash Flow

The Group recorded a net cash outflow of RMB3,773 million in the first half of 2020, as compared to a net cash outflow of RMB2,489 million in the first half of 2019. This increase in cash outflow was mainly attributable to the fact that the pandemic has affected the cash flow from operating activities in the first half of the year. On one hand, the pandemic widened the gap between the Group's receivables and payables during the reporting period and affected the advance payment from and prepayment to construction projects. On the other hand, the Group purchased anti-pandemic supplies to secure the employees' health and safe production in fighting against the pandemic. These expenses led to further increase in cash outflow.

Assets and Liabilities

The Group continued to maintain its solid financial position. As of 30 June 2020, the Group's total assets was RMB88,224 million, representing an increase of RMB683 million from RMB87,541 million as of 31 December 2019. Total liabilities were RMB53,033 million, representing an increase of RMB530 million from RMB52,503 million as of 31 December 2019. The liabilities-to-assets ratio was 60.1%, which remained at approximately the same level compared to 31 December 2019.