

# CHAIRMAN'S STATEMENT

Dear Shareholders,

In the first half of 2021, the Group seized the favourable opportunities arising from significant strategic achievements in pandemic prevention and control initiatives of China. While further advancing the resumption of work and production, the Group continued to adhere to the overall roadmap of "value-driven, seeking steady yet progressive growth and high-quality development", as well as focusing on the important opportunities brought by New Infrastructure, digital economy and smart society. By leveraging the edges as a "New Generation Integrated Smart Service Provider", the Group has accelerated market expansion and strategic deployment, thus achieving favourable operating results. Among which, the domestic non-telecom operator ("domestic non-operator") market achieved enhancement in both development speed and efficiency, domestic telecommunications operator market resumed growth, whilst the corporate technological innovation capabilities were further elevated. Meanwhile, the Group expedited the pace of State-owned Enterprise Reform and achieved significant breakthroughs in introducing strategic investors, thereby adding new impetus to the subsequent corporate development.

## Operating Performance

In the first half of 2021, the Group's total revenues were RMB64,099 million, representing a year-on-year increase of 19.1%. Cost of revenues was RMB57,266 million, representing a year-on-year increase of 19.5%. Gross profit was RMB6,833 million, representing a year-on-year increase of 15.8%. Gross profit margin was 10.7%, representing a year-on-year decrease of 0.3 percentage point. Having considered the needs for both the pandemic prevention and control and its business development, the Group applied digital measures to conduct external marketing and optimize internal operation efficiency. Therefore, selling, general and administrative expenses were RMB5,497 million, accounting for 8.6% of the total revenues, representing a year-on-year decrease of 0.3 percentage point. Profit attributable to equity shareholders of the Company was RMB1,811 million, representing a year-on-year increase of 14.1%. Net profit margin was 2.8%, representing a year-on-year decrease of 0.1 percentage point. Basic earnings per share were RMB0.262, representing a year-on-year increase of 14.1%. Free cash flow<sup>1</sup> was RMB-1,515 million, indicating a year-on-year improvement.

<sup>1</sup> Free cash flow = Profit for the year + Depreciation and amortization – Changes in working capital – Capital expenditure

## CHAIRMAN'S STATEMENT

### Market Expansion

In the first half of 2021, domestic non-operator customers, being the Group's largest customer group<sup>2</sup>, sustained a strong growth momentum and was the leading growth driver of the Group's results. Revenue from such market was RMB29,270 million, representing a year-on-year robust growth of 34.0%, and accounted for 45.7% of the total revenues, representing an increase of 5.1 percentage points year-on-year. The rapid growth of the domestic non-operator market effectively safeguarded the overall sound development of the Group. In the first half of 2021, the Group further stepped up investment in technological research and development as well as iterative development of smart products, underscoring the advantages of the "Consultant + Staff + Housekeeper"<sup>3</sup> service model and the "Platform + Software + Service"<sup>4</sup> comprehensive capabilities. The Group focused on key sectors such as government, electricity, transportation and construction, and endeavoured to expand key projects such as smart industrial application, dedicated network construction, data centers, urban rail transit, Industrial Internet, etc. The amount of new contracts in domestic non-operator market increased by approximately 20% year-on-year, indicating sufficient momentum for the Group's subsequent development in such market.

In the domestic telecommunications operator market, the Group seized the market opportunities arising from 5G, data centers, cloud-network integration and network information security. By persisting in "CAPEX and OPEX + Smart Applications"<sup>5</sup> development strategy and supporting customers' transformation with the Group's multi-scenario informatization services, the revenue from domestic telecommunications operator market resumed growth and recorded RMB33,452 million in the first half of 2021, representing a year-on-year increase of 9.5% and accounting for 52.2% of the total revenues. Among which, revenue from China Telecom was RMB19,121 million, representing a year-on-year increase of 11.4% and accounting for 29.8% of the total revenues; revenue from domestic telecommunications operator customers other than China Telecom was RMB14,331 million, representing a year-on-year increase of 7.1% and accounting for 22.4% of the total revenues.

Due to the continuous pandemic outbreak worldwide, the commencement and work progress of the Group's certain overseas projects were behind schedule. Revenue from overseas market was RMB1,377 million, representing a year-on-year decrease of 4.2% and accounting for 2.1% of the total revenues. Though the development of its overseas businesses was affected to a greater extent by the pandemic, the Group adopted various digital "remote" and "online" measures to conduct marketing activities for overseas projects and developed major general contracting projects in regions such as Southeast Asia, the Middle East and Africa. Once the overseas pandemic situation starts to improve, the Group will gradually push ahead with the commencement of projects in reserve.

<sup>2</sup> Customers here are classified into four categories, including the domestic non-operator customers, China Telecom, other domestic telecom operator customers and overseas customers.

<sup>3</sup> "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.

<sup>4</sup> "Platform + Software + Service" capabilities: utilize core foundation platforms, including Cloud and IoT, focus on the 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.

<sup>5</sup> "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.

## CHAIRMAN'S STATEMENT

### Business Development

In the first half of 2021, the Group's revenue from telecommunications infrastructure ("TIS") services was RMB34,547 million, representing a year-on-year increase of 19.0% and accounting for 53.9% of the total revenues. Among which, TIS revenue from domestic non-operator customers was RMB15,849 million, representing a rapid year-on-year growth of 41.7%. TIS revenue from domestic telecommunications operator customers was RMB17,583 million, representing a year-on-year growth of 5.0%. TIS revenue from overseas customers was RMB1,115 million, representing a year-on-year growth of 0.6%. Through innovation and transformation, along with resolute efforts to develop the domestic non-operator market, the Group has developed a new growth driver for the TIS business.

Revenue from business process outsourcing ("BPO") services was RMB19,787 million, representing a year-on-year increase of 16.7% and accounting for 30.9% of the total revenues. The Group continued to further develop the OPEX business of domestic telecommunications operators by supporting the maintenance of new information infrastructure network with 5G and cloud as the core technologies, and revenue from the network maintenance business increased by 8.1% year-on-year. When the pandemic situation was brought under effective control in China, the Group seized the opportunities arising from modern supply chain industry development and strengthened market expansion. Revenue from the supply chain business experienced rapid growth of 29.1% year-on-year, accounting for 51.3% of the increment in revenue from the BPO services. Revenue from the general facilities management (property management) business increased by 16.8% year-on-year. Revenue from the products distribution business increased by 16.9% year-on-year, accounting for 3.3% of the total revenues, representing a year-on-year decrease of 0.1 percentage point.

The Group has made notable achievements in business development through technological innovation. Revenue from applications, content and other ("ACO") services was RMB9,765 million, representing a rapid year-on-year growth of 24.6%, and the contribution to the total revenues was 15.2%, representing an increase of 0.6 percentage point compared with the same period of last year. By leveraging its advantages of software development capability and talent, the Group seized the opportunities arising from digital transformation of society and its year-on-year revenue growth from ACO Major businesses<sup>6</sup> was 2.1 percentage points higher than that of the national software business<sup>7</sup>. Among which, revenue from the system integration business increased by 27.0% year-on-year, while revenue from the businesses of software development and system support as well as value-added service also increased by 22.8% and 19.8% year-on-year respectively.

<sup>6</sup> ACO Major businesses include system integration, software development and system support as well as value-added services.

<sup>7</sup> In the first half of 2021, the national software business revenue increased by 23.2% year-on-year. (Data source: Ministry of Industry and Information Technology of the PRC)

## CHAIRMAN'S STATEMENT

### Technological Innovation

The Group has pressed on with the technological innovation and continued to step up investment in research and development. Through the adoption of the “Synergistic + Dispersed” mechanism for research and development, the Group has accelerated the construction and implementation of core platforms and products, which facilitated business expansion and its own digital transformation. The Group has garnered resources to forge core platforms in the fields of network security, Internet of Things (“IoT”) and innovation middle platform. Among which, the self-developed network security core platform has been adopted in multiple projects by operators and customers in key industry sectors such as governments. Relevant products and services have been shortlisted into the Leader Matrix of “AQNIU”<sup>8</sup>, and the Group’s industrial presence and influence in the network security sector are further elevated. The innovation middle platform and IoT platform self-developed by the Group have been officially deployed among subsidiaries at all levels, thus supporting the Group’s cloud migration of maintenance business digitalization and research and development results, as well as the continuous innovation of service model and enhancement in operation efficiency. The IoT platform of the Group was selected as one of the IoT Demonstration Projects for the year of 2020–2021 by the Ministry of Industry and Information Technology, and was shortlisted in the “2021 China AIoT Industry Panoramic Map Report”. Meanwhile, the Group has kept abreast of the latest development of new technologies, undertook in-depth research in the field of “Carbon Peak, Carbon Neutrality” and supported businesses such as the construction of data centers and 5G network to be green, energy-saving and environmental-friendly.

### State-owned Enterprise Reform

The Group has been proactively pursuing enterprise reform and has been included in the list of “Double-hundred Enterprise” for State-owned Enterprise Reform since 2018. Confronting a new development stage, the Group has actively sought strategic investors with strategic synergy and business complementarity in the past three years in order to formulate new development landscape. Through the coordination with and the support by its controlling shareholder, China Telecommunications Corporation, the Group achieved significant breakthroughs in the first half of 2021.

In June 2021, the Group received a notification issued by China Telecommunications Corporation in relation to the gratuitous transfer of its 166,000,000 domestic shares of the Group (representing 2.40% of the total issued share capital of the Group) to State Grid Information & Telecommunication Technology Group Co., Ltd. (“State Grid ITT Group”). Upon completion of the relevant procedures of the share transfer, State Grid ITT Group will officially become a strategic shareholder of the Group. The Group has also entered into a Digital New Infrastructure Strategic Cooperation Framework Agreement with State Grid ITT Group.

<sup>8</sup> “AQNIU” is an influential third-party professional media and flagship think-tank in the domestic cybersecurity sector.

## CHAIRMAN'S STATEMENT

The Group holds the view that the introduction of State Grid ITT Group as a strategic shareholder of the Company and entering into the Strategic Cooperation Agreement are beneficial to both parties by capitalizing on each other's advantages and resources as well as strengthening the strategic cooperation in the fields of informatization and intelligentization of the power industry, thus promoting the Group's development in vertical industries including power industry and new businesses, along with accelerating the Group's development in the domestic non-operator market. The introduction of a strategic shareholder could help the Company in optimizing the governance structure and raising the standard of corporate governance. In addition, the Strategic Cooperation Agreement is beneficial to the cultivation and development of the long-term strategic cooperative relationship, active exploration of effective cooperation mechanism, improvement of regular communication and cooperation mechanism between both parties, deepening in the cooperation, further promotion of the sustained, healthy and rapid development of both parties, and thus creating greater value for the shareholders.

Besides, the wholly-owned subsidiary of the Group, China Comservice Supply Chain Management Company Ltd. ("Supply Chain Company"), introduced four strategic investors<sup>9</sup> successfully in June 2021 and the strategic investors have injected a total of RMB900 million into the Supply Chain Company. After the completion of the capital injection, the aggregate equity interest held by strategic investors is approximately 26.015% of the enlarged share capital in the Supply Chain Company. The Supply Chain Company is the only integrated logistics enterprise in the domestic telecommunications industry with a "5A" qualification and takes the lead in promoting the development of supply chain business of the Group. The introduction of strategic investors with synergistic effect by the Supply Chain Company and building the Supply Chain Company into a leading enterprise of smart supply chain integrated services in the domestic ICT industry are beneficial to the strengthening of the Group's capabilities for professional operations and competitiveness in the supply chain business and fostering the Group's capabilities in general contracting for digital infrastructure. It could also facilitate the strategic deployment of the Group as a "New Generation Integrated Smart Service Provider", thereby achieving high-quality corporate development.

### Corporate Governance

The Group attaches great importance to corporate governance and its high standard of corporate governance is well recognized by the capital market. In the first half of 2021, the Group ranked the 87th in *Fortune China's* "2021 Fortune China 500" and ranked the 1,337th in *Forbes'* "2021 Forbes Global 2000". The Group was awarded the accolades of "Asia's Icon on ESG", "ESG Influencer" and "Asian Corporate Director" in the "16th Asian ESG Award" held by *Corporate Governance Asia*, and was honored with "Honored Company" in "2021 All-Asia Executive Team" rankings by *Institutional Investor* again.

### Social Responsibilities

The Group has high regard for fulfilling its social responsibilities. In the first half of 2021, the Group hastened to the frontline of pandemic combat and emergency rescue, contributing great effort to ensure smooth communication network. The Group provided emergency communication construction for the Huangzhuang Apartment Quarantine Center in Zhengding, Hebei and the explosion accident in Shiyan, Hubei.

<sup>9</sup> The four strategic investors are COSCO SHIPPING (Tianjin) Company Limited, Zhilian Shenzhen International Smart Logistics (Shenzhen) Co., Ltd., Guoxin Shuangbai No. 1 (Hangzhou) Equity Investment Partnership (Limited Partnership) and Gongqingcheng Orient Securities Sucheng Investment Partnership (Limited Partnership).

## CHAIRMAN'S STATEMENT

In July 2021, Henan experienced extremely rare and severe rainstorm, serious flood overflowing in various places led to large area of traffic congestion and disrupted communication network. The Group responded promptly and insisted on fighting on the front line of affected sites, and adopted a number of high-tech measures for emergency repair to ensure the safety and smooth operation of the communication network in the affected areas. At the same time, leveraging the advantages of network-wide warehouse resource distribution as well as coordinating with national and social efforts, the Group delivered emergency rescue equipment and supplies to the disaster-stricken sites within eight hours, efficiently linking up the "lifeline" for disaster relief supplies. Such deeds were reported by Xinhua News Agency and other official media.

As Typhoon "In-fa" caused serious damage to communication facilities, the Group immediately joined the frontline rescue tasks, quickly carried out inspection, troubleshooting and equipment repair procedures, and ensured smooth operation of communication network during the typhoon, shouldering the responsibilities as a state-owned enterprise.

### Outlook

2021 marks the first year of the "14th Five-Year Plan" and China will enter into a new chapter of development. As a "New Generation Integrated Smart Service Provider", the Group will seize the opportunities brought by the robust development of digital economy, acceleration of digital transformation in society and the fulfillment of national objectives such as "Carbon Peak, Carbon Neutrality", on the condition that sound pandemic prevention and control measures are in place. The Group will increase investment in research and development in the relevant areas, leverage the advantages as a "New Generation Integration Smart Service Provider", and will continue to promote its high-quality development by implementing the strategy of both organic growth and external development.

In the domestic non-operator market, the Group will penetrate key sectors, including government, electricity, transportation, construction and Internet, as well as key regions, namely the Yangtze River Delta, the Guangdong-Hong Kong-Macao Area and the Beijing-Tianjin-Hebei Area, and will continue to develop New Infrastructure businesses represented by 5G, data centers, IoT and Industrial Internet by leveraging its smart product portfolio. Riding on years of established relationship with telecommunications operators, the Group will capitalize on the synergistic advantages to jointly provide more premium services for customers in society. The Group will continue to expand the revenue scale of the domestic non-operator market and enhance its development quality, so as to maintain sufficient and stable momentum for the corporate development in the future.

In the domestic telecommunications operator market, the Group will persist in the "CAPEX and OPEX + Smart Applications" development strategy and seize the opportunities arising from 5G, big data, cloud-network integration, etc. The Group will endeavour to develop the traditionally advantageous businesses by assisting customers to construct the new network infrastructure facilities featuring cloud-network integration. The Group will also provide customers with "Cloud + 5G + DICT" multi-scenario products and services to meet customers' business development needs and their digital transformation requirements. By virtue of years of experience and adopting the motto of "the highest excellence is like that of water" in its corporate culture, the Group will identify and evaluate new customer demand on service quality in the new era and promptly respond to their new requirements, with an aim of demonstrating its value, integrating itself into the industry's ecosystem, and maintaining the Group's fundamentals for stable operation.

## CHAIRMAN'S STATEMENT

In the overseas market, the Group is fully aware that the pandemic prevention and control situation overseas is severe, complex as well as long-standing, and so it will build the baseline of overseas pandemic risk prevention in a consistent and careful manner. Meanwhile, the Group will seize opportunities brought by the advancement of "Belt and Road" and the "new development paradigm of dual-circulation with domestic and international development reinforcing each other". While focusing on the implementation of existing major general contracting projects, the Group will leverage the "EPC+F+I+O+S"<sup>10</sup> model to seek further breakthroughs in the fields of electricity, transportation, smart city and operators' OPEX business. The Group will continue to strengthen cooperation with domestic telecommunications operators and those "Go Abroad" Chinese enterprises, leverage complementary advantages, and constantly develop new income sources in overseas markets. The Group will adopt a variety of financial and IT measures to forecast and prevent business risks overseas.

The Group will utilize digital transformation as an entry point, and launch the digital and smart cloud-based procurement platform to achieve the transparent operation in respect of subcontractor selection and material procurement. The Group will enhance the research and evaluation of customer demand on service quality in the new era, optimize the delivery model, improve customer satisfaction level and continue to enhance business value and overall profitability.

Capitalizing on the opportunity of the introduction of strategic shareholders, the Group will utilize industry capital as the growth multiplier for corporate development, and start a new phase of its sustainable and healthy development. The Group will keep an open mind and continue to seek strategic investors with synergy that could support its deepened reform, innovation and transformation as well as sustainable development, thus creating greater value for shareholders, customers and employees.

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 to all of our employees for their continued dedication and hard work.



**Zhang Zhiyong**

*Chairman*

Beijing, PRC  
30 August 2021

<sup>10</sup> "EPC+F+I+O+S": EPC (Engineering, Procurement, Construction) + Finance + Investment + Operation + Solution