

FINANCIAL REVIEW

Total Revenues

In the first half of 2021, the Group continued to adhere to the overall roadmap of “value-driven, seeking steady yet progressive growth and high-quality development” and positioned itself as a “New Generation Integrated Smart Service Provider”. By seizing opportunities from economic recovery in the first half of the year, New Infrastructure and digital transformation in society, the Group achieved double-digit growth in results and recorded total revenues of RMB64,099 million, representing an increase of 19.1% compared to RMB53,834 million in the first half of 2020.

Revenue by Business

In the first half of the year, the revenue from telecommunications infrastructure (“TIS”) services was RMB34,547 million, representing a year-on-year increase of 19.0%. Revenue from business process outsourcing (“BPO”) services was RMB19,787 million, representing a year-on-year increase of 16.7%. Revenue from applications, content and other (“ACO”) services was RMB9,765 million, representing a year-on-year increase of 24.6%.

Revenue from TIS services and BPO services overcame the pandemic impact in last year with notable business recovery. Besides, the Group increased investment in research and development, consolidated the capabilities on its research and development as well as product, paid close attention to opportunities arising from digital transformation of enterprises, and informatization construction from emergency management, smart city upgrade, etc, which drove our business development, such as system integration and software development businesses. Therefore, ACO services continued to be the fastest-growing business, of which, revenue from system integration business amounted to RMB6,215 million, representing a rapid year-on-year increase of 27.0%; revenue from software development and system support business amounted to RMB1,569 million, representing a rapid year-on-year increase of 22.8% and maintaining a more than 20% growth for two consecutive years.

Revenue by Market

In the first half of the year, the revenue from the domestic non-telecom operator (the “domestic non-operator”) market amounted to RMB29,270 million, representing a year-on-year increase of 34.0%. Revenue from the domestic telecommunications operator market amounted to RMB33,452 million, representing a year-on-year increase of 9.5%. Revenue from the overseas market amounted to RMB1,377 million, representing a year-on-year decrease of 4.2%.

During the first half of 2021, the Group persisted in the “CAPEX and OPEX + Smart Applications” development strategy and proactively seized market share. While capturing the network construction demand of operators, the Group vigorously expanded businesses in the OPEX market and paid close attention to the transformation demand of operators to provide informatization supporting services, thus driving the Group to achieve favourable growth in the domestic telecommunications operator market. Meanwhile, the Group continued to advance on the expansion of domestic non-operator market, seize the opportunities from New Infrastructure and informatization construction, enhance research and development and innovation, keep iterating and upgrading industrial solutions as well as accelerating deployment, hence revenue from such market maintained a strong growth momentum.

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Cost of Revenues

In the first half of 2021, the cost of revenues of the Group amounted to RMB57,266 million, representing a year-on-year increase of 19.5%. Among which, direct personnel costs amounted to RMB4,123 million, representing an increase of 12.3% from RMB3,670 million in the first half of 2020; subcontracting charges amounted to RMB34,747 million, representing an increase of 15.3% from RMB30,126 million in the first half of 2020; materials costs amounted to RMB8,830 million, representing an increase of 43.5% from RMB6,155 million in the first half of 2020. The Group strictly controlled its costs by proactively and reasonably allocating controllable costs with its business development needs, enhanced effectiveness and efficiency with the same amount of resources input. The relatively fast increase in materials costs was mainly because the Group optimized its business model and undertook major projects in general contracting model proactively. Besides, the businesses of construction, supply chain and system integration involved relatively more materials, so the fast growth of those businesses also drove the rise of materials costs.

Gross Profit

In the first half of 2021, the Group recorded gross profit of RMB6,833 million, representing an increase of 15.8% from RMB5,903 million in the first half of 2020. The Group's gross profit margin in the first half of 2021 was 10.7%, representing a decrease of 0.3 percentage point from 11.0% in the first half of 2020. As affected by multiple factors, including the decrease of business unit price due to continuous cost control by domestic telecommunications operators and increase of rigid costs of the Group, gross profit margin of the Group in the first half of the year decreased. Meanwhile, the Group endeavoured to improve its gross profit margin through continuous enhancement of project management and cost control as well as enhancing our capability for business value creation. In the first half of 2021, the gross profit margin of domestic non-operator market realized a transitory stabilization and increased slightly. With the Group's deployment in digital economy, smart society and new infrastructure areas starting to bear fruit, the Group expects that the proportion of high-value businesses will gradually increase and the gross profit margin of the domestic non-operator market could stabilize and even further improve in the future, thereby driving the Group's overall gross profit margin. In fact, the domestic non-operator market has continued to be the largest contributor to the increase in gross profit of the Group.

Selling, General and Administrative Expenses

In the first half of 2021, the selling, general and administrative expenses of the Group were RMB5,497 million, representing an increase of 14.9% from RMB4,785 million in the first half of 2020. The growth rate of selling, general and administrative expenses was lower than the growth rate of the cost of revenues since the Group undertook effective management measures to control costs and enhance efficiency. The selling, general and administrative expenses of the group accounted for 8.6% of the total revenues, representing a decrease of 0.3 percentage point over the same period of the last year.

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Profit Attributable to Equity Shareholders of the Company

In the first half of 2021, profit attributable to equity shareholders of the Company was RMB1,811 million, representing an increase of 14.1% from RMB1,588 million in the first half of 2020.

Cash Flow

The Group recorded a net cash outflow of RMB3,154 million in the first half of 2021, as compared to a net cash outflow of RMB3,773 million in the first half of 2020. The net cash outflow in the first half of the year was mainly affected by the cyclical cash flow pattern of the Group in the first half and second half of the year. Excluding the balance payment (approximately RMB663 million) made in the first half of 2021 for the property acquisition in 2020 to serve as the bases for the smart production, operation as well as research and development, cash flow in the first half of the year improved over the same period of last year, and such change was mainly because the Group persisted in being value-driven, enhanced working capital management with effective clearing and settlement of accounts receivable while expanding business.

Assets and Liabilities

The Group continued to maintain its solid financial position. As of 30 June 2021, the Group's total assets was RMB99,430 million, representing an increase of RMB4,941 million from RMB94,489 million as of 31 December 2020. Total liabilities was RMB60,797 million, representing an increase of RMB3,495 million from RMB57,302 million as of 31 December 2020. The liabilities-to-assets ratio was 61.1%, which slightly increased compared with that at 31 December 2020.