

FINANCIAL REVIEW

TOTAL REVENUES

In the first half of 2022, 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”. While facing the complicated dynamics at home and abroad, the Group seized significant strategic opportunities from national digital economy, East-To-West Computing Resource Transfer and Dual Carbon, overcame the impacts of the pandemic, thus realizing favourable growth of operating results, with the total revenues amounting to RMB69,253 million, representing an increase of 8.0% compared to RMB64,099 million in the first half of 2021.

Revenue by Business

In the first half of the year, the revenue from telecommunications infrastructure (“TIS”) services was RMB35,049 million, representing a year-on-year increase of 1.5%. Revenue from business process outsourcing (“BPO”) services was RMB21,537 million, representing a year-on-year increase of 8.8%. Revenue from applications, content and other (“ACO”) services was RMB12,667 million, representing a year-on-year increase of 29.7%.

During the first half of the year, the resurgence of the pandemic in many cities of China had caused relatively large impact on businesses such as construction, so the growth of TIS revenue slowed down. In response to the pandemic, the Group proactively pressed on with the resumption of work and production on the premise of ensuring safe production. The Group grasped the demand in industrial digitalization firmly and seized development opportunities of traditional industrial digitalization and intelligentization reform, and made effort to strengthen innovation as well as research and development continuously by iterative upgrade on its smart products and solutions. The above efforts stimulated our business development, such as system integration and software development businesses, thus making ACO services continued to be our fastest-growing business and became the biggest contribution to overall operating revenue increment. Among which, revenue from system integration business amounted to RMB8,360 million, representing a rapid year-on-year increase of 34.5%; revenue from software development and system support businesses amounted to RMB1,987 million, representing a rapid year-on-year increase of 26.6% and maintaining a more than 20% growth for three consecutive years.

Revenue by Market

During the first half of 2022, the Group’s revenue from the domestic telecommunications operator market amounted to RMB36,529 million, representing a year-on-year increase of 9.2%. Revenue from the domestic non-operator market amounted to RMB31,173 million, representing a year-on-year increase of 6.5%. Revenue from the overseas market amounted to RMB1,551 million, representing a year-on-year increase of 12.7%.

During the first half of 2022, the Group persisted in the “CAPEX + OPEX + Smart Applications” development strategy and seized business opportunities from domestic telecommunications operators in their expansion on government and enterprise businesses as well as the development on industrial digitalization business. The Group proactively engaged in the whole process of operators’ transformation and strengthened its market competitiveness, thus making domestic telecommunications operator market contributed meaningfully to the results growth of the Group. Meanwhile, the Group continued to advance on the expansion of domestic non-operator market, optimize business structure, transform development towards high-value fields and strengthen growth momentum, hence revenue from such market maintained a steady growth.

FINANCIAL REVIEW (CONTINUED)

COST OF REVENUES

In the first half of 2022, the cost of revenues of the Group amounted to RMB61,960 million, representing a year-on-year increase of 8.2%. Among which, direct personnel costs amounted to RMB4,030 million, representing a decrease of 2.3% from RMB4,123 million in the first half of 2021; subcontracting charges amounted to RMB38,063 million, representing an increase of 9.5% from RMB34,747 million in the first half of 2021; materials costs amounted to RMB10,896 million, representing an increase of 23.4% from RMB8,830 million in the first half of 2021. The Group strictly controlled its costs and initiated measures for efficiency enhancement effectively, and allocated controllable costs proactively and reasonably with its business development needs and enhanced effectiveness and efficiency with the same amount of resources input. The reason for the relatively fast increase in materials costs was mainly due to the optimization of the Group's business model and its initiative in undertaking major projects in general contracting model. Besides, the fast growth of system integration business, which involved relatively more material costs, also drove the rise of materials costs.

GROSS PROFIT

In the first half of 2022, the Group recorded gross profit of RMB7,293 million, representing an increase of 6.7% from RMB6,833 million in the first half of 2021. The Group's gross profit margin in the first half of 2022 was 10.5%, representing a decrease of 0.2 percentage point from 10.7% in the first half of 2021. As affected by multiple factors, including the decrease of business unit price, impact posed by the pandemic and the 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 uplifting its business value creation capabilities, continuous enhancement of project management and cost control, as well as the implementation of cost reduction and efficiency enhancement measures. As a result, the decline of gross profit margin moderated compared with that in the previous year. With the Group's deployment in digital economy, smart society and new infrastructure areas starting to bear fruit, and the further implementation of efficiency enhancement tasks, it is expected that the Group's gross profit margin will be stabilized in the future.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

In the first half of 2022, the selling, general and administrative expenses of the Group were RMB5,920 million, representing an increase of 7.7% from RMB5,497 million in the first half of 2021. 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 cost reduction and efficiency enhancement measures. The selling, general and administrative expenses of the group accounted for 8.5% of the total revenues, representing a decrease of 0.1 percentage point over the same period of the last year.

PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

In the first half of 2022, profit attributable to equity shareholders of the Company was RMB1,896 million, representing an increase of 4.6% from RMB1,811 million in the first half of 2021.

FINANCIAL REVIEW (CONTINUED)

CASH FLOW

The Group recorded a net cash outflow of RMB3,170 million in the first half of 2022, as compared to a net cash outflow of RMB3,154 million in the first half of 2021. The changes in the macroeconomic environment and the pandemic impact caused delay in accounts receivables settlement from the Group's customers, and led to an increase in cash outflow from operating activities. The Group persists in enhancing its working capital management and will continue to strengthen relating measures to maintain cash flow at a healthy level.

ASSETS AND LIABILITIES

The Group continued to maintain its solid financial position. As of 30 June 2022, the Group's total assets was RMB107,005 million, representing an increase of RMB6,977 million from RMB100,028 million as of 31 December 2021. Total liabilities was RMB66,497 million, representing an increase of RMB6,079 million from RMB60,418 million as of 31 December 2021. The liabilities-to-assets ratio was 62.1%, which slightly increased compared with that as of 31 December 2021.