



中国通信服务
CHINA COMSERVICE

CHINA COMMUNICATIONS SERVICES CORPORATION LIMITED

Stock Code : 552



Value-Driven
Leading **SUSTAINABLE**
Innovative Development

INTERIM RESULTS
2016

25 August 2016

<http://www.chinaccs.com.hk>



MR. SUN KANGMIN

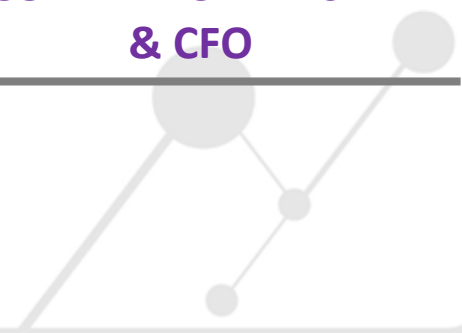
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**EXECUTIVE VICE PRESIDENT
& CFO**

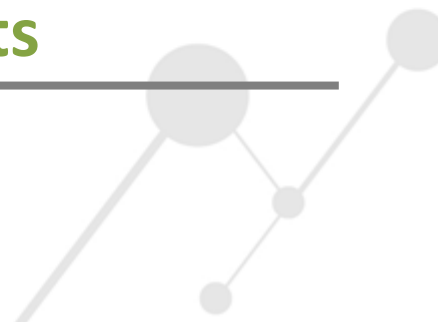




1. Overview

2. Business Review

3. Financial Results





Overview

Sustained Rapid Growth in Overall Results with Continuous Operating Efficiency Enhancement

Revenue: **+12.3%** Net Profit: **+9.1%** Net Profit Margin: **3.3%**

Expanded New Market Space in Domestic Operator Market

Revenue from :

- Domestic Operator Customer: **+14.4%**
- Domestic Operator Customer other than China Telecom: **+35.9%**

Accelerated Growth of Two New Markets Drove Overall Development

Revenue from :

- Domestic Non-operator Core Businesses⁽¹⁾: **+31.4%**
- Overseas Customer: **+35.9%**

Achieved Rapid Growth in Various Businesses with Structure Further Optimized

Revenue from :

- TIS Business: **+20.3%**
- Core BPO Businesses⁽²⁾: **+16.2%**
- ACO Business: **+24.5%**

Efficient Working Capital Management Drove Continued FCF Increase

- Account Receivables Turnover Days: **↓16 Days**
- Free Cash Flow: **RMB2.4 billion**

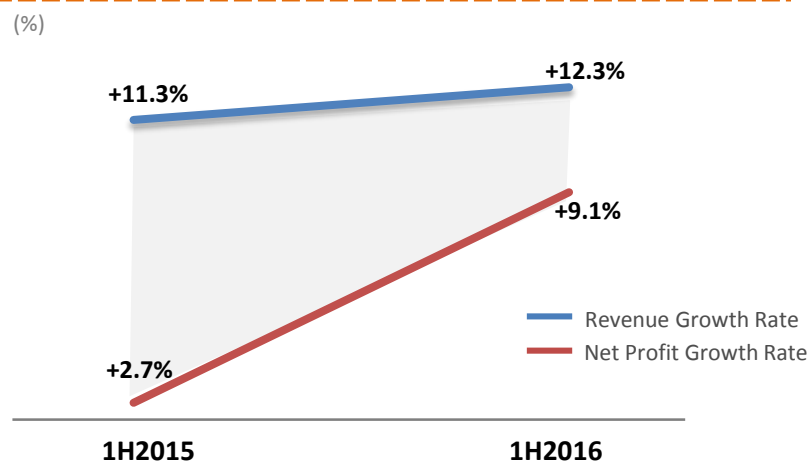
⁽¹⁾ Domestic non-operator core businesses include TIS, Core BPO and ACO businesses. Please refer to the business revenue breakdown on p.10 for details.

⁽²⁾ Core BPO businesses include Maintenance, Facilities Management and Supply Chain businesses. Please refer to the business revenue breakdown on p.10 for details.

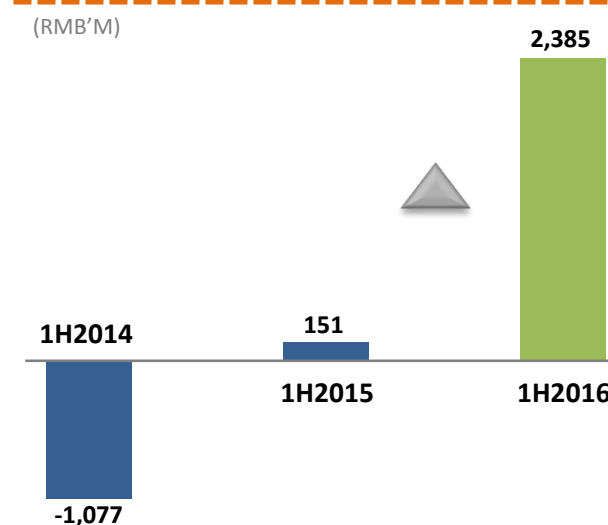
Continuous Enhancement in Results & Operating Efficiency

(RMB'M, except EPS & % figures)	1H2015	1H2016	Change
Revenue	37,563	42,176	12.3%
Gross Profit	5,176	5,392	4.2%
Gross Profit Margin (%)	13.8%	12.8%	-1.0pp
Net Profit	1,271	1,386	9.1%
Net Profit Margin (%)	3.4%	3.3%	-0.1pp
Free Cash Flow ⁽¹⁾	151	2,385	1,479.5%
EPS (RMB)	0.184	0.200	9.1%

Accelerated Growth with Overall Efficiency Enhanced

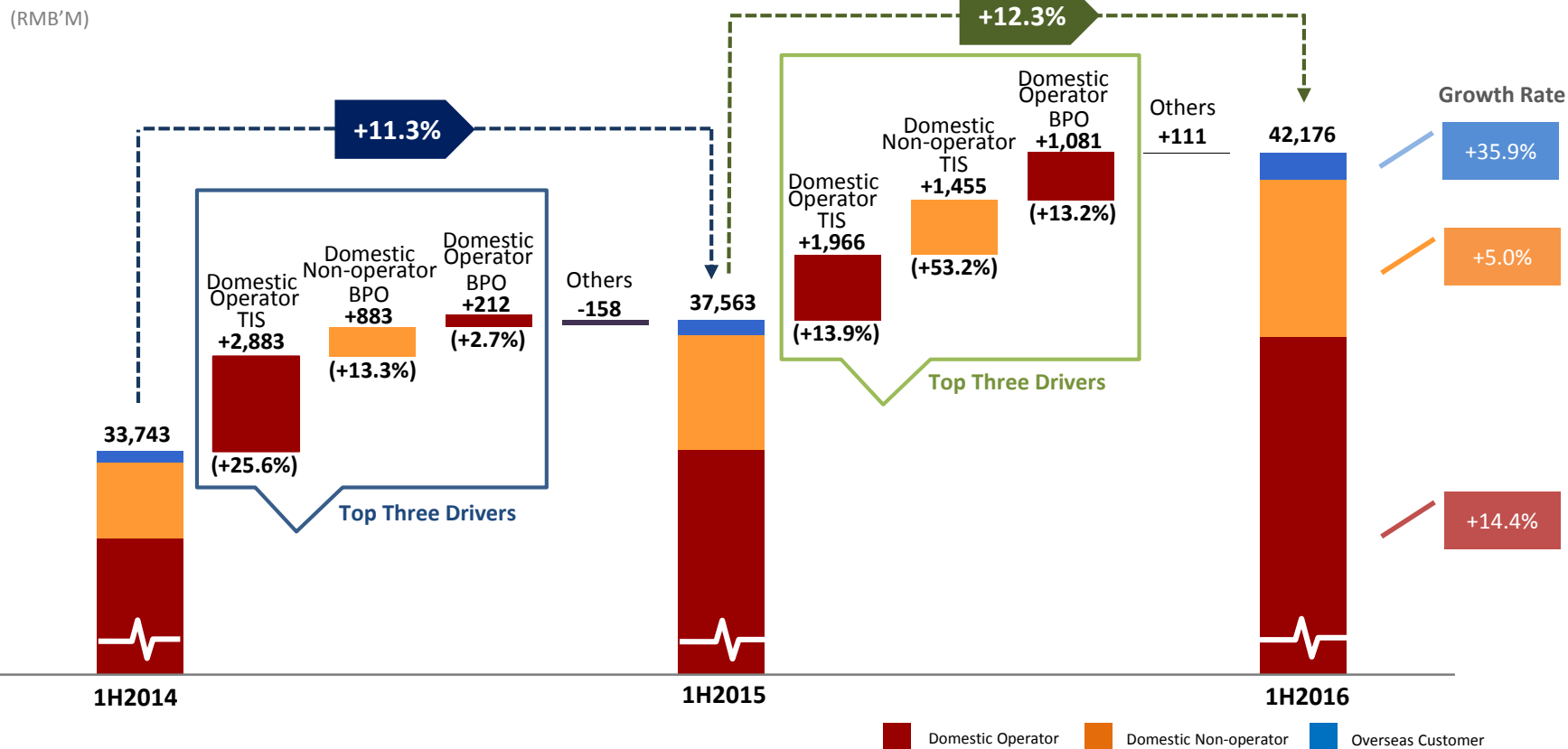


Free Cash Flow ⁽¹⁾



Diversification in Customer and Business Supported Continuous Revenue Growth

Revenue Growth Drivers



Successful market expansion and business development alleviated the impact on our overall business after the investment peak of telecom operators

- ◆ Focus on both CAPEX and OPEX opportunities and further expanded into the market of different domestic operator customers
- ◆ Successfully captured opportunities arising from informatization construction in domestic non-operator market and driving our overall development

Vast Market Opportunities

National Policies

- ◆ The introduction of 13th Five-Year Plan, supply-side structural reform, Cyberpower, Broadband China, Made in China 2025 and Internet+ foster the information economy to become a new impetus for growth

Sector

- ◆ Intelligent development in the communications sector boosts the demand for technology, software, network maintenance and information security and becomes a new area of growth

Telecom Operators

- ◆ Transformation and upgrade of domestic operators to develop digital ecosystems and intelligent services brings opportunities in network upgrade and maintenance

Overseas

- ◆ The continued implementation of the “Belt and Road” Initiative, vast demand for telecommunications infrastructure in overseas markets

Value-driven Principle Leading Sustainable & Innovative Development

Adaptive Resources Allocation

Firmly Grasp the Business Opportunities of Domestic Operator; Domestic Non-operator & Overseas Markets

1. Strengthen Innovation & Transformation

Strive for innovation & breakthroughs in our products, businesses, services & management, and increase products' R&D to support transformation

2. Enlarge Talent Pool

Recruit high-end technical professionals to optimize personnel structure, cultivate and retain talents

3. Innovate Internal System & Mechanism

Achieve breakthroughs in operational and business collaboration mechanisms and incentive scheme to boost corporate vitality



Business Review

Business Revenue Breakdown

(RMB'M)	1H2015	1H2016	Change	% of Revenue
TIS (Telecommunications Infrastructure Services)				
Design	3,551	4,123	16.1%	9.8%
Construction	13,152	16,042	22.0%	38.0%
Supervision	1,319	1,522	15.4%	3.6%
Subtotal	18,022	21,687	20.3%	51.4%
BPO (Business Process Outsourcing Services)				
Maintenance	4,341	4,958	14.2%	11.8%
Facilities Management	1,779	1,920	7.9%	4.6%
Supply Chain ⁽¹⁾	3,043	3,770	23.9%	8.9%
Subtotal	9,163	10,648	16.2%	25.3%
Products Distribution ⁽¹⁾	6,887	5,496	-20.2%	13.0%
Subtotal	16,050	16,144	0.6%	38.3%
ACO (Applications, Content and Other Services)				
System Integration	1,640	2,062	25.8%	4.9%
Software Development & System Support	481	575	19.4%	1.4%
Value-added Services	660	754	14.3%	1.8%
Others	710	954	34.4%	2.2%
Subtotal	3,491	4,345	24.5%	10.3%
Total	37,563	42,176	12.3%	100%

Core BPO
Businesses

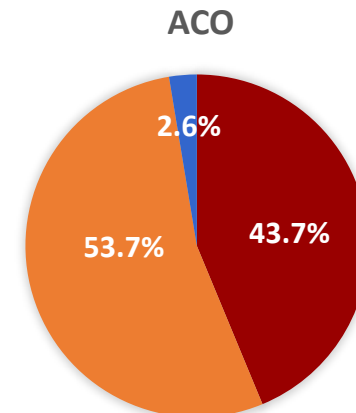
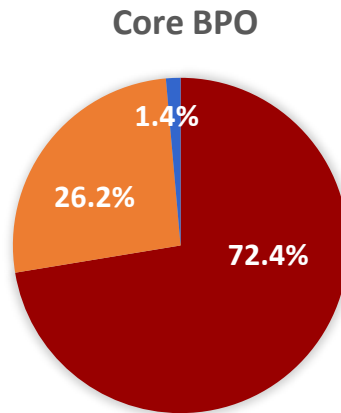
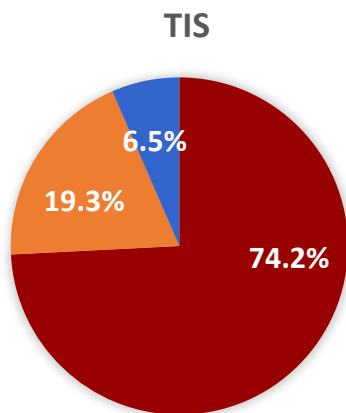
⁽¹⁾ Along with the business development of the Company and to enhance transparency, the former Distribution Business has been subdivided into Supply Chain and Products Distribution Businesses with effect from 1 Jan 2016. Corresponding historical figures have also been segregated for comparative purpose.

Business Revenue Breakdown – By Customer



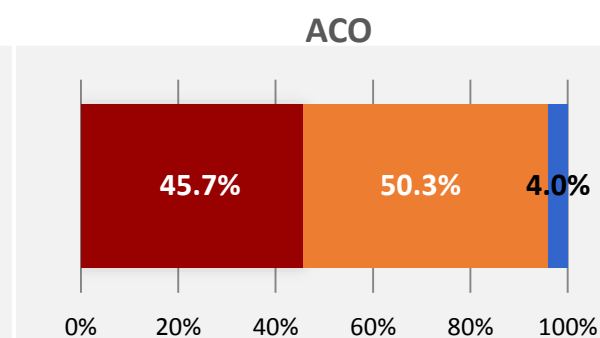
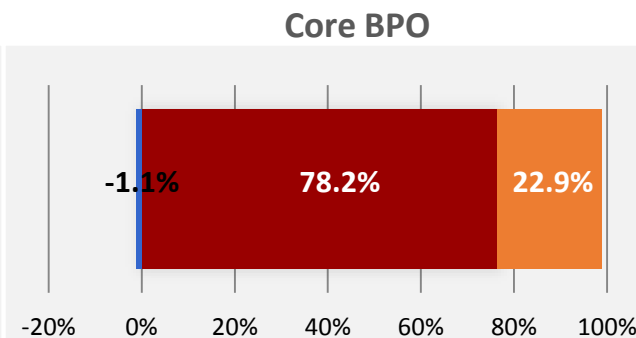
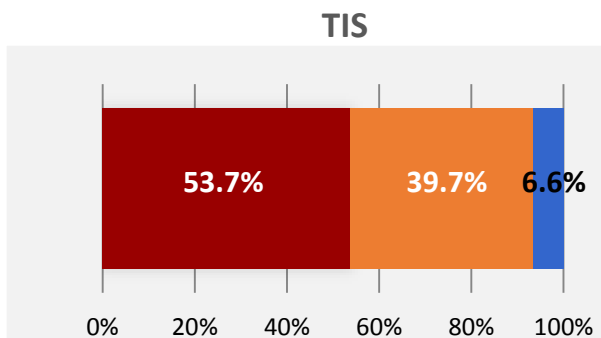
Diversification in customer and our adaptive resources allocation supported rapid growth of our various businesses

Business Revenue Breakdown in 1H2016



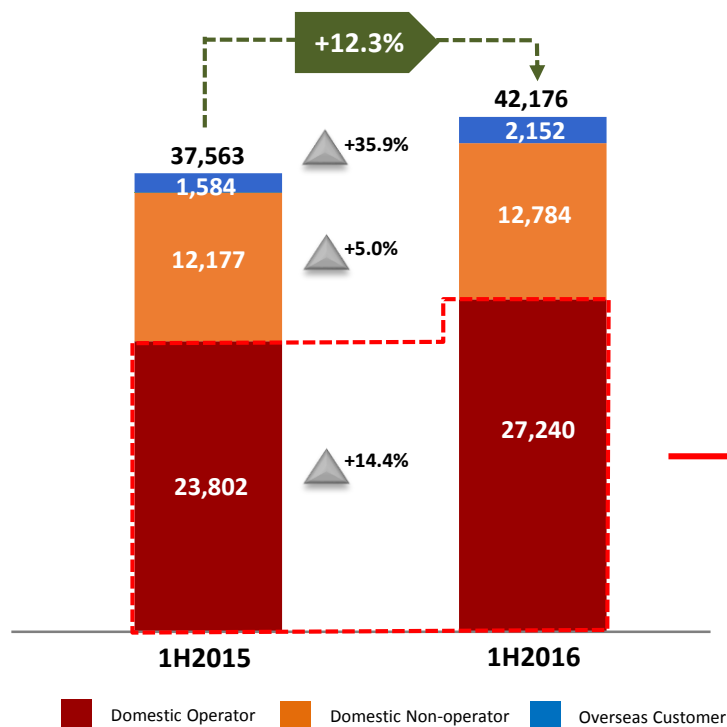
Source of Incremental Revenue in 1H2016

Domestic Operator Domestic Non-operator Overseas Customer



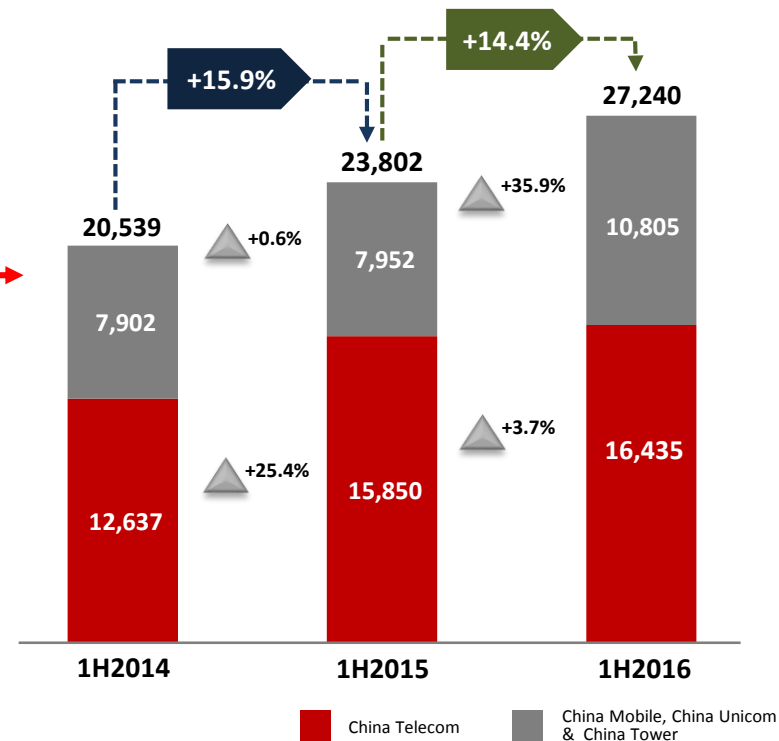
Revenue Growth by Three Customer Groups

(RMB'M)



Revenue Growth of Domestic Operators

(RMB'M)



Revenue Mix by Customer

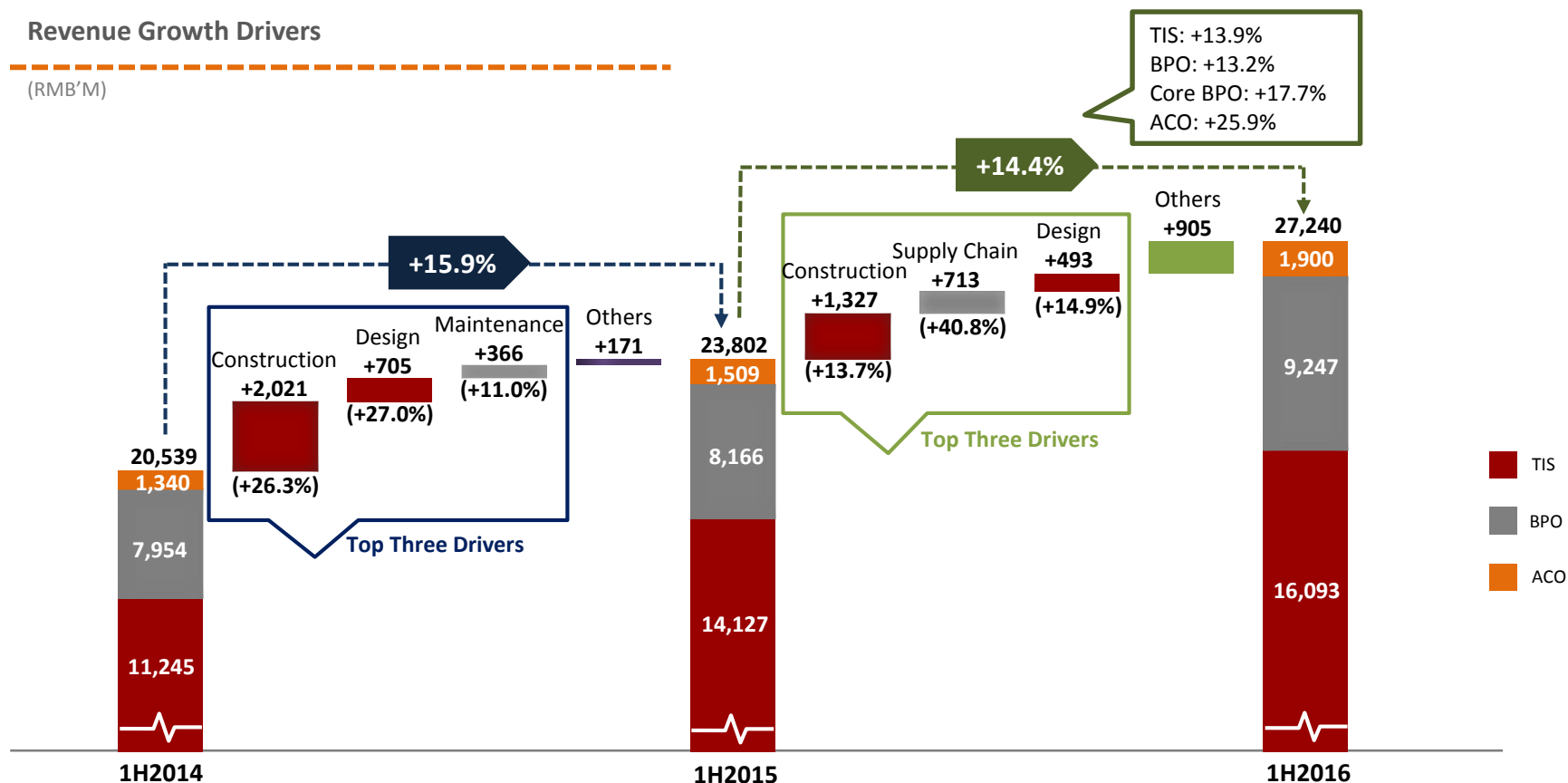
	China Telecom	China Mobile, China Unicom, China Tower	Domestic Non-operator	Overseas Customer	Total
1H2016	39.0%	25.6%	30.3%	5.1%	100%
1H2015	42.2%	21.2%	32.4%	4.2%	100%



Aggregate revenues from China Mobile, China Unicom and China Tower grew substantially and became the major revenue growth drivers

Revenue Growth Drivers

(RMB'M)



Effectively mitigated the impact of domestic operators' CAPEX change on our overall development

- ◆ Successfully expanded into markets other than China Telecom and drove favourable growth in TIS businesses. Construction and design services achieved rapid growth
- ◆ Continuously developed OPEX-driven businesses and expanded revenue sources, revenues of maintenance and supply chain businesses grew 10.8% and 40.8%, respectively

Further Expand into CAPEX-driven Market Develop OPEX-driven Market with Innovation

On Customer Base

- ◆ Strive to expand our market share, and further develop businesses with China Mobile and closely monitor the opportunities from the co-operation of China Unicom and China Telecom
- ◆ Focus on centralized maintenance business of China Tower and strengthen development of integrated infrastructure and maintenance service provision

On Business Scope

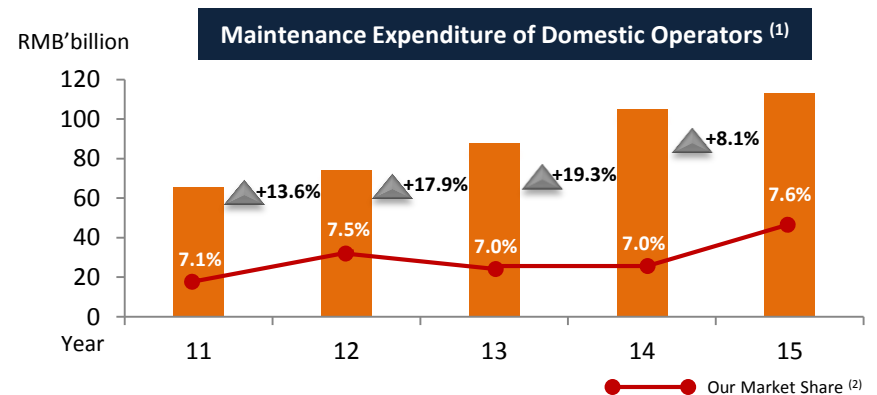
- ◆ CAPEX: further explore opportunities in 4G and fiber broadband network construction and support transformation and upgrade of domestic operators
- ◆ OPEX: innovate mechanisms for undertaking integrated maintenance business, push ahead synergistic operation for distribution business and scale development for logistic business

On Regional Presence

- ◆ Innovate synergistic mechanism, facilitate coordination and capability replication between southern and northern provinces
- ◆ Inner Mongolian subsidiary in operation, strive to explore new opportunities in northern China

Growing OPEX Expenses Offer Large Market Space

(Maintenance, Sales Agent, Supply Chain, Facilities Management, etc)



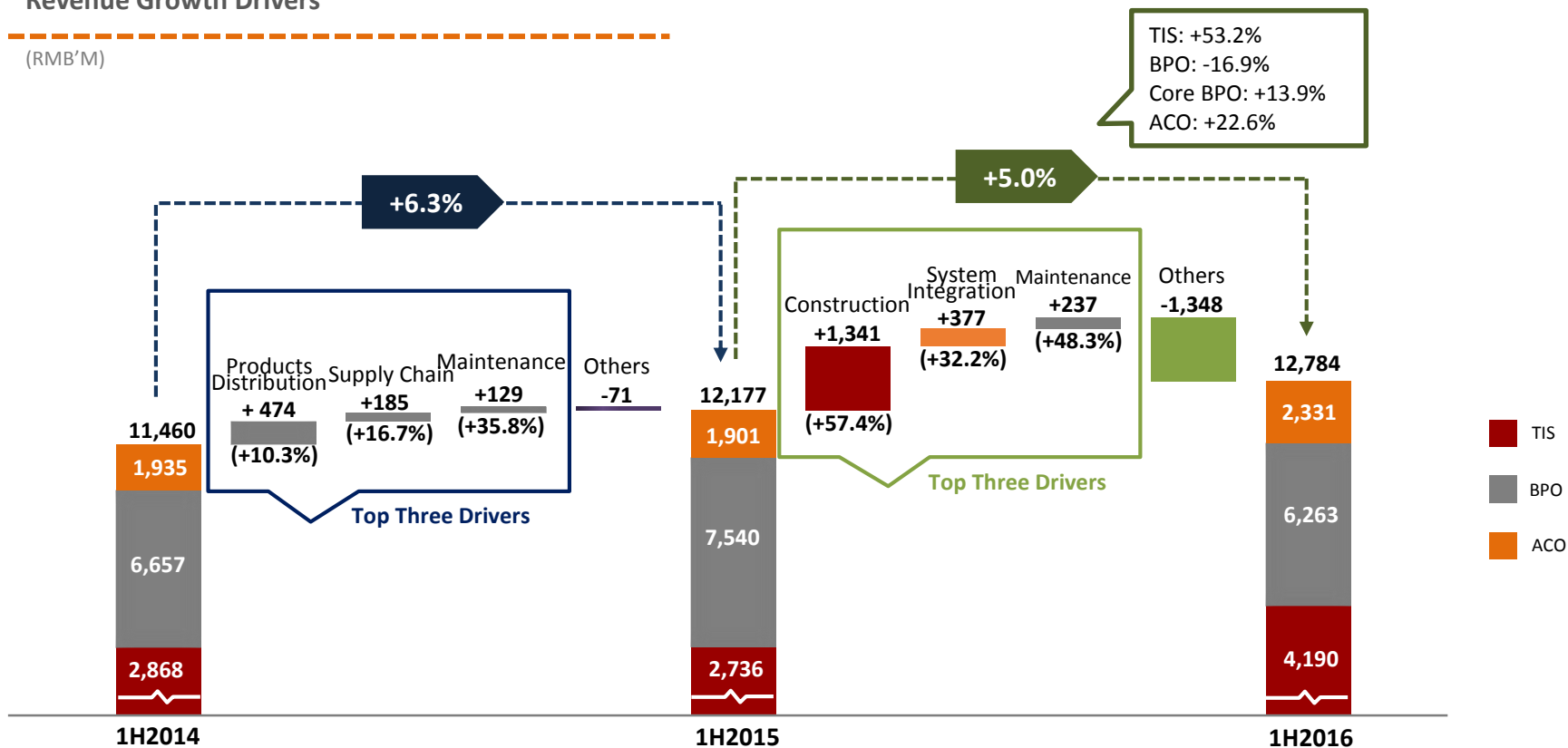
(1) Source: Annual reports of domestic operators

(2) Market share is calculated from our maintenance revenue / maintenance expenditure of domestic operators

Performance in Domestic Non-operator Market

Revenue Growth Drivers

(RMB'M)



- Achieved remarkable result in market expansion, revenue from core businesses⁽¹⁾ up 31.4% YoY
- Proactively controlled the growth of lower value business with revenue structure further optimized
- Seized the opportunities from information economy and vigorously developed businesses

- ◆ IDC Data Centre Turnkey Project for a Chinese IT company
- ◆ 2016 Tangshan EXPO Informatization Turnkey Project
- ◆ Highway Informatization System in Hunan Province
- ◆ Operation Management Centre Project for Tongling Smart City Project in Anhui Province
- ◆ HD Video Surveillance System Expansion Project for a government agency in Tianjin
- ◆ Pipeline Relocation Projects for Shenzhen, Shanghai and Kunming Subway

Focus on Key Industries for Scale Development

National Policies

13th Five-Year Plan brings enormous opportunities for the development of the informatization sector

- ◆ In areas of transportation, Smart City, Data Centre, Utility Tunnel System and power network reconstruction. E.g. Investment in power distribution network between 2015-2020 > RMB2 trillion⁽¹⁾

State Council issued the “Outline of National IT Development Strategy” to strengthen Information Technology Development

- ◆ Information consumption will reach RMB6 trillion by 2020, and reach RMB12 trillion by 2025⁽¹⁾

Company Tactics

Leverage our Expertise and Capacity in Serving Telecom Operators/Sector

Focus on Key Industries

- ◆ Government ◆ Electricity ◆ Transportation
- ◆ Information Security ◆ Construction & Property
- ◆ Finance ◆ Internet ◆ Information Technology
- ◆ Utility Tunnel System ...

Strengthen Cross-sector Collaboration

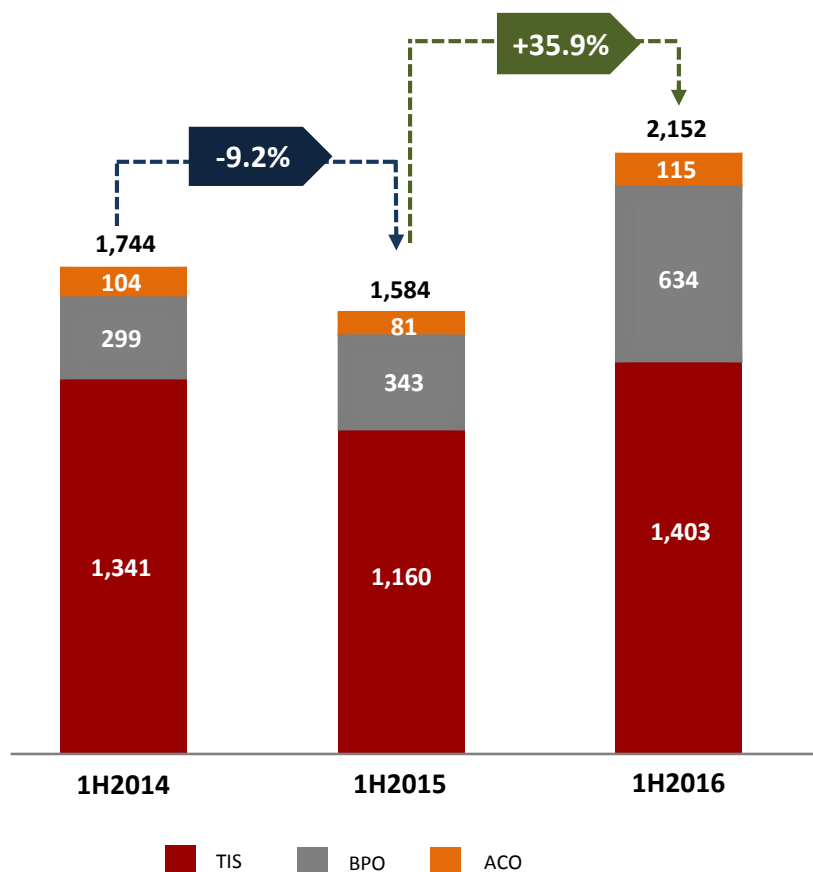
Promote Key Products

- ◆ Smart City ◆ Intelligent Building
- ◆ Smart Security ◆ Smart Industrial Park
- ◆ E-certification ◆ Cloud Computing
- ◆ Information Security

Intensify Innovative Financing

Revenue from Overseas Market

(RMB'M)



Focused on key projects development, overseas business resumed growth

Optimized organization structure for our overseas business development to expedite projects implementation and enhance risk management

Steadily pushed forward our "China-Africa Partnership Program in Trans Africa Information Superhighway" Project and received strong support and recognition from governments and companies in the industrial chain



Target Key Projects and Pursue Breakthroughs in Scale Development

Huge Market Opportunities

- ◆ National “Belt and Road” Initiative
- ◆ “10 Major Plans” of Sino-African Co-operation
- ◆ “China-Africa Partnership Program in Trans Africa Information Superhighway” Project (“China-Africa Project”)
- ◆ Multiple Sources of Financing: Asia Infrastructure Investment Bank, Silk Road Fund and national policy banks

Evolution of our Overseas Business Development

...Y2014

Focus on three regional markets including Africa, the Middle East and South East Asia, with continuous effort in optimizing business structure

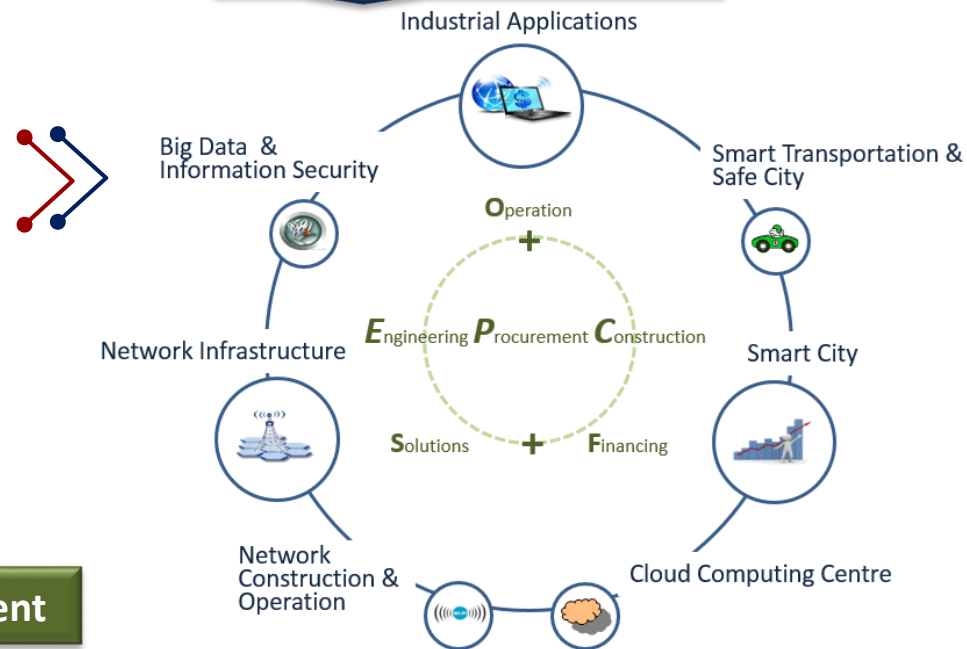
Y2015

Initiated the “China-Africa Project” and successfully facilitated the signing of MOU by five Eastern African countries with the project marked as 2016 key project by the relevant ministry of China

Y2016








Fully commence resources integration and optimize organizational structure; push forward the “China-Africa Project” in Eastern Africa, and closely follow projects’ feasibility, negotiation, execution, ...

Our Integrated Services



Optimize Structure, Sustain Growth, Enhance Value



-  Strengthen dual growth drivers and further explore new opportunities in **Domestic Operator Market**
-  Focus on key industries for scale development in **Domestic Non-operator Market**
-  Target key projects and pursue breakthroughs in scale development in **Overseas Market**
-  Strengthen **businesses coordination and integration**, and realize professional operation
-  Push ahead **deepened reforms** and pursue breakthroughs in operational mechanisms, business model and incentive scheme
-  Reinforce **fundamental management** to enhance the standard of human resources management, financial management and risk management
-  Strive for **quality improvement and efficiency enhancement** and continued to improve operational indicators including profit, cash flow and AR turnover days, etc.



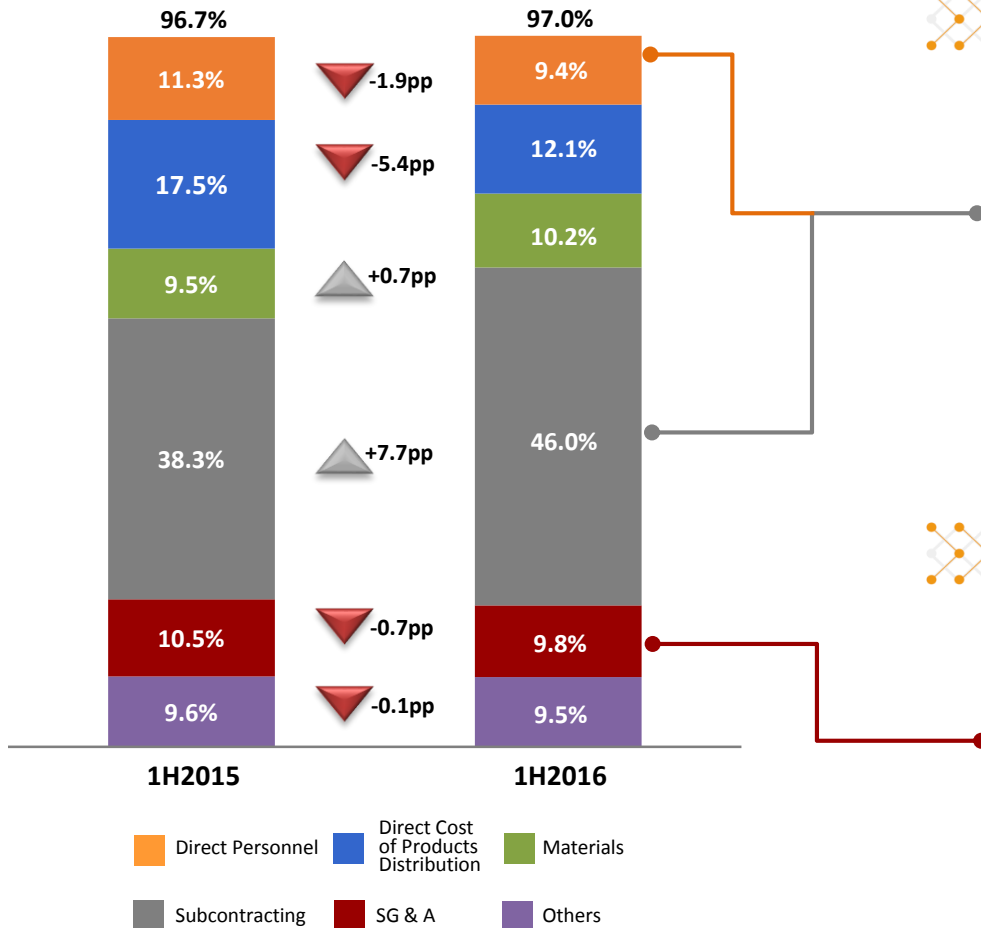
Financial Results

(RMB'M)	1H2015	1H2016	Change	% of Revenue
Revenue	37,563	42,176	12.3%	100%
Cost of Revenue	32,387	36,784	13.6%	87.2%
Direct Personnel	4,237	3,952	-6.7%	9.4%
Materials ⁽¹⁾	3,569	4,279	19.9%	10.2%
Direct Cost of Products Distribution ⁽¹⁾	6,566	5,114	-22.1%	12.1%
Subcontracting	14,377	19,413	35.0%	46.0%
D & A	222	223	0.4%	0.5%
Others	3,416	3,803	11.3%	9.0%
Gross Profit	5,176	5,392	4.2%	12.8%
SG&A	3,930	4,137	5.3%	9.8%
Net Profit	1,271	1,386	9.1%	3.3%
EPS (RMB)	0.184	0.200	9.1%	-

⁽¹⁾ Due to the change in revenue classification in 2016, the former Cost of Purchase of Materials and Telecommunications Products is sub-divided into Materials Cost and Direct Cost of Products Distribution with effect from 1 Jan 2016. Corresponding historical figures have also been segregated for comparative purpose.

Cost as a % of Revenue

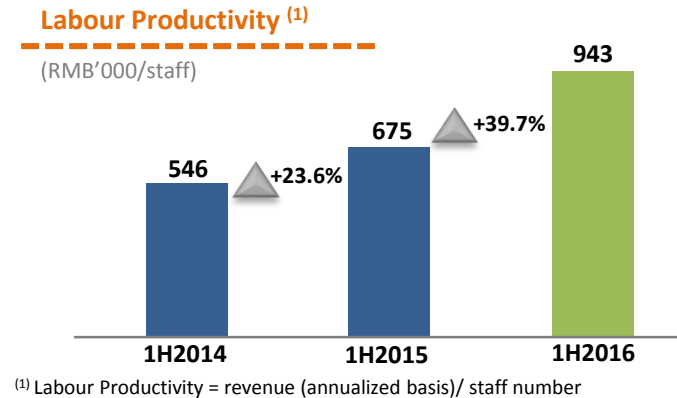
(%)



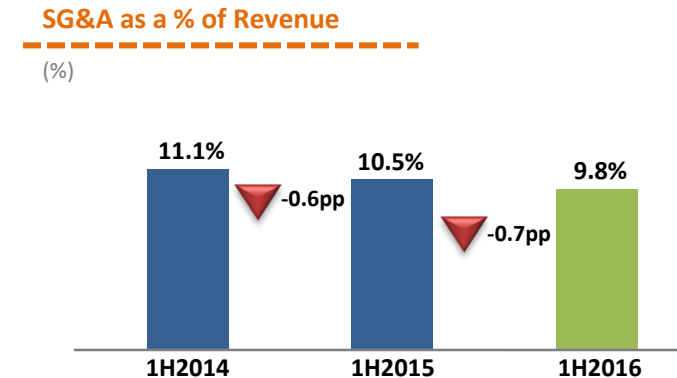
By proactively controlling the products distribution business, the direct cost of products distribution declined by 5.4pp YoY



By utilizing subcontracting resources, direct personnel cost and headcount were under control, and labour productivity increased continuously



Strengthened cost control, and SG&A as a % of revenue decreased over years



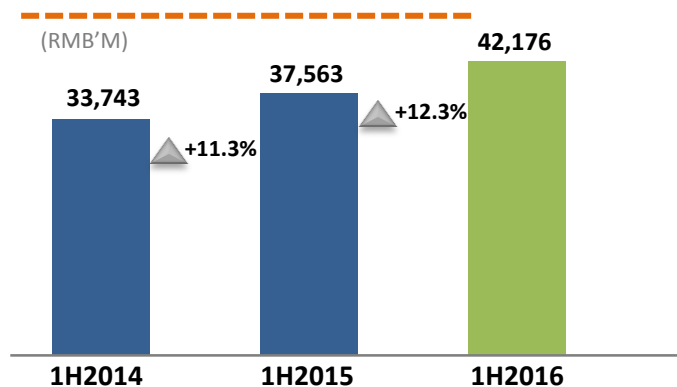


Revenue and net profit growth accelerated, and net profit margin remained relatively stable

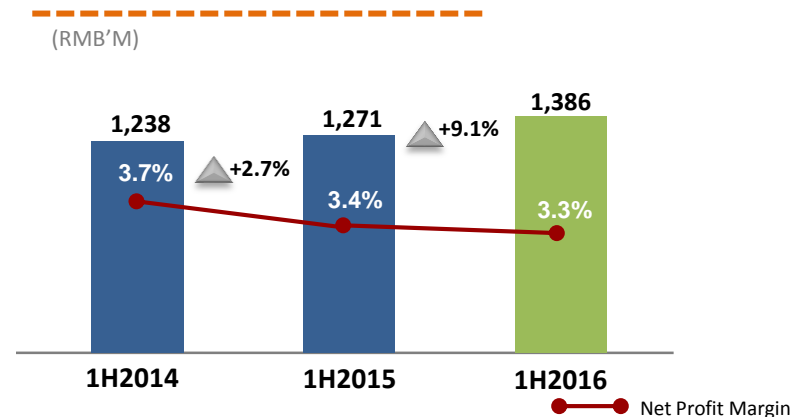


Cash conversion ratio further improved, leading to rapid increase in operating cash flow

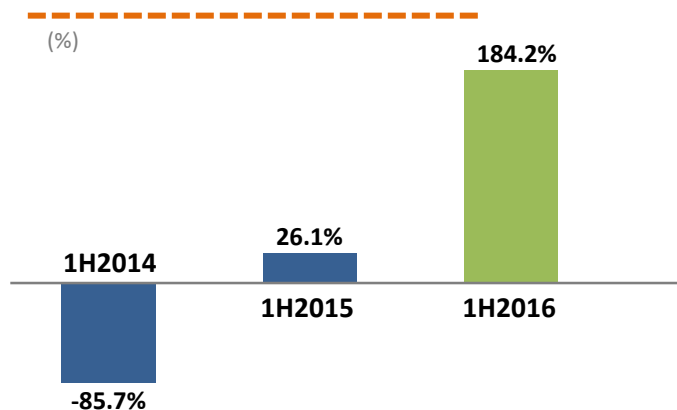
Revenue



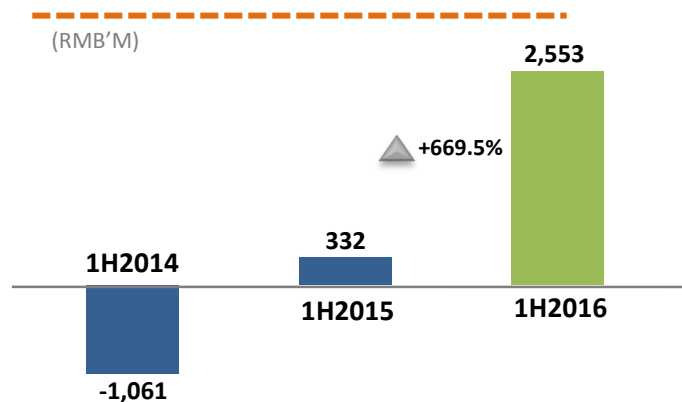
Net Profit



Cash Conversion Ratio ⁽¹⁾



Net Cash Inflow from Operation

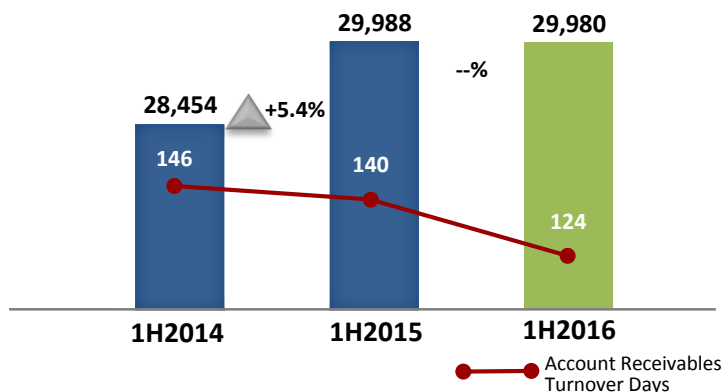


Account receivables turnover days was further shortened, effective working capital management driving cash flow improvement

Free cash flow continued to increase significantly, reaching a historical high

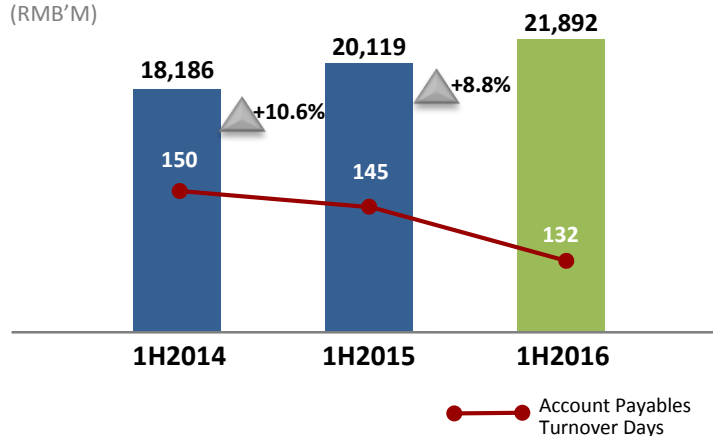
Account Receivables

(RMB'M)



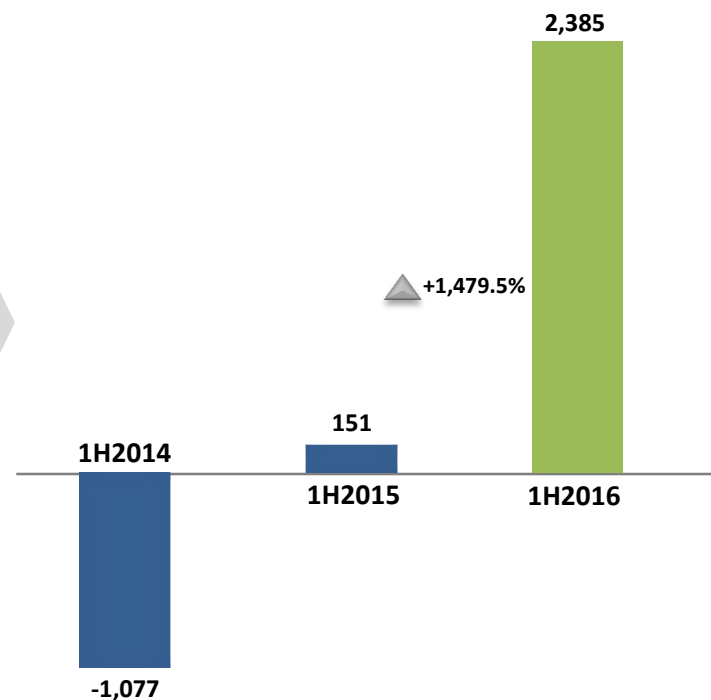
Account Payables

(RMB'M)



Free Cash Flow

(RMB'M)



Solid Financial Position



Maintained at low debt level and net cash position for years



Robust financial position gives us the financial flexibility to grasp new business opportunities

(RMB'M)

	31.12.2015	30.06.2016
Total Assets	57,913	61,281
Cash and cash equivalents	9,536	11,486
Account receivables	27,521	29,980
Fixed assets (NBV)	4,332	4,168
Total Liabilities	32,704	35,452
Interest-bearing liabilities	861	741
Account payables	19,699	21,892
Equity Attributable to Equity Shareholders	24,761	25,375
Total Liabilities / Total Assets (%)	56.5%	57.9%
Debt-to-Capitalization Ratio (%)	3.4%	2.8%



Thank You!

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