

## CHAIRMAN'S STATEMENT

In 2017, the Group adhered to the principal philosophy of “value-driven, seeking steady yet progressive growth and efficient development”, captured the digitalization demand of the society and industries, focused on cultivating smart-series products, promoted integration of our professional services and strengthened synergistic operation internally. Externally, we explored cooperation in wider aspects to broaden industry ecosystems. Therefore, we achieved favourable operating results and development quality steadily improved.

**Zhang Zhiyong**  
Chairman



## CHAIRMAN'S STATEMENT

Dear Shareholders,

I am very glad to present the annual results of the Group. I have worked in the Company since 2006, when it was established and listed, till 2010 and have witnessed the important process from the establishment of the Group to its sustained growth and expansion. I am delighted to return to the Company. In the past 11 years, the Group adhered to its responsibilities of creating value for our shareholders, employees and the society, pushed forward the innovation and transformation and deepened the reform and development. As a result, the Group's revenue scale continued to enlarge, business and customer structure was further optimized, branding and products were further enhanced, and market competitiveness and social influence have been largely improved. Looking forward, the Group will strive to become the "leading provider of producer services in the informatization sector", and be committed to further supporting national "Cyberpower" strategy and serving better lives, with a view to growing the Company into a top-tier enterprise and promoting its high-quality development.

In 2017, facing a complicated economic environment, the Group adhered to its principal philosophy of "value-driven, seeking steady yet progressive growth and efficient development" and adapted to the development trend. Internally, we strove to promote integration of our professional businesses, strengthen synergistic operation and improve the ability to respond to market changes. Externally, we explored cooperation in wider aspects to broaden industry ecosystems, armed ourselves with the philosophy of supply-side reform in promoting development, thereby achieving favourable operating results, sustaining optimization of business and customer structure and steadily improving quality of development of the Company. In view of this, the Board continued to propose a special dividend for 2017 to enhance shareholders' return.

## OPERATING PERFORMANCE

In 2017, the Group gradually transformed its growth momentum from CAPEX<sup>1</sup>-driven businesses by the domestic telecommunications operators to both the domestic non-telecom operator market and OPEX<sup>1</sup>-driven businesses by domestic telecommunications operators, and also from business driven by traditional infrastructure construction to business driven by integrated services and smart-typed products. Amidst the continued control on its products distribution business with low efficiency and the adverse factors such as overall decline in network construction investment in the domestic telecommunications industry and intensified competition, the Company still achieved steady growth, with the total revenues of RMB94,572 million, representing a year-on-year increase of 6.9% and profit attributable to the shareholders of the Company of RMB2,714 million, representing a year-on-year increase of 7.0%. The Company's free cash flow<sup>2</sup> hit a record high at RMB6,118 million, representing a year-on-year increase of 40.3%. The favourable operating results and free cash flow have showcased robust development quality of the Group. With the transformation of the Company's growth momentum and gradual formation of its internal and external ecosystems, the Group's substantial development potential has been further demonstrated.

## DIVIDEND

The Board has proposed to distribute a final dividend of RMB0.1176 per share for the financial year ended 31 December 2017, representing a dividend payout ratio of 30%. Moreover, in view of the Group's outstanding operating results and free cash flow for the year, the Board has proposed to distribute a special dividend of RMB0.0235 per share for 2017. Taking into consideration of the above factors, the Company's total dividend for 2017 is RMB0.1411 per share, representing a total dividend payout ratio of 36%.

<sup>1</sup> CAPEX and OPEX refer to the capital expenditure and operating expenditure of domestic telecommunications operators, respectively.

<sup>2</sup> Free cash flow = Profit for the year + Depreciation and amortisation – Changes in working capital – Capital expenditure

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### MARKET EXPANSION

In 2017, the Group captured the opportunities for its transformation and upgrade to expand external collaboration and accelerate the construction of the ecosystem and the series of our smart-typed products. On the basis of satisfying the informatization needs of domestic non-telecom operator customers such as government and enterprises, the Group created new demands, explored new models and created new momentum for growth. In 2017, the long-existing development pattern of the Group had been changed from being driven by domestic telecommunications operator customers to being driven by the domestic non-telecom operator market, and domestic non-telecom operator market became the largest contributor to the Group's incremental revenue, with its revenue increased rapidly by 12.4% as compared with the same period of the previous year<sup>3</sup>, accounting for 28.2% of the Group's total revenues, representing an increase of 1.4 percentage points as compared with the same period of the previous year. Excluding the products distribution business in such market, the revenue from its Core Businesses<sup>4</sup> increased by 26.5% year-on-year, accounting for more than 80% of the revenue from that market, with the gross profit margin maintaining a stable-to-rising trend. At the same time, driven by smart-typed core products such as Smart City, the Group's domestic non-telecom operator market development continued to accelerate, with the newly-signed service contract value exceeding RMB30 billion, which has not only effectively enhanced the Group's branding and business value in the industry, but also demonstrated sound achievements in its innovation and transformation.

In 2017, leveraging its strengths in the integrated "construction & maintenance" and high-quality services, the Group supported its customers in constructing intelligent supreme network and seized the opportunities arising from the network construction and upgrade as well as the upgrade of fiber optic broadband networks by the domestic telecommunications operators, and the construction demand from China Tower. We persisted in prioritizing service quality, capitalized on the new centralized procurement trend of customers and maintained a favourable relationship with them, thereby consistently expanding our market share and effectively alleviating the impact of the decrease in the telecommunications operators' CAPEX on the development of the Company. Through diversified business development, the domestic telecommunications operator market continued to grow. During the year, the revenue from the domestic telecommunications operator market grew by 6.9% year-on-year, accounting for 68.8% of the Group's total revenues, which remained the same as compared with the same period of the previous year. The rapid growth in the revenues from China Tower and China Mobile drove the overall development of the domestic telecommunications operator market, and their aggregate incremental revenue accounted for more than 80% of the overall incremental revenue of that customer group.

Due to overseas projects' cyclical fluctuation and the Group's active control of certain overseas businesses with low efficiency, the Group's revenue from overseas market in 2017 decreased by 26.2% year-on-year, accounting for 3.0% of its total revenues. At the same time, the Group adjusted and optimized its overseas operational structure in a timely manner and new structures for marketing, management and technical support have been established. The large projects followed up by the Group in Cameroon, Ethiopia and Djibouti have also made progress.

<sup>3</sup> The revenue from domestic non-telecom operator customers increased by 3.4% year-on-year in 2016.

<sup>4</sup> Core Businesses include telecommunications infrastructure services, business process outsourcing services (excluding products distribution), as well as applications, content and other services.

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### BUSINESS DEVELOPMENT

In 2017, the Group consolidated its strengths and mended its weaknesses, resulting in its business structure further optimized. The Group continued to strengthen its telecommunications infrastructure ("TIS") services, and steadily increased its market share among the domestic telecommunications operators through establishing standards, reinforcing quality, setting benchmarks and enhancing its brand influence. On such basis, the Group actively expanded the domestic non-telecom operator market through replicating its capabilities to support the overall encouraging development of its TIS services, resulting in a year-on-year increase of 10.1% in revenue. The Group focused on the OPEX-driven business and continued to expand its business process outsourcing ("BPO") services. Through enhancing its brand name, improving capabilities and further promoting the synergistic operation of maintenance, facilities management and supply chain services, the Group has successfully transformed its growth momentum, with the revenue from its Core BPO services<sup>5</sup> achieving a rapid year-on-year growth of 17.0%, which is 6.3 percentage points higher than that for the previous year. Meanwhile, the Group optimized its applications, content and other ("ACO") services through unleashing its advantages for complement of differences and mutual interaction between ACO services and TIS services in integrated solutions. The Group incubated smart-typed products and cooperated with the external ecosystems in Big Data, Cloud Computing and the Internet of Things ("IoT"), resulting in building up the Company's new capabilities, new image and promoting its overall business development and market expansion, and revenue from ACO services increased by 12.7% year-on-year.

In 2017, the Group continued to proactively control products distribution business with low efficiency, resulting in the revenue from such business decreased significantly by 33.6% year-on-year, and its proportion in total revenues decreased to 7.3%. During the year, the Group's revenue from the TIS services, Core BPO services, ACO services accounted for 92.7% of its total revenues, representing a year-on-year increase of 4.5 percentage points, and a continuously optimized business structure.

### REFORM AND INNOVATION

In 2017, the Group focused on promoting development through continuously pushing forward the reform and innovation. The Group continuously improved its capabilities in professional operation and market expansion through internal synergistic integration and external collaboration. The Group improved its service delivery quality through holding the "Comservice Craftsmanship" competition and enhanced cross-region collaboration capabilities through the training camps for industry-leaders and talented staff in domestic non-telecom operator market. By taking the supply-side reform as the Group's guiding ideology, it attempted to make new breakthroughs in its business development pattern and cultivated smart-series products under the guidance of project-oriented R&D, product-oriented services and platform-oriented products. The Group strove to promote the integration of synergistic operation and established national supply chain logistics system which enhanced the competitive advantages of the Company. At the same time, leveraging on the strong financial position and the establishment of Comservice Capital Holding Company Limited (通服資本控股有限公司), the Group explored the integration of finance with industrial development as the new model to support its development, especially in the expansion of its domestic non-telecom operator business.

<sup>5</sup> Core BPO services include management of infrastructure for information technology (network maintenance), general facilities management and supply chain services.

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### CORPORATE GOVERNANCE

The Group has maintained its corporate governance at a high level and has long been recognized and rewarded by the capital market. In the voting for "The Asset Corporate Awards 2017" held by *The Asset*, an authoritative financial magazine, the Group was awarded the "Platinum Award – Excellence in Environmental, Social and Corporate Governance". In 2017 "13th Corporate Governance Asia Recognition Awards" held by *Corporate Governance Asia*, an authoritative journal on corporate governance in Asia, the Group was again granted the award of the "The Best of Asia – Icon on Corporate Governance". In addition, in the voting for 2017 "Golden Hong Kong Equities Awards", the Group was awarded the "Best Growth Value Listed Company" and the "Best Value TMT Company". In 2017, the Group ranked 79th in the "2017 FORTUNE China 500" published by *FORTUNE China*.

Mr. Si Fulong, the President of the Company, won the "Outstanding Contribution to Management Excellence in 2017" award granted by *International Finance Magazine*, a UK-based financial magazine, and the "Asian Corporate Director" awarded by *Corporate Governance Asia*. Ms. Hou Rui, Chief Financial Officer of the Company, won the "Best CFO" award granted by *Corporate Governance Asia*.

The Group has maintained close and effective communication with the capital market. The Company's overseas roadshow, which was held in November 2017, facilitated the understanding by the capital market of the Company's development and transformation. The Group won important awards held by *Corporate Governance Asia* and *IR Magazine* for its outstanding investor relations management.

### SOCIAL RESPONSIBILITIES

The Group has always emphasized on the fulfillment of its corporate social responsibilities and made great efforts in providing communications support for disaster relief and large-scale conferences.

In 2017, the Group dispatched a total of approximately 19,500 person-times and 7,200 vehicle-times, with a total of approximately 61,500 working hours and spared no effort to repair the communications lines damaged by Typhoon Merbok, Hato and Pakhar as well as earthquakes and flooding. It repaired an aggregate of more than 34,000 damages in the communications facilities throughout the year.

In 2017, the Group undertook the communications network construction and maintenance projects for the "2017 Global Future Network Development Summit", the "Ninth BRICS Summit" and the "Fourth World Internet Conference (Wuzhen Summit)" and successfully completed all its tasks. Through its ingenious support and services in the construction and maintenance of communications facilities for large-scale conventions and exhibitions in recent years, the Group has established its brand name, accumulated customer resources and received high praise and recognition from the governments.

### FUTURE OUTLOOK

In 2017, the Group achieved favourable results and stepped into a new level in its overall development by adhering to its principal philosophy of "value-driven, seeking steady yet progressive growth and efficient development". Looking forward, from the macro-economic perspective, China's economy has been transitioning from a phase of rapid growth to a stage of high-quality development. This is a pivotal stage for the transformation of growth model, improvement of economic structure, and the fostering of new drivers of growth. With the starting point of new economic cycle arriving, the digital economy will have a massive room for development and investment from industries will be dominating, and the digitalization needs for electricity, transportation, beautiful villages, utility tunnel system, logistics and information security will create a vast market. From the industrial trend perspective, the integration of information technology and traditional industries has become the new engine of the digital economy. New technologies such as Artificial Intelligence, Blockchain, Cloud Computing, Big Data, Smart Home, IoT and 5G will consecutively enter into periods of explosive development and bring us new business opportunities. Competition in platform ecosystems and online-offline integration have become the new trend in which the platform has become a new competition carrier of the three major elements, i.e. computing, data and industry. It is the key to the personalized and flexible application for the customers as well as scale and boundary breakthrough for the industries, which will bring new space and business ecosystems for the Group's accelerated development.

## CHAIRMAN'S STATEMENT

In response to changes in the internal and external environments, the Group will adhere to its overall roadmap of "value-driven, seeking steady yet progressive growth and high-quality development" in 2018, requiring itself with the standard as a top-tier enterprise, unleashing its accumulated experiences and strengths for many years in the field of new informatization services, insisting on product-oriented services and platform-oriented products. By targeting the digitalization and informatization transformation among the society and industries, the Group will continue to create a new value-sharing ecosystem that can satisfy the customers' needs while gathering industrial chain resources and improving service quality, assisting domestic telecommunications operators to build superior network for the country, fulfilling the intelligentization demand of domestic non-telecom operator customers, with a view to continuously creating new growth drivers for the Group's development. Focusing on the national "Belt and Road" Initiative, the Group will strengthen its cooperation with domestic telecommunications operators and the "Go Abroad" Chinese enterprises, accumulate and integrate resources, expedite the development of overseas turnkey projects, enhance its international operating capabilities, and make overseas market a new growth driver for the Group's business as early as possible. At the same time, the Group will accelerate the development of its financial segment, and capitalize on our financing ability and our traditional industrial resources to drive development. Facing the modern services industry, the Company will promote the industrial upgrading, so as to create greater value for its shareholders and customers with better development and more satisfactory performance.

Finally, on behalf of the Board, I would like to express my sincere gratitude to the shareholders, customers, and all sectors of society for their long-term concern and support as well as all our hard-working employees. On behalf of the Board, I would like to express my sincere gratitude to Mr. Sun Kangmin for his outstanding contribution to the development of the Group during his tenure as the Chairman and express my sincere welcome to Mr. Shao Guanglu for joining the Board.



**Zhang Zhiyong**

*Chairman*

Beijing, PRC  
27 March 2018