



## CHAIRMAN'S STATEMENT

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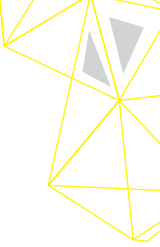


In 2018, the Group adhered to the overall roadmap of “value-driven, seeking steady yet progressive growth and high-quality development”, focused on the digitalization and intelligentization demand of the society and the industries, and accelerated transformation towards the direction of digital services. The Group deepened the internal and external collaboration and improved its business ecosystem. As a result, the Group continued to expand market and optimize customer and business structures, as well as achieving initial effects on innovation and transformation, consistently delivering promising operating performance and remarkably elevating enterprise value.



**Zhang Zhiyong**  
*Chairman*





Dear Shareholders,

Facing a complicated and volatile economic environment and ever-changing industrial trends in 2018, the Group adhered to the overall roadmap of “value-driven, seeking steady yet progressive growth and high-quality development” and adapted to the informatization development trend of “Cyberpower”, “Digital China” and “Smart Society”. Through deepening reform and innovation, strengthening technology-driven development, the Group started the voyage along the main development tracks and strove to forge the new brand of “Smart Comservice”, so as to accelerate the Company’s transformation towards the direction of digital services. During the year, with its growth drivers continuing to grow stronger, the Group continued to deliver promising operating performance and achieved a double-digit growth in total revenues, with which we leaped from a ten-billion enterprise to a hundred-billion enterprise. Profit of the Company maintained a steady growth with free cash flow<sup>1</sup> remaining healthy, customer and business structures continuously optimized and the enterprise value remarkably elevated.

## OPERATING PERFORMANCE

In 2018, the Group deepened the internal and external collaboration, improved its business ecosystem, and continued to transform growth drivers for its markets and businesses. During the year, driven by the domestic non-telecom operator market and the OPEX<sup>2</sup> business of the domestic telecommunications operators, the Group successfully overcame the adverse impacts such as the reduced investment in network construction, intensified market competition and declining value of the domestic telecommunications sector, with the overall operating performance remaining stable. The Group’s total revenues amounted to RMB106,177 million, representing a year-on-year increase of 12.3%, and profit attributable to the equity shareholders of the Company amounted to RMB2,901 million, representing a year-on-year increase of 6.9%. Free cash flow remained healthy at RMB3,613 million, which basically matched with the profit level. The favourable operating results and free cash flow level have laid a solid foundation for the Group’s high-quality development.

## DIVIDEND

The Board has proposed to distribute a final dividend of RMB0.1257 per share for the financial year ended 31 December 2018, representing a dividend payout ratio of 30%. Moreover, in view of the Group’s outstanding operating results and free cash flow level for the year, the Board has proposed to distribute a special dividend of RMB0.0251 per share for 2018. Taking into consideration of the above factors, the Company’s total dividend for 2018 is RMB0.1508 per share, representing a total dividend payout ratio of 36%.

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

<sup>2</sup> OPEX refers to the operating expenditure of domestic telecommunications operators.

## MARKET EXPANSION

In 2018, the Group pinpointed the main development tracks for the domestic non-telecom operator market, the domestic telecommunications operator market and the overseas market, with its market expansion continuing to make progress and its customer structure constantly optimized with satisfactory results. Among that, the domestic non-telecom operator market was an important driving force for the growth of the Group, and its revenue continued to remain a rapid double-digit growth. The domestic telecommunications operator market remained stable and its revenue achieved a high single-digit growth. The overseas market stabilized and recovered with breakthroughs achieved in large-scale projects, and its revenue achieved a double-digit growth. With its in-depth penetration in the domestic non-telecom operator market and effective extension to the overseas market, the Group's customer structure is further diversified.

In 2018, by focusing on the digitalization and intelligentization demand of the society and the industries, the Group continuously satisfied the needs of its customers such as government and enterprises through leveraging on its edges in informatization sector, and the number of partners in domestic non-telecom operator market steadily increased with the business scope continuing to expand. During the year, the revenue from such market increased by 25.0% year-on-year, representing a much higher growth rate as compared with the same period of last year<sup>3</sup>. The revenue from such market accounted for 31.4% of the total revenues, representing an increase of 3.2 percentage points compared with the same period of last year. The revenue from the Core Businesses<sup>4</sup> in such market increased by 33.9% as compared with the corresponding period of last year, accounting for 89.1% of the revenues from this market. Meanwhile, the Group increased its investment in research and development, released and kept optimizing the Smart Society Product Portfolio, and strove to build a "Smart Service Industrial Ecosystem Alliance", as a result of which the brand image of "Smart Comservice" and industrial influence have been effectively improved, with our image as an industry expert gradually taking shape. In 2018, the value of the new contracts from domestic non-telecom operator market secured by the Group exceeded RMB40 billion, maintaining a good development momentum.

In 2018, the Group successfully overcame the impact of the decline in the CAPEX<sup>5</sup> of the domestic telecommunications operators on its development, and the development of such market remained stable. During the year, the revenue from such market increased by 7.1% year-on-year, accounting for 65.7% of the total revenues, slightly decreased as compared with the same period of last year. The Group actively adapted to the ecosystem of the domestic telecommunications operators, and kept abreast of the development trend of 5G and Internet of Things ("IoT") to support the transformation and upgrade of the domestic telecommunications operators. While ensuring the stability of the CAPEX business from the domestic telecommunications operators, the Group vigorously developed the OPEX business, which became an important driver for the stable growth of the domestic telecommunications operator market. At the same time, the Group fully leveraged the differentiated advantages of its integrated services and smart applications, strengthened the cooperation in the emerging areas such as Smart Family, Cloud Computing and Big Data to promote the rapid growth of relevant businesses.

In 2018, the Group's revenue from the overseas market stabilized and recovered, representing a year-on-year increase of 11.2%, accounting for 2.9% of the total revenues. The Group actively explored the transformation and upgrade of its overseas businesses while strengthening the coordination of the domestic and overseas market, as well as establishing a foundation for overseas products, so as to promote the external expansion of its mature domestic products and businesses. In the meantime, we strengthened the development of customers from overseas governments and enterprises, optimized the overseas customer structure continuously, and focused on expansion of large-scale overseas projects, with key projects such as Digital Mali, ITC National Broadband Network Project in Saudi Arabia, and Nepal 4G Project continuing to be successfully launched, which supported the overseas market to make a breakthrough.

<sup>3</sup> In 2017, the Group's revenue from the domestic non-telecom operator market reported a year-on-year growth rate of 12.4%.

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

<sup>5</sup> CAPEX refers to the capital expenditure of domestic telecommunications operators.

## BUSINESS DEVELOPMENT

In 2018, while actively exploring and building a business ecosystem that is able to satisfy the market needs, the Group leveraged on its planning and consultation together with its smart products, and effectively enhanced the capabilities for integrated service and managing sizable turnkey projects, with business structure being continuously optimized. The Group persisted in strengthening its telecommunications infrastructure ("TIS") services and enhancing its overall delivery capabilities. Through establishing industry standards and giving full play to the leading role of its consultation and planning services, the Group transferred its competitive industrial capacity to the domestic non-telecom operator market while fully exploiting the potential of the domestic telecommunications operator market, resulting in the stable revenue growth with a year-on-year growth of 13.6%. The Group vigorously expanded its business process outsourcing ("BPO") services, and strove to improve customer loyalty and develop sustainable and recurrent businesses such as network maintenance, supply chain and general facilities management through synergistic operation, unified platforms, network-wide collaboration and standard exports, while extending to high-end value and other businesses of the customers. Revenue from the Core BPO services<sup>6</sup> increased by 17.1% year-on-year. The Group accelerated the cultivation of smart products and their iterative upgrades and promoted the launching of smart applications by leveraging the complementary advantages of the applications, content and other ("ACO") services with services such as the TIS services, and promoted the overall business development of the Company through internal collaboration and external ecological cooperation. The revenue from the ACO services achieved a rapid year-on-year growth of 21.4%, accounting for 12.9% of the total revenues, with the proportion continuously increased for three consecutive years.

The Group continued to control its products distribution business of low gross profit. Revenue from such business decreased by 29.8% year-on-year, accounting for 4.6% of the total revenues. During the year, the Group's revenue from Core Businesses accounted for 95.4% of its total revenues, representing a year-on-year increase of 2.7 percentage points. The enhancement of capabilities for integrated service and managing sizable turnkey projects, and the continuous optimization of the Group's business structure have laid a solid foundation for the Group's continuously deepening transformation, further penetration into the needs of industries and integration with the informatization of the society.

## INNOVATION AND TRANSFORMATION

In 2018, the Group continued to deepen its reform and innovation and promoted its system and mechanism optimization. We enhanced the construction of "One CCS" while giving full play to the synergy and economics of scale within the whole Group. We expedited the development of our strengths, promoted cross-province and cross-profession internal collaboration, built up integrated service capabilities and optimized resource allocation, so as to achieve the matching of our businesses and capabilities with the market demand and enhance our competitiveness. We constantly strengthened our ecological cooperation, and our list of partners continued to grow, including the Chinese Academy of Sciences and numerous innovative technology enterprises. We have effectively expanded our business scope to cover provincial, municipal and county governments, and our businesses covered various fields such as transportation, water conservancy and government services. We persisted in the way of product-oriented services and platform-oriented products, resulting in continuous improvement in the foundation platforms such as CCSYUN (our cloud service), Open IoT Platform and the Big Smart City IT Structure, with new products such as Smart Justice and Smart Procuratorial Services kept emerging. We promoted the integration of financial solutions with industrial development, and made use of Comservice Capital Holding Company Limited, a subsidiary of the Group, as the carrier to support the new business deployment and development model for the Company. Meanwhile, in August 2018, the Company has been included in the list of State-owned Enterprise Reform "Double-hundred Action" by the State-owned Assets Supervision and Administration Commission of the State Council, and is making steady progress in the formulation of relevant proposals and working on the related tasks.

<sup>6</sup> Core BPO services include management of infrastructure for information technology (network maintenance), general facilities management and supply chain services.

## CORPORATE GOVERNANCE

The Group has maintained its corporate governance at a high level, ensuring regulated operation, effective management, complete and transparent information disclosure of the Company so as to maximize the interests of its shareholders, which has been widely recognized by the capital market.

In the voting for "The Asset Corporate Awards 2018" held by *The Asset*, an authoritative financial magazine, the Company was awarded the highest honour, i.e. the "Platinum Award – Excellence in Environmental, Social and Corporate Governance" for three consecutive years, and won the "Best Investor Relations Team Award" for the first time. In 2018 "14th Corporate Governance Asia Recognition Awards" held by *Corporate Governance Asia*, an authoritative journal on corporate governance in Asia, the Company was again granted the "The Best of Asia – Icon on Corporate Governance" and "Asian Corporate Director".

The Group ranked 81st in the "2018 FORTUNE China 500" published by *FORTUNE China*. The Group ranked 6th in "China's Top 100 Software Enterprises 2018". In the voting for the Leading Enterprises for Information Technology Industry in 2019, the Company was awarded the title of "Leading Enterprises". In the 2018 "Golden Hong Kong Equities Awards", the Company was awarded the "Golden Hong Kong Equities Grand Award" and the "Best Value TMT Company".

## SOCIAL RESPONSIBILITIES

The Group has always emphasized on the fulfilment of its social responsibilities and made due contributions in poverty alleviation, natural disaster relief and communication support. In 2018, the Group carried out its poverty alleviation missions in regions such as Xinjiang, Sichuan and Tibet in respect of employment, training, industry and public welfare, which has improved the conditions of communication, employment and living of the local people, and received wide recognition. In 2018, the Group dispatched more than 10,000 person-times and 6,000 vehicle-times to repair the communications network damaged by Typhoon Ewinar, Mangkhut and Maria as well as the heavy rainstorms, ensuring that the network communication in the disaster-stricken areas were restored in the first instance. We repaired more than 10,000 communication failures throughout the year and actively participated in post-disaster epidemic prevention and disinfection and environmental cleaning. The Group undertook the communications network construction and maintenance projects for "Boao Forum for Asia Annual Conference 2018", "Shanghai Cooperation Organization Qingdao Summit", the "Fifth World Internet Conference (Wuzhen Summit)", "China International Import Expo" and the "Hong Kong-Zhuhai-Macao Bridge", during which the Group successfully completed all its tasks and received wide recognition from the government authorities and customers, thus building up an excellent brand image in the industry.

## FUTURE OUTLOOK

In 2018, the Group adhered to the overall roadmap of "value-driven, seeking steady yet progressive growth and high-quality development" while clearly pinpointed the main development tracks and actively transformed growth momentum. The Group's innovation and transformation efforts has shown initial effects and the Group successfully leaped from a ten-billion enterprise to a hundred-billion enterprise, and now heads into a new stage of high-quality development. Although the Group is now facing a complex and volatile domestic and global environment with new challenges, our transformation and development is now at the precious moment that is full of strategic opportunities. From the macro perspective, China's economy has shifted from high-speed growth to high-quality development, with supply-side structural reform further advanced, and expansion and upgrade of industry structure and consumption accelerated. From the perspective of the industry, the new generation of information technology has been deeply integrated with traditional industries and social governance, and Digital Economy has become the core engine of economic development, creating huge market for the development of government services, electricity, transportation, etc. From the perspective of industrial value, 5G and the IoT will change the business model and operation model of the industry, while smart applications and foundation platforms will become high-value hotspots and business-end market will become the key area for competition with the industrial boundaries broken up, thus bringing us new business opportunities.

In 2019, we will adhere to our overall roadmap, draw a new development blueprint based on our main development tracks, and accelerate the deployment of our ecological platforms. In the domestic non-telecom operator market, we will seize the rare window of opportunity arising from the development of “Digital China” and “New Smart City”, focus on the key industries, integrate internal and external resources while accelerating market penetration. We will continue to invest on research and development and optimize our integrated solutions for smart products and industries, thus realizing a rapid deployment of ecological platforms for markets and industries. In the domestic telecommunications operator market, we will keep abreast of the 5G development, transformation and upgrade of domestic telecommunications operators, fully exploit the traditional CAPEX and OPEX businesses, expand to emerging businesses such as smart applications and smart services, and explore new cooperation mechanisms at the ecological level to promote sustainable business growth. In the overseas market, we will seize the opportunities arising from the “Belt and Road” Initiative, strengthen collaboration between the domestic and overseas markets and cooperation with external partners, focus on the demand for overseas network infrastructure construction and digital service, with a view to accelerating project expansion. Meanwhile, we will take full advantage of the opportunities arising from the State-owned Enterprise Reform, actively push ahead the “Double-hundred Action” to promote transformation and development and further improve our corporate governance. We will promote efficient allocation of resources, bolster the propelling force of high-technology and high-intelligence innovation, enhance the cultivation of our talent teams, and build an open and synergistic organization to promote the Company’s high-quality development. We will enhance the Company’s vitality, capabilities and energy, with a view to creating greater value for our shareholders and customers.

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 care and support as well as our hard-working employees. On behalf of the Board, I would also like to express my sincere gratitude to Ms. Hou Rui, who resigned as an Executive Director, and Mr. Zhao Chunjun, who resigned as an Independent Non-executive Director, for their outstanding contribution to the development of the Group during their tenure and express my sincere welcome to Ms. Zhang Xu for joining the Board.



**Zhang Zhiyong**  
*Chairman*

Beijing, PRC  
28 March 2019