

In 2018, the Group persisted in the transformation of growth momentum, constantly solidifying its development quality; by focusing on the domestic non-telecom operator market and the OPEX business of the domestic telecommunications operators, the Group achieved favourable operating results. This laid a solid foundation for the Group's continuous structure optimization, capabilities enhancement, business scale expansion and the start of a new development journey from the hundred-billion scale.



Si Furong
President

Dear Shareholders,

I am very pleased to present the operating results of the Group in 2018.

FINANCIAL PERFORMANCE

In 2018, the Group adhered to the overall roadmap of "value-driven, seeking steady yet progressive growth and high-quality development" and persisted in the transformation of growth momentum. Driven by the domestic non-telecom operator market and the OPEX business of the domestic telecommunications operators, the Group successfully overcame the adverse effect of CAPEX decrease of domestic telecommunications operators and the declining industry value while constantly solidifying its development quality, thus achieving favourable operating results. During the year, the Group's total revenues amounted to RMB106,177 million, representing a year-on-year increase of 12.3%; in which revenue from the Core Businesses amounted to RMB101,294 million, representing a year-on-year increase of 15.6%, both of which have crossed the threshold of hundred-billion. The Group's gross profit amounted to RMB12,885 million, representing a year-on-year increase of 5.5%, and gross profit margin was 12.1%, representing a year-on-year decrease of 0.8 percentage point. The Group continued to control its selling, general and administrative expenses, which amounted to RMB10,611 million, with its proportion to the total revenues continued to decline to 10.0%. Profit attributable to equity shareholders of the Company amounted to RMB2,901 million, representing a year-on-year increase of 6.9%, with a net profit margin of 2.7%. Basic earnings per share amounted to RMB0.419. Free cash flow was RMB3,613 million, with the cash conversion ratio⁷ remaining at a healthy and relatively high level.

⁷ Cash conversion ratio = net cash generated from operating activities / profit attributable to equity shareholders of the Company

BUSINESS DEVELOPMENT

In 2018, the Group sought further development for TIS services and raised its delivery quality, aiming to expand its market share and grow stronger consistently; we vigorously expanded Core BPO services and broadened its capabilities coverage, aiming to grow bigger continuously; we also enhanced the core capabilities of ACO services and focused on the cultivation of smart products, aiming to grow better by synergistic operation. The Group's three major business segments all achieved faster development as compared with the same period of last year, with their business structure being continuously optimized.

The Group's TIS services recorded a revenue of RMB57,359 million, representing a year-on-year increase of 13.6%, and accounting for 54.0% of the total revenues. We focused on the construction of supreme networks for domestic telecommunications operators such as wireless mobile network and fiber optic broadband network and kept abreast of the development of 5G and IoT, supporting the transformation and upgrade of the domestic telecommunications operators, thereby effectively reinforced the fundamentals of business from domestic telecommunications operators. Meanwhile, we accelerated the transfer of our production capacity to the domestic non-telecom operator market, taking full advantage of the opportunities arising from the construction of Digital Economy and Smart Society in China to stimulate a more rapid growth of such business. The TIS services revenue from the domestic non-telecom operator market witnessed a rapid year-on-year growth of 50.8%. In recent years, the revenue scale of domestic non-telecom operator market in the TIS business has continued to grow, which has effectively reduced the Group's reliance on the CAPEX business of domestic telecommunications operators.

Revenue from the BPO services amounted to RMB35,103 million, representing a year-on-year increase of 7.1%, and the growth rate of this segment increased noticeably compared with the same period of last year⁸. Revenue from BPO services accounted for 33.1% of the Group's total revenues. The Group adhered to the value-driven principle and proactively controlled its products distribution business, and as a result, revenue from products distribution business for the year reported a significant year-on-year decrease of 29.8%. Excluding this factor, revenue from its Core BPO services reported a rapid year-on-year increase of 17.1%. Among which, the Group vigorously developed the network maintenance business, which reported a year-on-year increase of 15.3%. The Group expedited the consolidation of supply chain business with its capabilities on network-wide operation effectively improved, resulting in a year-on-year growth of 20.5%. We also further promoted the synergistic operation of general facilities management by unifying the brands and standards, resulting in a growth of 15.9%. The Group persisted in making its Core BPO services as a sustainable and recurrent business, which met with a rapid year-on-year growth of its revenue and it has become one of the important drivers for the Group's development.

Revenue from the ACO services amounted to RMB13,715 million, representing a year-on-year increase of 21.4%, making it the fastest growing segment among the three major businesses, with its proportion to the Group's total revenues increased to 12.9%. We adapted to the trend of Digital Economy, seized the opportunities arising from the informatization and intelligentization of the society and industries, while vigorously promoting our smart-typed products, as a result of which our system integration, software development and system support businesses achieved a rapid year-on-year increase of 27.3% and 22.1% respectively, which both have maintained a rapid growth rate of more than 20% for two consecutive years. In addition, the propelling and complementary effect of our smart products to our other businesses such as TIS services have gradually emerged, which supported the Group to expand into the high-value fields and cultivation of its new branding on smart service. The Group ranked 6th in "China's Top 100 Software Enterprises 2018", demonstrating its further enhanced industry position.

CUSTOMER DEVELOPMENT

In 2018, the Group's revenue from its domestic non-telecom operator market achieved a continuous and rapid increase and recorded RMB33,317 million, representing a year-on-year increase of 25.0%, accounting for 31.4% of the total revenues. In particular, the revenue from the Core Businesses increased by 33.9% year-on-year, accounting for 89.1% of the revenue from that customer market, and representing a year-on-year increase of 5.9 percentage points, making it an important driver for the stable development of the Group. The Group further improved its marketing system and optimized resource allocation for the key industries such as the government, electricity and transportation. The Group strengthened capabilities accumulation in its promotion of synergistic research and development for smart-typed products, with the Smart Society Product Portfolio constantly enriched. Furthermore, we reinforced capabilities enabling through strengthening the role of our product center as the pillar support and promoting business expansion. Through capabilities expansion, we vigorously expanded cooperation scope and promoted cooperation and synergy. The Group has achieved positive results of its innovation and transformation and the number of projects with hundred-million scale kept emerging, such as the Intelligentization Project of Shenzhen World Exhibition & Convention Center, Suzhou Smart Industrial Park, and the Non-stop Electronic Toll Collection System of Hunan Highway and the Smart Park Project of Beijing International Horticultural Exhibition.

⁸ In 2017, the Group's revenue from BPO services reported a year-on-year growth rate of 0.7%.

In 2018, for the domestic telecommunications operators market, we further penetrated into CAPEX business by continuously improving our delivery capabilities and quality. We also stepped up efforts to accelerate our expansion into OPEX business, including network maintenance, supply chain and general facilities management, which realized a wide coverage of our standards and capabilities. We strengthened the cooperation with the domestic telecommunications operators in the smart field, taking full advantage of new opportunities arising from their transformation and upgrade, which contributed to the development of businesses such as our software development business. Our market share for this market increased effectively during the year, with a revenue of RMB69,705 million, representing a year-on-year increase of 7.1%, and accounting for 65.7% of the total revenues. Among that, the revenue from the TIS services of China Telecom decreased by 11.9% as compared with the corresponding period of last year, while the revenue from its Core BPO services increased rapidly by 18.4%, and such growth mitigated the impact brought by the reduction of CAPEX of China Telecom, thus making the revenue from China Telecom remained largely stable and amounted to RMB41,279 million, representing a slight year-on-year decrease of 0.7%, and the revenue from China Telecom accounted for 38.9% of the total revenues. Driven by the rapid business growth from the CAPEX business of China Mobile and the OPEX business of China Tower, revenue from the domestic telecommunications operators other than China Telecom grew rapidly by 20.9% year-on-year, accounting for 26.8% of the total revenues, representing a year-on-year increase of 1.9 percentage points.

In 2018, the Group further optimized the operation, management and resource allocation model of its overseas business and enhanced the unified management of its overseas market. We leveraged on the opportunities arising from the promotion of China's "Belt and Road" Initiative and combined the experience in developing the domestic non-telecom operator market to strengthen its cooperation with domestic telecommunications operators and "Go Abroad" Chinese enterprises in building the overseas ecosystems and expanding sectors including the government, electricity and education. Through synergistic marketing, synergistic financing, and synergistic technical support, the Group actively promoted the expansion of large-scale projects and achieved favourable results. In 2018, the Group's overseas market stabilized and recovered, reporting a revenue of RMB3,155 million, representing a year-on-year increase of 11.2%, accounting for 2.9% of the total revenues.

ENHANCEMENT IN OUR CAPABILITIES

In 2018, the Group further facilitated its innovation and transformation and optimized the construction of its business ecosystems, with its capabilities continuously improved. By the use of its innovative fund, the Group increased its investment in research and development while continuing on the progression on product-oriented services and platform-oriented products, with the blueprint of smart products continuously enlarged. Fundamental platforms and capabilities such as CCSYUN (our cloud service), Open IoT Platform and the Big Smart City IT Structure gradually came into shape, and new smart products such as Smart Justice, Smart Procuratorial Services, and Smart Government Services continued to emerge. Meanwhile, the Group vigorously forged its new smart image by releasing the Smart Society Product Portfolio, participating in national exhibitions such as the Big Data Expo, Smart China Expo and China (Nanjing) Soft Expo, and establishing the "Smart Service Industrial Ecosystem Alliance" with scientific research institutions, innovative technology enterprises and industrial partners to jointly explore the new market of Digital Economy, thus expanding its influence in the industries continuously.

The Group continued to promote the synergistic business operation for its supply chain and general facilities management businesses, and build capabilities among its network through the construction of a unified IT platform and the establishment of unified standards, which have met with preliminary results. Meanwhile, we accelerated the operation of our subsidiary Comservice Capital Holding Company Limited towards the public and designed products that incorporate with integration of financial solutions with the industrial development based on the core businesses of the Group and our main development tracks, providing customized support for the business expansion of the Group and on upstream and downstream enterprises.

To cater for the service demand of the domestic non-telecom operator market and overseas market for integrated capabilities, the Group accelerated cross-profession collaboration. While leveraging on our edges of "Consultant + Staff" business model and leading by our consultation and planning businesses, the Group brings up our full businesses together with smart products embedded and provides integrated solutions to the customers. The Group took advantage of its scale and synergy, strengthened cross-province and cross-profession collaboration, and matched its service capabilities with the market demand to satisfy the end-to-end requirements of its customers by building cross-region, cross-industry and cross-customer new capabilities.

The Group continuously strengthened its talent team and built its expert system and Comservice Craftsmanship system. Through enhancing the incentive mechanism, especially the incentives for large-scale projects, the Group further promoted its subsidiaries at all levels to establish market-oriented employment and compensation mechanisms. The Group has been taking good care of its employees, providing them with career development platforms to stimulate their vitality and enhance their competitiveness and innovative capabilities, which drive the Group's sustainable development with strong dynamics.

PROSPECTS

In 2019, the Group will continue to uphold its overall roadmap of “value-driven, seeking steady yet progressive growth and high-quality development” while persisting in structure optimization, capabilities enhancement, and business scale expansion. We would also broaden our cooperation, accelerate the construction of ecological platforms, with the aim of creating greater value for our shareholders and customers.

Facing the window of opportunities arising from the replacement of old growth drivers with new ones for China's economy, industrial upgrade and the trend of informatization and digitalization development, the Group will further use its concerted efforts to bolster its “Branding and Deployment” and promote high-quality development of domestic non-telecom operator market. The Group will continue to improve its capabilities on fundamental platforms such as Big Data, Cloud Computing and IoT, further intensify synergistic operation and increase investment on research and development, enrich the Smart Society Product Portfolio, thus manifesting the new branding of Smart Comservice. The Group will continue to build up our strengths, give full play to its advantages in informatization infrastructure services, exploit room for external cooperation, accelerate the construction of our ecological platforms, and strengthen our core competitiveness of integrated services. Meanwhile, the Group will strengthen capabilities accumulation and capabilities enabling for key local cities by converging internal and external resources to build up local advantages, and fan out from a point to an area to seek breakthroughs in wider fields such as electricity, transportation, government services, water conservancy and broadcasting.

The Group will deeply penetrate into the ecosystem of domestic telecommunications operator customers, combine traditional services with smart services and integrate with the next-generation information technologies, such as accelerating the establishment of smart maintenance platform, to further promote the “CAPEX and OPEX-driven” businesses as dual growth drivers and support domestic telecommunications operator customers' new deployment in 5G and IoT, and cater for their new demand in the fields of Smart Family and smart industry applications. Meanwhile, the Group targets to create new values through the exploration of applying mature business models in the domestic non-telecom operator market to the domestic telecommunications operators along with their transformation.

Leveraging on its core advantages of informatization services, the Group will continue to promote the transformation and upgrade of overseas businesses, while capturing opportunities arising from the “Belt and Road” Initiative. We will continuously adapt to the new needs of overseas customers and markets, and forge new growth drivers that integrates “market+technology+capital+talents”. We will emphasize on the synergy among the domestic and overseas markets and capabilities, replicate the mature products and capabilities in the domestic market to overseas market, broaden our overseas industrial customers, accelerate the expansion of large-scale projects, thus achieving rapid breakthroughs.

The Group will continue to deepen reforms and take full advantage of the opportunities arising from “Double-hundred Action” to promote diversity in share ownership, improve its corporate governance structure, optimize its market-oriented operation mechanism, improve incentive mechanism, and accelerate the establishment of an organizational structure that meets the requirements of future development. The Group will adhere to the guideline of “One CCS” and expedite the integration of professional businesses while fostering our enterprises with leading positions, capabilities centers and product centers. We will strengthen regional coordination to realize full coverage of capabilities, and develop the market as a whole. We will also explore the paradigm that matches the operation of an enterprise with hundred-billion scale, the model for smart operation and the mechanism for management and decision-making to ensure operation compliance, scientific decision-making, flexibility and efficiency, and healthy and sustainable development.

2019 marks the 70th anniversary of the founding of the People's Republic of China. We will fulfill our new commitment of “making our society smarter, making our life better, and making our employee happier”. With reform as the engine and powered by innovation, we start a new journey and strive for high-quality development from the hundred-billion scale towards the goal of building a first class enterprise in the spirit of “fully committed and waste no time”, with a view to delivering even more brilliant operating results, more high-quality achievements, and a better future.

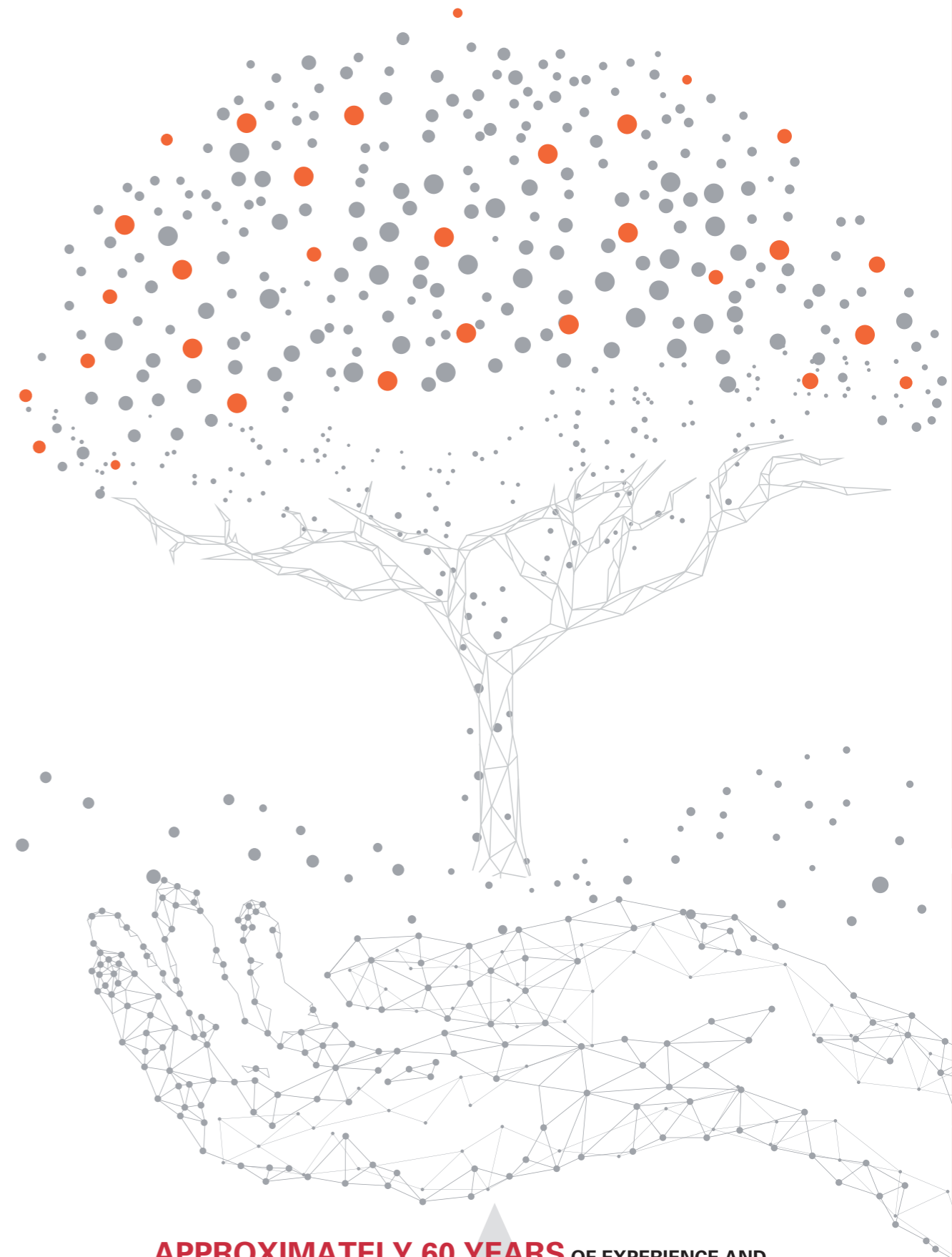


Si Furong
President

Beijing, PRC
28 March 2019



**INTEGRATED
SERVICES**
and extensive
SMART PRODUCTS



APPROXIMATELY 60 YEARS OF EXPERIENCE AND
ACCUMULATION IN COMMUNICATIONS INFORMATIZATION FIELD
THROUGH CAPABILITY EXTENSION AND TECHNOLOGICAL INNOVATION
ACCELERATE **ENTERPRISE TRANSFORMATION**
PROVIDE INTEGRATED AND **MULTI-PROFESSION** SMART SOLUTIONS

