



中国通信服务
CHINA COMSERVICE

CHINA COMSERVICE ANNOUNCES 2014 ANNUAL RESULTS

HIGHLIGHTS:

- Total revenues were RMB73,176 million, up by 6.9%.
- Profit attributable to equity shareholders of the Company was RMB2,150 million, down by 3.9%.
- Gross profit margin and net profit margin were 14.6% and 2.9%, respectively.
- The Group continued to strengthen the management of cash flow and accounts receivable. Free cash flow for the year was RMB833 million, representing a significant improvement from RMB-324 million last year.
- The Group achieved stable revenue growth of 8.8% from domestic telecommunications operator customers, and the aggregate revenue growth from domestic non-operator customers and overseas customers was 3.7%.
- The Board proposed to pay a final dividend of RMB0.0931 per share for the financial year ended 31 December 2014.

Financial Highlights (audited)

For the year ended 31 December		2013	2014	Change
Revenues (RMB million)		68,459	73,176	6.9%
Gross Profit (RMB million)		10,378	10,682	2.9%
Gross Profit Margin (%)		15.2%	14.6%	-0.6pp
Profit Attributable to Shareholders (RMB million)		2,238	2,150	-3.9%
Basic Earnings per Share (RMB)		0.323	0.310	-4.0%
Dividend per Share (RMB)		0.1293	0.0931	-28.0%

(Hong Kong, 25 March 2015) — China Communications Services Corporation Limited (“China Comservice” or “the Company”), and its subsidiaries (the “Group”) (HKSE code: 552), today announced its audited annual results for the financial year ended 31 December 2014.

In 2014, in face of the complex and volatile internal and external operating environment, the Group adhered to its market-oriented approach, allocated its resources adaptively for the expansion of the three major customer¹ markets, and closely followed the pace of network construction and higher outsourcing demand of maintenance of domestic telecommunications operators. The Group recorded total revenues of RMB73,176 million for the year, representing a year-on-year increase of 6.9%.

During the year, the reduction of service charge and the implementation of the “VAT Reform”², Labour Contract Law³ and other new industry policies imposed extra pressures on the Group in terms of competition and costs. In addition, the Group adopted a more prudent approach in financial management in 2014. As a result of the aforementioned factors, profit attributable to equity shareholders of the Company amounted to RMB2,150 million for the year, representing a year-on-year decrease of 3.9%. Gross profit margin and net profit margin were 14.6% and 2.9%, respectively. Basic earnings per share amounted to RMB0.310.

The Group continued to strengthen the management of cash flow and accounts receivable through effective settlement and collection work. Free cash flow⁴ for the year was RMB833 million, representing a significant improvement from RMB-324 million for 2013.

Having considered the interests of and returns to our shareholders and the funding requirement for the Group’s future development, the Board proposed to pay a final dividend of RMB0.0931 per share for the financial year ended 31 December 2014.

Mr. Sun Kangmin, Chairman of China Comservice commented: “In 2014, China’s economy entered into a “new normal” phase and the government promoted the comprehensive and deepened reforms in China. The operation of the Group was collectively affected by the changes of the macro-economic conditions and the development environment of the industry. During the year, the Group adopted a market-oriented approach to tackle the challenges proactively. The Group managed to maintain its stable and healthy development through proper allocation of resources and optimisation of business structure to enhance the quality of development. Meanwhile, the Group captured opportunities arising from the comprehensive and deepened reforms to promote innovation in operational management and business models, and strengthen external cooperation, with a view to laying a solid foundation for

¹ Three major customers refer to domestic telecommunications operators, domestic non-operator customers and overseas customers.

² VAT Reform refers to the replacement of business tax with value added tax.

³ Labour Contract Law refers to the amended PRC Labour Contract Law.

⁴ Free cash flow = Profit for the year + Depreciation and amortization – Changes in working capital – Capital expenditure

further development of the Group.”

Telecommunications Infrastructure Services

In 2014, benefiting from the demands of 4G development of domestic telecommunications operators, the revenue from telecommunications infrastructure (“TIS”) services achieved a year-on-year increase of 6.2%, accounting for 46.5% of the total revenues. The revenue of TIS services from China Telecom recorded a year-on-year increase of 7.9% whereas revenue of TIS services from the overseas market recorded a year-on-year increase of 10.8%.

Business Process Outsourcing Services

In 2014, the revenue from business process outsourcing (“BPO”) services achieved a year-on-year increase of 7.6%, accounting for 42.6% of the total revenues. In addition to our focus on the business opportunities from the capital investment of domestic telecommunications operators, the Group also sought business opportunities from their operating expenditure and continuous demand of maintenance outsourcing. Revenue from network maintenance increased by 18.3%, more than doubled in terms of the growth rate as compared with the previous year⁵, and the relevant incremental revenue accounted for nearly 27% of total incremental revenues.

Applications, Content and Other Services

In 2014, the revenue from applications, content and other services (“ACO”) achieved a year-on-year increase of 7.3%, accounting for 10.9% of the total revenues. During the year, the Group focused on the development of key areas including “Smart City” and “Safe City”, and continued to promote the relevant competitive products and solutions. Moreover, there were breakthroughs in the number of users of our typical innovative products, such as Success Factors, a human resources management solution and “Gripay”, an Internet mobile financial service platform.

Market Development

In 2014, affected by the progress of 4G licenses issuance in China, the domestic telecommunications operators showed an imbalanced pace of network construction investment between the first half and second half of the year. The Group closely followed the pace of network construction investment, accelerated its business development later in the year, grasped the opportunities arising from the increasing demand of outsourcing maintenance services from our customers by leveraging on our advantages in integrated services of construction and maintenance, and provided quality and differentiated solutions for telecommunications operators. In 2014, revenue from domestic telecommunications operators increased by 8.8% compared to that of the last year, representing 64.4% of the total revenues. The domestic telecommunications operators remained the most important contributors of the operating results of the Group.

⁵ In 2013, revenue from network maintenance of the Group was RMB6,884 million, representing a year-on-year increase of 7.3%.

In 2014, adhering to the principle of “efficient development”, the Group actively expanded the domestic non-operator market and overseas market. While pursuing reasonable growth, the Group scaled down the development of certain businesses with low operating efficiency, and focused more on the optimization of revenue structure and the enhancement of income quality. Total revenues from these markets increased by 3.7% as compared with the previous year, of which revenue from domestic non-operator customers reached a year-on-year growth of 4.4% and represented 30.4% of the total revenues, and revenue from overseas customers recorded a year-on-year decline of 0.6% and represented 5.2% of the total revenues. In view of the transformation and upgrade of the domestic economy and the complicated and ever-changing foreign environment, the Group believes that the continuous enhancement of the development quality in the two new markets provides a favourable pre-requisite for the sustainable development of the Group.

Promoting Comprehensive and Deepened Reforms and External Cooperation

In 2014, the Group focused on the innovation of operational management and business models. The Group adjusted the organizational structure of its headquarters in accordance with market needs and the development strategies of the Company, and reduced the management layers of some specialized subsidiaries and deployed more personnel to handle front-line marketing activities. The Group also explored the feasibility of professional operations and projects cooperation for certain business segments to reduce its operating costs and focus more on market development.

During the year, the Group successfully developed several typical informatisation turnkey projects, such as “Smart Qianhai”, “Guanlan Cloud Computing Centre” and “China Life Data Centre”. The Group entered into strategic cooperation and centralised procurement agreements with well-known local and overseas enterprises for future cooperation in the development of “Smart City” and “Safe City”. The Group also entered into contracts with 18 companies for the sale of Success Factors, a human resources management solution jointly promoted by the Group and SAP. “Gripay”, an Internet mobile financial service platform of the Group, has built up its client base and gained brand awareness locally.

Preferential Treatment and Non-competition Arrangements with the Tower Company⁶

In 2014, pursuant to the arrangement for the establishment of the Tower Company, the Group commenced the relevant work in relation to our preferential treatment and non-competition arrangements with the Tower Company, and undertook some construction and maintenance businesses.

Prospects

Mr. Sun Kangmin, Chairman of China Comservice said: “Currently, the Group is facing many new situations and changes as brought by the macro economy and industry environment, but we believe

⁶ Tower Company refers to China Tower Corporation Limited (formerly known as China Communications Facilities Services Corporation Limited).

that there will be more opportunities than challenges ahead. On 27 February 2015, the Ministry of Industry and Information Technology announced the issuance of operation permit for the “LTE/4G digital cellular mobile service (LTE FDD)”. It is expected that domestic telecommunications operators will put more effort in network construction and will continue to outsource their maintenance business so as to focus on their core business, which will bring valuable opportunities to the Group to expand such market. Meanwhile, China is developing strategic emerging industries, accelerating informatisation of the society and boosting information consumption, all of which will provide ample opportunities in the domestic non-operator market of the Group. Currently, the demand of telecommunications infrastructure in the Middle East and Africa remains strong. In light of the “Going Abroad” of Chinese capital and enterprises and “One Belt and One Road”⁷ strategies of China, it is believed that the potential of overseas market is huge. Besides, the Group will have new business opportunities under the preferential treatment and non-competition arrangements with the Tower Company.

On the other hand, the Group will continue to capture the opportunities from the comprehensive and deepened reforms to cope with the challenges, and enhance vitality and capability of the Group by pursuing system and mechanism innovation. The Group will further optimise its internal structure in accordance with market needs so as to meet customers’ requirement flexibly. The Group will promote the specialization and integration of high-value business to improve its ability to provide integrated services throughout the entire industry chain. The Group will consolidate internal advantageous resources, actively track and reserve new technologies, devote more investments to research and development and enhance external cooperation to continuously develop products with core competitiveness. The Group will also promote innovation in business model to enhance its market development ability and profitability to prevent operation risks. In 2015, the Group will adhere to the principles of “innovation and transformation, seeking steady development, and pursuing efficient development” to strengthen the value-driven principle. The Group will strike a reasonable balance between development pace and quality in pursuit of greater value for shareholders and customers.”

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⁷ “One Belt and One Road” refers to the “New Silk Road Economic Belt” and the “21st Century Maritime Silk Road”.

About China Comservice

China Comservice is a leading service provider in the PRC for integrated support services in the informatization sector. The Company offers telecommunications infrastructure services spanning from design, construction to project supervision and management; business process outsourcing services spanning from maintenance, distribution to facility management; applications, content and other services spanning from system integration, software development and system support to value-added service, etc. The Company's major customers include domestic telecommunications operators, domestic non-operator customers including government agencies, industrial customers and small and medium-sized enterprises, as well as overseas customers. Its controlling shareholder is China Telecommunications Corporation, and besides, China Mobile Communications Corporation, China United Network Communications Company Limited and China National Postal and Telecommunications Appliances Corporation are also shareholders of the Company.

In 2014, the Group was awarded "Best CFO" and "Best Investor Relations" of the Asian Excellence Recognition Awards by *Corporate Governance Asia*, a renowned journal on Corporate Governance in Asia. The Company was also awarded as "The Best of Asia – Icon on Corporate Governance" by *Corporate Governance Asia*, and the Gold Award by *The Asset* for five consecutive years.

For further information, please browse the Company's website at: www.chinaccs.com.hk

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Forward-looking statements

This press release contains forward-looking statements and information relating to us and our operations and prospects that are based on current beliefs and assumptions as well as information currently available to us. The words "anticipate", "believe", "estimate", "expect", "plans", "prospects", "going forward" and similar expressions, as they relate to us or our business, are intended to identify forward-looking statements. Such statements reflect our current views with respect to future events and are subject to risks, uncertainties and various assumptions. Should one or more of these risks or uncertainties materialize, or should any of the underlying assumptions prove incorrect, actual results may diverge significantly from the forward-looking statement. We do not intend to update these forward-looking statements other than our on-going disclosure obligations pursuant to the Hong Kong Listing Rules or other requirements of the Hong Kong Stock Exchange.