



中国通信服务
CHINA COMSERVICE

China Comservice Announces 2017 Annual Results

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Value-Driven Principle Led to High-Quality Development
Successfully Transformed Growth Momentum
Operating Results Achieved Sustained Solid Growth

HIGHLIGHTS:

- Total revenues were RMB94,572 million, up by 6.9%; in which revenue from Core Businesses¹ amounted to RMB87,617 million, up by 12.4%.
- Profit attributable to equity shareholders of the Company was RMB2,714 million, up by 7.0%.
- Free cash flow was RMB6,118 million, up by 40.3%.
- Gross profit margin and net profit margin were 12.9% and 2.9%, respectively.
- The Board has proposed to distribute a final dividend of RMB0.1176 per share and a special dividend of RMB0.0235 per share. Total dividend for 2017 is RMB0.1411 per share, and dividend payout ratio is 36%.

Financial Highlights (audited)

For the year ended 31 December	2016	2017	Change
Revenues (RMB million)	88,449	94,572	+6.9%
Profit Attributable to Shareholders (RMB million)	2,536	2,714	+7.0%
Free Cash Flow (RMB million)	4,361	6,118	+40.3%
Gross Profit Margin (%)	13.2%	12.9%	-0.3pp
Net Profit Margin (%)	2.9%	2.9%	-
Basic Earnings per Share (RMB)	0.366	0.392	+7.0%
Total Dividend per Share (RMB)	0.1318	0.1411	+7.1%
Final Dividend per Share (RMB)	0.1098	0.1176	+7.1%
Special Dividend per Share (RMB)	0.0220	0.0235	+6.8%

¹ Core Businesses include telecommunications infrastructure services, business process outsourcing services (excluding products distribution), as well as applications, content and other services.

(Hong Kong, 27 March 2018) — 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 year ended 31 December 2017.

Operating Performance

In 2017, the Group gradually transformed its growth momentum from CAPEX²-driven businesses by the domestic telecommunications operators to both the domestic non-telecom operator market and OPEX²-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 flow³ 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.

Special 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%.

Mr. Zhang Zhiyong, Chairman of China Comservice commented: “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, the Group strove to promote integration of our professional businesses, strengthen synergistic operation and improve the ability to respond to market changes. Externally, the Group explored cooperation in wider aspects to broaden industry ecosystems, armed ourselves with the philosophy of supplyside 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.”

² CAPEX and OPEX refer to the capital expenditure and operating expenditure of domestic telecommunications operators, respectively.

³ Free cash flow = Profit for the year + Depreciation and amortisation – Changes in working capital – Capital expenditure

Market Development

While the Group's revenue scale in recent years has been constantly expanding, the dependence of its operations on the network investment of domestic telecommunications operators has been gradually weakening and the contribution from the Core BPO services⁴ and domestic non-telecom operator customers to the overall incremental revenue of the Group has been significantly increased as compared to the same period of last year, which broadly indicated the realization of the transformation of growth momentum.

Domestic Non-Telecom Operator Market

In 2017, the domestic non-telecom operator market was the fastest growing market of the Group and played an important role in propelling the overall sustainable development of the Group. The revenue from this market amounted to RMB26,656 million, representing a year-on-year increase of 12.4%, accounting for 28.2% of the total revenues of the Group. The revenue from the Core Businesses of this market increased by 26.5% year-on-year, accounting for 83.2% of its overall revenue, representing a year-on-year increase of 9.3 percentage points, which demonstrated the optimization of business structure. In the domestic non-telecom operator market, the Group focused on key areas such as government, electricity and transportation, reinforced its marketing team construction, enhanced the products enabling through training camps for industry-leaders and talented staff in domestic non-telecom operator market, broadened its external cooperation while constantly building up its product series, including Smart City, Smart Security, Smart Park, Smart Transportation, Smart Safety, Smart Town and Smart Grid, thereby progressing the cross-region promotion of its products and capabilities and boosting the Group's development. During the year, the Group continued to expand its businesses into the power sector effectively, where 49 business development units for the power sector have been established nationwide and 172 business licenses in the power sector have been obtained. The Group also achieved breakthroughs in the transportation sector with the official launch of our "Smart Highway" solution by means of holding a nationwide summit, and the summit has significantly enhanced the Group's influence in the industry and drove the development of the platform and related integrated businesses.

Domestic Telecommunications Operator Market

In 2017, for the domestic telecommunications operator market, the Group insisted on leveraging both the "CAPEX and OPEX-driven" businesses and "the priority of service quality", thus realised a revenue of RMB65,080 million, representing a year-on-year increase of 6.9% and accounting for 68.8% of the total revenues of the Group. Among that, the revenue from China Telecom amounted to RMB41,568 million, representing a year-on-year increase of 2.4% and accounting for 43.9% of the total revenues. The revenue from domestic telecommunications operators other than China Telecom reported a year-on-year increase of 15.9% and accounting for 24.9% of the total revenues, representing a year-on-year increase of 2.0 percentage points. Among that, the Group exploited the new

⁴ Core BPO services include management of infrastructure for information technology (network maintenance), general facilities management and supply chain services.

characteristics of China Mobile's centralized procurement and emphasized on maintaining a positive cooperative relationship with China Tower, strived to expand new businesses and enhanced market share, thereby supported the rapid growth of the related businesses.

Overseas Market

In 2017, affected by cyclical fluctuations of its overseas projects and the Group's proactive control of low efficiency businesses, revenue from overseas market recorded a year-on-year decrease of 26.2% and amounted to RMB2,836 million, accounting for 3.0% of the total revenues. The Group have strengthened our risk prevention measures in our overseas businesses, and actively adjusted our overseas business operation and management structure. At present, the new management structure for China Communications Services International Limited has been established, under which the Group have accelerated the building up of our marketing team, resulting in improved capabilities in marketing. Meanwhile, overseas market was divided into five major business regions geographically, which is managed dynamically in a more flattened manner for business development. An overseas technical support centre was also established to centralize the allocation of resources and provide support to the expansion of our overseas projects.

Business Development

Telecommunications Infrastructure (“TIS”) Services

Revenue from TIS services amounted to RMB50,511 million, representing a year-on-year increase of 10.1%, and accounting for 53.4% of the total revenues. The Group captured the important opportunities of the domestic telecommunications operators' network upgrade and the upgrade of fiber optic broadband networks as well as tower construction and the deployment of the IoT, and thereby reinforced our business from domestic telecommunications operators. Meanwhile, the Group continued to shift its products and capabilities to the domestic non-telecom operator customers market, resulting in the revenue of TIS services from this customer group growing at a significant year-on-year rate of 30.3%. The rapid growth of TIS services of the domestic non-telecom operator customers has greatly enhanced our ability to withstand the impact from the decline in the CAPEX of domestic telecommunications operators.

Business Process Outsourcing (“BPO”) Services

Revenue from BPO services amounted to RMB32,763 million, representing a year-on-year increase of 0.7% and accounting for 34.6% of the total revenues. The Group's insistence on value-driven principle and proactive control of its products distribution business with low efficiency were the main causes for the slow increase in the revenue from this segment, whereby revenue from products distribution business for the year reported a significant year-on-year decrease of 33.6%. Excluding this factor, revenue from its Core BPO services reported a rapid year-on-year increase of 17.0%, demonstrating the favourable results of the Group's transformation of its growth momentum. Revenue from the network maintenance business increased by 20.1% year-on-year, indicating a remarkable acceleration as compared with the

same period of last year⁵, and revenue from supply chain service increased by 16.8% year-on-year, demonstrating the sound results of synergistic business operation.

Applications, Content and Other (“ACO”) Services

Revenue from ACO services amounted to RMB11,298 million, representing a year-on-year increase of 12.7%, accounting for 12.0% of the total revenues. The Group captured the business opportunities arising from the intelligentization transformation of domestic telecommunications operators as well as the flourishing demand of the domestic non-telecom operator customers for informatization construction and vigorously promoted our smart-typed products, thereby increasing the core competitiveness of this business segment. In 2017, the aggregate revenue from the Group’s system integration, software development and system support businesses increased by 20.7% year-on-year, which is 6.8 percentage points higher than the “Revenue Growth Rate of National Software and Information Technology Service Industry”⁶, i.e. the industry average level.

Prospects

Mr. Zhang Zhiyong, Chairman of China Comservice said: “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.

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

⁵ In 2016, the Group’s revenue from network maintenance business reported a year-on-year increase of 9.5%.

⁶ In 2017, the revenue of the software and IT service industry in China increased by 13.9%. Source: Ministry of Industry and Information Technology of the People’s Republic of China.

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 Aboard' 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.”

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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 management of infrastructure for information technologies (network management), general facilities management, supply chain and products distribution; 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 (including the three domestic telecommunications operators and China Tower), domestic non-telecom 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 Group Co., Ltd., China United Network Communications Group Company Limited and China National Postal and Telecommunications Appliances Co., Ltd. are also shareholders of the Company.

In 2017, the Company was honored the "Best CEO" and "Best CFO" awards again, and "Best Investor Relations" in the "7th Asian Excellence Recognition Awards" by *Corporate Governance Asia*, a renowned journal on corporate governance in Asia. At the same time, the Group was again granted the award of the "The Best of Asia – Icon on Corporate Governance" in the 2017 "13th Corporate Governance Asia Recognition Awards" while Mr. Si Furong, the President of the Company, was granted the "Asian Corporate Director". In the voting for "The Asset Corporate Awards 2017" held by *The Asset*, the Group was awarded the "Platinum Award – Excellence in Environmental, Social and Corporate Governance". 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". During the year, the Group ranked 79th in the "2017 FORTUNE China 500" published by *FORTUNE China*.

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.