



中国通信服务
CHINA COMSERVICE

China Comservice Announces 2018 Interim Results

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Successfully Transformed Growth Momentum and Revenue Growth Hit 6-year High Expediting Transformation towards Digital Services and Embarking New Smart Journey

HIGHLIGHTS:

- All three markets and all three businesses of the Group showed a stronger development impetus compared to the same period of last year, demonstrating accelerated growth rates.
- Customer revenue structure optimized noticeably, with the proportion of Core Businesses revenues from both the domestic non-telecom operator market and the domestic telecommunications operators other than China Telecom reached 30% for the first time, respectively.
- The Group formally introduced China Comservice Smart Society Products successfully in the “7th China International Big Data Industry Expo”, which has been well recognized by the community and customers.
- The Group was ranked 6th among “China’s Top 100 Software Enterprises 2018” organized by China Information Technology Industry Federation, showcasing its entry to the software ecosystem and enhanced influence in the industry.

Financial Highlights (unaudited)

For the six months ended 30 June	2017	2018	Change
Revenues (RMB million)	44,888	50,792	+13.2%
Profit Attributable to Shareholders (RMB million)	1,469	1,595	+8.6%
Free Cash Flow (RMB million)	2,002	877	-56.2%
Gross Profit Margin (%)	12.7%	12.2%	-0.5pp
Net Profit Margin (%)	3.3%	3.1%	-0.2pp
Basic Earnings per Share (RMB)	0.212	0.230	+8.6%

(Hong Kong, 30 August 2018) — China Communications Services Corporation Limited (“China Comservice” or the “Company”), and its subsidiaries (the “Group”) (HKSE code: 552), today announced its unaudited interim results for the six months ended 30 June 2018.

Operating Performance

During the first half of 2018, the Group endeavoured to expand the domestic non-telecom operator market, solidified the fundamental of the domestic telecommunications operator market and proactively controlled the development of the products distribution business. As a result, the Group realized total revenues of RMB50,792 million, representing a growth of 13.2% year-on-year, in which the Core Businesses¹ revenue increased by 17.1% year-on-year. Cost of revenues amounted to RMB44,616 million, up by 13.9% year-on-year. Gross profit was RMB6,176 million, representing a year-on-year increase of 8.2%. Due to the decreased service prices and increased costs in relation to labour, gross profit margin was 12.2%, representing a 0.5 percentage point decrease year-on-year. With the Group’s continued effort on controlling the selling, general and administrative expenses, such expenses amounted to RMB4,661 million and its percentage over the total revenues further decreased by 0.5 percentage point year-on-year to 9.2%. Profit attributable to equity shareholders of the Company grew by 8.6% year-on-year to RMB1,595 million, and the growth rate increased by 2.7 percentage points year-on-year. Net profit margin was 3.1%, decreased by 0.2 percentage point year-on-year. Basic earnings per share amounted to RMB0.230, representing a year-on-year growth of 8.6%. Due to the significant increase in free cash flow² last year, free cash flow for the current period dropped from the same period of last year to RMB877 million, but still accounted for over 50% of the profit attributable to equity shareholders, which continued to stand at a healthy level.

Mr. Zhang Zhiyong, Chairman of China Comservice commented, “In the first half of 2018, the Group successfully transformed its growth momentum and achieved favourable operating results by adhering to the overall roadmap of ‘value-driven, seeking steady yet progressive growth and high-quality development’, adapting to the development trend and expanding cooperation in ecosystems. The Group successfully overcame the adverse impacts of the declining investment in telecommunications industry for consecutive years through leveraging both domestic non-telecom operator market and domestic telecommunications operator market as the dual growth drivers, and total revenues of the Group realized double-digit growth, which hit 6-year high. The Group’s net profit achieved high single-digit growth, and its free cash flow sustained at a healthy level. Meanwhile, the further control on the products distribution business of lower efficiency and effective market expansion enabled the Group to further optimize its business and customer structures, in which the proportion of the Core Businesses continuously increased and the mix of customer revenue became more balanced, further reduced reliance on a single customer. Focused on seizing development opportunities in China such as Digital Economy, Smart Society and 5G construction, the Group has clearly pinpointed ‘Smart’ services as the main track of development. The Group will accelerate its transformation towards digital services, endeavour to enhance development quality and reinforce new growth momentum, with a view to laying a solid foundation for sustainable, healthy and high-quality development in the long run.”

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

² Free cash flow = Profit for the year + Depreciation and amortization – Changes in working capital – Capital expenditure

Market Expansion

During the first half of 2018, the Group reaped fruitful results in market development by seizing the crucial opportunities in the domestic non-telecom operator market, the domestic telecommunications operator market and the overseas market, and all the three markets showed a stronger development impetus compared to the same period of last year, among which the domestic non-telecom operator market and the domestic telecommunications operator market both realized a double-digit revenue growth, while the revenue from the overseas market stabilized and recovered. During the period, the Group's customer revenue mix continued to optimize. Among that, revenues contribution from both the domestic non-telecom operator market and the domestic telecommunications operators other than China Telecom continued to increase, and the proportion of Core Businesses revenues from these two markets over total Core Businesses revenue reached 30% for the first time, respectively.

Domestic Non-Telecom Operator Market

The Group's revenue from the domestic non-telecom operator market increased by 19.3% year-on-year to RMB16,396 million, indicating a remarkable acceleration as compared to the same period of last year³ and accounting for 32.3% of the total revenues. In the meantime, the Group continued to optimize its business structure. Excluding the products distribution business, revenue from the Core Businesses reported a rapid year-on-year increase of 29.0% to RMB14,448 million, accounting for over 88% of the revenue from such market. Internally, the Group carried out synergistic operation in research and development and launched more smart society products. Leveraging the "Capabilities Accumulation, Capabilities Enabling" initiative, the Group enriched integrated service capabilities for industry penetration through strengthening the collaboration among products, markets and businesses. Externally, the Group focused on key sectors such as government, electricity and transportation, endeavoured to broaden the cooperation for a continued "Capabilities Expansion", and strengthen the "Smart Service Industrial Ecosystem Alliance". By promoting its "Consultant + Staff" business model and demonstrating its integrated service capabilities, the Group leveraged its top-level design and high-end consultation to drive project development and achieved favourable results. The series of smart products, including the Smart City, Smart Town, Smart Park, Smart Security and Smart Highway, were successively launched in different regions across the nation, and the Group's branding and competitiveness in the industry have been effectively enhanced.

Domestic Telecommunications Operator Market

In the first half of 2018, the Group insisted on the "CAPEX and OPEX-driven"⁴ businesses as the dual growth drivers to further penetrate and expand into the domestic telecommunications operator market, and consistently increased market share. Revenue from such market increased by 10.7% year-on-year to RMB32,950 million and accounted for 64.9% of the total revenues. Among that, revenue from China Telecom amounted to RMB18,368 million, representing a year-on-year growth of 0.5%, and accounting for 36.2% of the total revenues. Driven by the rapid revenue growth from domestic telecommunications

³ In the first half of 2017, the revenue from domestic non-telecom operator customers increased by 7.5% year-on-year.

⁴ CAPEX and OPEX refer to the capital expenditure and operating expenditure of domestic telecommunications operators, respectively.

operator customers other than China Telecom, aggregate revenue from those customers grew by 27.0% year-on-year to RMB14,582 million, with its percentage of the total revenues increased to 28.7%⁵.

Overseas Market

In the first half of 2018, the Group further optimized its overseas management structure by promoting the synergistic allocation of resources and enhancing service capabilities as well as risk prevention capabilities. With these efforts, the overseas market stabilized and revenue from such market resumed growth and increased by 4.6% year-on-year to RMB1,446 million, accounting for 2.8% of the total revenues. In tandem with developing traditional overseas telecommunications operator customers, the Group further expanded the overseas market of industrial customers by replicating its successful experience in China, in which key projects made a breakthrough and several large-scale projects in electricity, education and telecommunications, etc. in regions such as the Middle East and Southeast Asia made further progress.

Business Development

Telecommunications Infrastructure (“TIS”) Services

In the first half of 2018, all three businesses of the Group showed a stronger development impetus compared to the same period of last year. Revenue from TIS services amounted to RMB28,330 million, representing an expedited growth⁶ of 17.7% year-on-year, and accounting for 55.8% of the total revenues. For TIS services, the Group continuously improved its delivery quality and service capabilities, and captured the opportunities arising from the optimization of 4G network and the construction of broadband transmission infrastructures by domestic telecommunications operators, supporting them to build intelligent supreme networks with its high-quality integrated services. At the same time, focusing on the flourishing domestic demand for informatization construction, the Group stepped up its efforts in developing the TIS business of domestic non-telecom operator customers through cross-sector operation and penetration among businesses. Of the revenue from TIS services, the revenue from China Telecom recorded a year-on-year decline of 6.9%; the revenue from domestic telecommunications operator customers other than China Telecom had a rapid year-on-year growth of 31.6%; and the revenue from domestic non-telecom operator market grew sharply by 44.2% year-on-year, indicating a remarkable acceleration as compared to the same period of last year⁷. The rapid growth in revenue from TIS services for domestic non-telecom operator customers strongly bolsters the positive development of the business and has become a new impetus for future business growth.

⁵ Based on the revenue from the Core Businesses (excluding the products distribution business), revenue from domestic telecommunications operator customers other than China Telecom accounted for 30.0%.

⁶ In the first half of 2017, the revenue from TIS services increased by 11.0% year-on-year.

⁷ In the first half of 2017, the revenue from TIS services for domestic non-telecom operator market increased by 20.3% year-on-year.

Business Process Outsourcing (“BPO”) Services

In the first half of 2018, the Group’s revenue from BPO services amounted to RMB16,608 million, representing a year-on-year increase of 4.7% and accounting for 32.7% of the total revenues. In pursuit of high-quality development, the Group continued to proactively control the products distribution business, and as a result, revenue from products distribution business decreased by 28.9% year-on-year and its proportion to the total revenues decreased to 5.3%. Excluding the impact of such factor, the Core BPO services⁸ grew healthily and realized a revenue of RMB13,894 million, up by 15.3% year-on-year. The Group achieved breakthroughs in the areas of synergistic operation for logistic business, building integrated capabilities for distribution channels, constructing unified platform for property management and uplifting standard of its integrated maintenance capabilities continuously. All the above measures have accelerated the development of the Core BPO services.

Applications, Content and Other (“ACO”) Services

In the first half of 2018, the Group’s revenue from ACO services amounted to RMB5,854 million, indicating a rapid growth of 18.2% year-on-year and its proportion to the total revenues increased to 11.5%. During the period, the Group increased R&D investment, strengthened the competitiveness of its products including the software and industrial applications, launched a series of smart society products and focused on establishing industrial ecosystems. Leading by its design and consultation businesses as well as capitalizing on its core software products, the Group further promoted the development of other businesses by providing its customers with integrated solutions. The synergistic effect and mutual interaction created between businesses and cross-region operation have become increasingly prominent, allowing the ACO services to effectively drive sound development of both TIS services and BPO services.

Innovation and Transformation

The Group has been persistent in deepened reform in order to speed up its innovation and transformation towards smart and digital services. During the first half of 2018, the Group adopted a science-prioritized and technology-driven approach to promote business integration and consolidate its product capabilities, thus cultivating a series of products for smart society, building the “Big” Smart City IT structure, promoting product-oriented services such as Smart Safety and Smart Town, and initially establishing our cloud services (CCSYUN) and Internet of Things (“IoT”) platforms. In May 2018, the Group formally introduced China Comservice Smart Society Products successfully in the “7th China International Big Data Industry Expo”, which has been well recognized by the community and customers. In June 2018, China Information Technology Industry Federation ranked the Group 6th among “China’s Top 100 Software Enterprises 2018”, showcasing its entry to the software ecosystem and enhanced influence in the industry. Meanwhile, the Group is committed to the main development track of “Building Smart Society, Boosting Digital Economy, Serving a Good Life” for the domestic non-telecom operator market. The Group initiated the “Smart Service Industrial Ecosystem Alliance” through cooperation with the top scientific research institution in China, industrial partners and related technology and innovative

⁸ Core BPO services include management of infrastructure for information technology (network maintenance), general facilities management and supply chain services.

enterprises, to consolidate resources along industry chain, accelerate the deployment of its financial segment, explore the integration of finance with industrial development, and jointly build a value-sharing ecosystem with its partners in an open, collaborative and win-win way, with a goal to boost development into a new phase.

Prospects

Mr. Zhang Zhiyong, Chairman of China Comservice said, “2018 is a crucial year for the Group’s reform and development. New technologies such as IoT and Artificial Intelligence are integrating with traditional economy, and Digital Economy, Smart Society as well as 5G are going to create a vast market space. However, in the wake of situation such as the China-US trade dispute, the international economic environment has been getting more complicated and presented uncertainties to the economic development of China. Besides, under the above new situation, there will be dramatic changes in customer demand, market environment and business model. Facing opportunities and challenges, the Group will plan ahead and remain vigilant. By adhering to its overall roadmap of ‘value-driven, seeking steady yet progressive growth and high-quality development’ and persisting in its ‘main tracks’ of development, the Group will grasp the opportunities arising from the reform, explore new market space for its digital services and accelerate its high-quality development.

The domestic non-telecom operator market is the growth pole for the development of the Group’s businesses. The Group will focus on the main track of ‘Building Smart Society, Boosting Digital Economy, Serving a Good Life’. To achieve this, the Group will integrate internal and external resources and strengthen our collaboration with industrial partners. On top of continuously solidifying our product-oriented services, the Group will speed up our development of platform-oriented products, explore ways for constructing platforms and ecosystems and establish a new branding for Smart Comservice. The Group will continue to focus on key industries such as electricity, transportation and information security, enlarge the industry scale and deepen the industry penetration, so as to provide integrated service solutions to our customers.

The domestic telecommunications operator market remains a fundamental for the Group’s business development, and the Group will focus on the main track of ‘Bolstering Cyberpower Strategy, Integrating into Ecosystem Construction, Serving Transformation and Upgrade’. To achieve this, the Group will integrate ourselves into operators’ ecosystem, keep abreast of the new technologies such as 5G and IoT and equip ourselves with accumulating technologies, resources and capabilities to enhance service quality, and further penetrate into CAPEX business and expand OPEX business. Meanwhile, the Group will seek to apply the new businesses and new models of the domestic non-telecom operator market to the development of the domestic telecommunications operator market, with a view to enhancing the capabilities to expand into the domestic telecommunications operator market and integrating ourselves into the new ecosystem for the domestic telecommunications operator market.

For the overseas market, the Group will focus on the main track of ‘Serving ‘Belt and Road’ Information Infrastructure Construction, Promoting Smart Society Construction Overseas’. To achieve this, the Group will adapt to the political and environmental changes in domestic and international markets, strengthen the collaboration between our domestic product centres and external business partners, enhance cooperation with domestic operators and ‘Go Abroad’ state-owned enterprises to jointly develop projects. The Group will leverage on different parties’ resources, focus on large-scale projects, and extend our domestic smart products and capabilities overseas, striving to achieve transformation and upgrade of our overseas business.

Although the external macro-environmental changes will bring certain uncertainties to our operating environment, the development of Digital Economy and informatization as well as 5G construction in China are creating favourable opportunities for the future growth of the Group. Besides, in August 2018, the Company has been included by the State-owned Assets Supervision and Administration Commission of the State Council in the list of State-owned Enterprise Reform ‘Double-hundred Action’ which provided good opportunities for further promoting deepened reform. The Group believes that the reform could further enhance its vibrancy and motivation, increase its operating efficiency and risk prevention capability, thereby promoting a healthier, sustainable and high-quality growth. Going forward, the Group will grasp the best window of opportunity for development, and overcome difficulties with its proactive attitude and unremitting efforts. The Group will persist in high-quality operation, foster high-quality features, realize high-quality management and establish high-quality team, with a view to laying solid foundation for the future and rewarding its shareholders and customers with better development and enhanced 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 2018, the Company was honored the "Best CEO" and "Best CFO" Awards again, and "Best Investor Relations" in the "8th Asian Excellence Recognition Awards" by *Corporate Governance Asia*, a renowned journal on corporate governance in Asia. In the "Tao Zhu Gong Awards" organized by *EuroFinance* and supported by the Association of International Certified Professional Accountants, the Company was awarded 2018 "Tao Zhu Gong Awards — Best Working Capital Management". In the "Asia's Best Managed Companies Poll 2018" organized by *FinanceAsia*, an authoritative financial magazine in Asia-Pacific, the Company was one of the companies in the top 10 list in various award categories for China, including the "Best Managed Company" and the "Most Committed to Corporate Governance". The Group also ranked 81st in the "2018 FORTUNE China 500" released 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.