



中国通信服务
CHINA COMSERVICE

China Comservice Announces 2018 Annual Results

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HIGHLIGHTS:

- Enter into a new development stage : continued to transform growth momentum which drove revenue to leap from ten-billion to hundred-billion level
- Innovation to drive new development : enriched our Smart Solutions and propelled our software related businesses to sustain rapid development, with growth rate more than 20%
- Build the new “Smart” brand : accelerate transformation towards digital services, enhance the brand awareness of “Smart Comservice” and increase our influence in the industry

Financial Highlights (audited)

For the year ended 31 December	2017	2018	Change
Revenues (RMB million)	94,572	106,177	+12.3%
Profit Attributable to Shareholders (RMB million)	2,714	2,901	+6.9%
Free Cash Flow (RMB million)	6,118	3,613	-40.9%
Gross Profit Margin (%)	12.9%	12.1%	-0.8pp
Net Profit Margin (%)	2.9%	2.7%	-0.2pp
Basic Earnings per Share (RMB)	0.392	0.419	+6.9%
Total Dividend per Share (RMB)	0.1411	0.1508	+6.9%
Final Dividend per Share (RMB)	0.1176	0.1257	--
Special Dividend per Share (RMB)	0.0235	0.0251	--

(Hong Kong, 28 March 2019) — 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 2018.

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 OPEX¹ 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%; while free cash flow² remained healthy at an amount of 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%.

Mr. Zhang Zhiyong, Chairman of China Comservice commented: “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 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 the

¹ OPEX refers to the operating expenditure of domestic telecommunications operators.

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

Group leaped from a ten-billion enterprise to a hundred-billion enterprise. Profit of the Company maintained a steady growth with free cash flow remaining healthy, customer and business structures continuously optimized and the enterprise value remarkably elevated.”

MARKET DEVELOPMENT

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.

Domestic Non-Telecom Operator Market

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 Businesses³ 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, the Group reinforced capabilities enabling through strengthening the role of its product center as the pillar support and promoting business expansion. Through capabilities expansion, the Group 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.

³ Core Businesses include telecommunications infrastructure services, business process outsourcing services (excluding products distribution), as well as applications, content and other services.

Domestic Telecommunications Operator Market

In 2018, for the domestic telecommunications operators market, the Group further penetrated into CAPEX⁴ business by continuously improving our delivery capabilities and quality. The Group 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. The Group 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 services⁵ 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.

Overseas Market

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. The Group 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.

⁴ CAPEX refers to the capital expenditure of domestic telecommunications operators.

⁵ Core BPO services include management of infrastructure for information technology (network maintenance), general facilities management and supply chain services.

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; the Group vigorously expanded Core BPO services and broadened its capabilities coverage, aiming to grow bigger continuously; the Group 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.

Telecommunications Infrastructure (“TIS”) Services

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. The Group 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, the Group 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.

Business Process Outsourcing (“BPO”) Services

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 year⁶. Revenue from BPO services accounting 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%. The Group also further promoted the synergistic operation of general

⁶ In 2017, the Group's revenue from BPO services reported a year-on-year growth rate of 0.7%.

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.

Applications, Content and Other (“ACO”) Services

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%. The Group 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.

INNOVATION AND TRANSFORMATION

In 2018, the Group continued to deepen its reform and innovation and promoted its system and mechanism optimization. The Group enhanced the construction of “One CCS” while giving full play to the synergy and economics of scale within the whole Group. The Group 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. The Group constantly strengthened our ecological cooperation, and our list of partners continued to grow, including the Chinese Academy of Sciences and numerous innovative technology enterprises. The Group 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. The Group 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. The Group 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. 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.

PROSPECTS

Mr. Zhang Zhiyong, Chairman of China Comservice said: “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, The Group 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, the Group 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. The Group 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, the Group 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, the Group 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, the Group 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. The Group 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 its high-quality development. The Group would enhance its vitality, capabilities and energy, with a view to creating greater value for our shareholders and customers.”

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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 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".

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.