



中国通信服务
CHINA COMSERVICE

China Comservice Announces 2019 Interim Results

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HIGHLIGHTS:

- Overall results of the Group maintained steady growth against the backdrop of slower growth and even decrease in revenue in the domestic telecommunications industry. Total revenues were RMB56,049 million, up by 10.4%; profit attributable to equity shareholders of the Company was RMB1,712 million, up by 7.3%, with net profit margin remained relatively stable at 3.1%
- The Group's growth momentum transformed noticeably, with the domestic non-telecom operator market and OPEX-driven business of the domestic telecommunications operator market being the key growth drivers
- The Group further upgraded its software service capabilities and enhanced its brand influence, with revenue growth of the software related services surpassed industry level
- The Group's new positioning of "New Generation Integrated Smart Service Provider" will steer the Company to capture the new demands arising from the new era of digital transformation

Financial Highlights (unaudited)

For the six months ended 30 June	2018	2019	Change
Revenues (RMB million)	50,792	56,049	+10.4%
Profit Attributable to Shareholders (RMB million)	1,595	1,712	+7.3%
Free Cash Flow (RMB million)	2,736	-425	--
Gross Profit Margin (%)	12.2%	11.2%	-1pp
Net Profit Margin (%)	3.1%	3.1%	--
Basic Earnings per Share (RMB)	0.230	0.247	+7.3%

(Hong Kong, 27 August 2019) — 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 2019.

OPERATING PERFORMANCE

In the first half of 2019, the Group’s total revenues amounted to RMB56,049 million, representing a year-on-year increase of 10.4%, among which, revenue from the Core Businesses¹ recorded a year-on-year increase of 11.8%, sustaining a favourable growth momentum. Cost of revenues was RMB49,749 million, representing a year-on-year increase of 11.5%. Gross profit was RMB6,300 million, representing a year-on-year increase of 2.0%. Due to factors including the further progression on the adjustment of the domestic economic structure, development of the domestic non-telecom operator market still being in the preliminary introductory phase and the rigidity of labour costs, the Group’s gross profit margin was 11.2%, representing a year-on-year decrease of 1.0 percentage point. While increasing the investment in research and development, the Group enhanced its synergistic operation and continued to optimize resource allocation, and its selling, general and administrative expenses amounted to RMB4,985 million, accounting for 8.9% of total revenues and representing a year-on-year decrease of 0.3 percentage point. Profit attributable to equity shareholders of the Company was RMB1,712 million, representing a year-on-year increase of 7.3%, with net profit margin of 3.1%, which was largely the same as the same period of last year. Basic earnings per share amounted to RMB0.247, representing a year-on-year increase of 7.3%. Free cash flow² was RMB–425 million, mainly affected by the change in pace of collection and payment in the first half of the year.

Mr. Zhang Zhiyong, Chairman of China Comservice commented: “In the first half of 2019, against the backdrop of slower growth and even decrease in revenue in the domestic telecommunications industry, the Group adhered to the overall roadmap of ‘value-driven, seeking steady yet progressive growth and high-quality development’ and captured the opportunities from ‘Cyberpower’, ‘Digital China’ and ‘Smart Society’, enabling the Group to achieve favourable operating results and noticeable transformation of growth momentum for its development. In particular, domestic non-telecom operator market, being the largest customer and revenue contributor of the Group for the first time, steered the Group’s development. The sound development in the business process outsourcing (“BPO”) services and the rapid growth in the applications, content and other (“ACO”) services in the domestic telecommunications operator market supported the stable development in such market, and the fundamentals of the Group’s operation remained solid. The favourable new growth momentum and robust operating fundamentals endowed new capabilities and vitalities to the Group, which effectively defend us against the pressure and risks arising from the economic restructuring and change in industrial cycle, boost the endogenous power for enterprise development, thus laying a solid foundation for the Group to keep striding towards high-quality development.”

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

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

MARKET EXPANSION

In the first half of 2019, the Group expedited the deployment in the domestic non-telecom operator market and effectively leveraged on its smart products and integrated solutions to realize rapid revenue growth in such market. Meanwhile, the Group accelerated its integration into the domestic telecommunications operators' ecosystems and realized a stable development in such market attributable to the OPEX-driven business, as well as smart application businesses.

Domestic Non-Telecom Operator Market

The Group's revenue from the domestic non-telecom operator market amounted to RMB21,065 million, representing a rapid year-on-year increase of 28.5% and accounting for 37.6% of total revenues, making it the largest customer of the Group for the first time and contributing 88.8% of the total incremental revenues for the first half of the year. Revenue from the Core Businesses in the domestic non-telecom operator market increased at an even faster pace, of which the year-on-year growth rate was 33.3%, accounting for 91.5% of the revenue from such market which represented a year-on-year increase of 3.4 percentage points. Focusing on the key sectors including government, transportation, electricity, parks and intelligent building, the Group increased its investment in research and development, intensified its efforts in cultivating smart products, and continuously penetrated into industry opportunities by means of capabilities accumulation and capabilities enabling through its Ecosystem Alliances on Smart City, Internet of Things ("IoT"), Cloud Computing, etc., for the purpose of providing customers with integrated comprehensive solutions that support their informatization construction and create value for customer development. While promoting the transformation of its businesses, the Group also realized fast and sound development in such market.

Domestic Telecommunications Operator Market

In the domestic telecommunications operator market, the Group persisted in the development strategy of "CAPEX and OPEX-driven"³ businesses as dual growth drivers, and not only captured the demand for network construction, but also expanded operation and maintenance support businesses vigorously. Besides, the Group combined traditional services with smart businesses to support the transformation and upgrade of domestic telecommunications operator customers and the development of new ICT businesses. Upon the issuance of 5G licenses by MIIT⁴ in June 2019, domestic telecommunications operators further accelerated their deployment of 5G and adjusted their investment structure. However, operators' investment in 5G network has yet to come in scale. The revenue from such market maintained stable and recorded RMB33,645 million, representing a year-on-year increase of 2.1% and accounting for 60.0% of total revenues. Among that, revenue from China Telecom was RMB18,351 million, remained relatively at the same level as compared with the same period of last year and accounted for

³ CAPEX and OPEX refer to the capital expenditure and operating expenditure of domestic telecommunications operators, respectively.

⁴ MIIT refers to the Ministry of Industry and Information Technology of the People's Republic of China.

32.7% of total revenues. Revenue from domestic telecommunications operator customers other than China Telecom was RMB15,294 million, representing a year-on-year increase of 4.9% and accounting for 27.3% of total revenues.

Overseas Market

Affected by the progress of new overseas projects' commencement, revenue from overseas market of the Group amounted to RMB1,339 million, representing a year-on-year decrease of 7.4% and accounting for 2.4% of total revenues. The Group attaches great importance to overseas business development. By focusing on the opportunities from the "Belt and Road", the Group captured the demand for overseas network infrastructures and digitalization construction. By capitalizing on the cooperation opportunities with domestic telecommunications operators and "Go Abroad" Chinese enterprises, as well as the valuable experiences accumulated in the domestic non-telecom operator market, the Group continued to expand and increase the reserve of turnkey projects.

BUSINESS DEVELOPMENT

Telecommunications Infrastructure ("TIS") Services

In the first half of 2019, all the three businesses of the Group obtained favourable development. Revenue from telecommunications infrastructure ("TIS") services amounted to RMB30,801 million, representing a year-on-year increase of 8.7% and accounting for 55.0% of total revenues. The Group continued to seize the opportunities arising from the construction of Digital Economy and Smart Society in China, and penetrated into the full life cycle demands of domestic non-telecom operator customers by capitalizing on the "Consultant + Staff"⁵ business model to provide them integrated informatization construction services including consultation, planning and construction, thereby driving the TIS revenue growth in such market. Revenue from TIS services in domestic non-telecom operator market amounted to RMB10,665 million, representing a year-on-year rapid increase of 46.6%, being the largest driving force of revenue growth for TIS services. In the first half of 2019, domestic telecommunications operators deployed 5G network construction while adjusting investment structure, and TIS revenue from domestic telecommunications operator market recorded a year-on-year decrease of 4.1% and amounted to RMB19,200 million.

Business Process Outsourcing ("BPO") Services

In the first half of 2019, revenue from BPO services amounted to RMB18,128 million, representing a year-on-year increase of 9.2% and accounting for 32.3% of total revenues. Among that, Core BPO

⁵ "Consultant + Staff" model is a new business model adopted by the Group in recent years. "Consultant" means that the Group acts as the "Consultant" to help its customers through leveraging on its talents and products advantages, so as to turn customers' needs into feasible solutions or projects. "Staff" means that the Group, as appointed by its customers, assists them in the capacity of a "Staff" in coordinating other stakeholders of the project, so as to promote the smooth implementation of the project and ensure that its customers' expectation could be achieved.

services⁶ (i.e. BPO services excluding the products distribution business) progressed well and revenue from which recorded a year-on-year increase of 14.1%. The Group further enhanced the synergistic operation of general facilities management and supply chain businesses, both of which recorded a year-on-year increase of over 15%. Revenue from network maintenance business also increased by 11.3% year-on-year. Revenue from the products distribution business under continuous control by the Group recorded a year-on-year decrease of 16.0%, with its contribution to total revenues decreased by 1.2 percentage points to 4.1% as compared with the same period of last year.

Applications, Content and Other (“ACO”) Services

In the first half of 2019, revenue from ACO services amounted to RMB7,120 million, representing a year-on-year increase of 21.6% and maintaining a good growth trend. The revenue contribution from ACO services to total revenues consistently increased in the past few years and reached 12.7% in the first half of 2019, which was 1.2 percentage points higher year-on-year. The Group adapted to the trend of Digital Economy, focused on the demand for informatization and intelligentization construction of industry customers and provided increasingly enriched and diversified smart products⁷ and services to them. In addition, the Group’s software service capabilities were enhanced continuously, driving the revenue of ACO Major businesses⁸ to increase by 25.8% year-on-year, which surpassed the growth rate of national software business revenue⁹.

DEEPENING TRANSFORMATION

In the first half of 2019, facing the new trend of Digital Economy era, the Group put forward the new positioning of “New Generation Integrated Smart Service Provider” and continuously enhanced internal capabilities and strengthened development momentum.

The Group continued to promote the construction of foundation platform capabilities, increased the investment in research and development of “CCSYUN” (our cloud service) and IoT platforms and enhanced the promotion and application thereof. By utilizing its industrial alliances¹⁰ and group-level research institutes, the Group improved the construction of internal and external ecosystems, and converged internal and external resources to enhance capability to respond and deploy new markets and new technologies in foresight. By fully promoting the “Consultant + Staff” business model, which is led by consulting and planning with smart products embedded, the Group enhanced the capabilities of promoting the sizable project expansion. The Group promoted the integration of financial solutions

⁶ Core BPO services include management of infrastructure for information technology (network maintenance), general facilities management and supply chain services.

⁷ Currently, the number of group-level smart products has increased to over 30.

⁸ ACO Major businesses include system integration, software development & system support and value-added services.

⁹ According to information released by MIIT, national software business revenue recorded a year-on-year growth of 15.0% in the first half of 2019.

¹⁰ Current industrial alliances of the Group include: Smart City Alliance, Cloud Computing Alliance, IoT Alliance, Network Security Alliance, Smart Transportation Alliance and Internet of Energy Alliance, etc.

with industrial development, as well as strengthening business incubation and exploring new business model for such integration through Comservice Capital Holding Company Limited.

In addition, the Group's branding and industry influence was effectively enhanced. In the first half of 2019, the Group was ranked 5th in the "100 Most Competitive Software & IT Service Enterprises 2019", right after the leading enterprises in the field. By participating in various national expositions including China International Big Data Industry Expo, the Group's philosophy of cooperation and co-development was delivered to society and customers, and gained wide recognition.

PROSPECTS

Mr. Zhang Zhiyong, Chairman of China Comservice said: "Currently, the macro-economy is growing steadily and progressively, the industry structural upgrade is accelerating, contribution from domestic demand is rising and the service sector commands vast market potential. Digital Economy becomes a new impetus for economic development with 5G, IoT, Cloud Computing, Artificial Intelligence as well as Big Data entering into the substantive development stage. China's expedition on the deployment for synergistic development of three major economic zones¹¹ and Yangtze River Economic Belt, further development along the 'Belt and Road' and the vigorous demand for construction of a Smart Society in China and overseas, will all create new business opportunities. In view of the issuance of 5G licenses, the Company believes that it will not only bring traditional business opportunities to the Group including network infrastructure construction as well as operation and maintenance, but also give rise to new demands arising from digital transformation of industries, Industrial Internet and more maintenance, operation and support services in relation to IoT. The emergence of the above new demands, coupled with the Group's diversified smart solutions established and valuable practical experiences accumulated in various industries in recent years, is expected to bring sustainable and significant strategic opportunities for the Group in the future.

Focusing on the main development tracks, the Group will continue to upgrade its 'cross-platform, cross-connection, cross-application, cross-region and cross-supplier' core service capabilities, as well as strengthening its effort on innovation and transformation with a view to promoting high-quality development.

The domestic non-telecom operator market is an important driver for the Group's business growth in the future. In this market, by capturing the opportunities of 'Cyberpower', 'Digital China' and 'Smart Society', the Group will further penetrate into key sectors such as government, transportation and electricity, and accelerate the deployment of Industrial Internet. The Group will focus on the needs of customers, increase investment in research and development, improve the internal and external ecosystems, and build the core capabilities and brand influence as 'New Generation Integrated Smart Service Provider' with a view to promoting fast, sustainable and healthy development of such market.

¹¹ Three major economic zones: Yangtze River Delta Economic Zone, Pearl River Delta Economic Zone and Bohai Rim Economic Zone.

The domestic telecommunications operator market is the fundamentals of the business development of the Group. By capturing the opportunities arising from 5G network construction, network information security as well as cloud-network integration, and integrating into the domestic operators' business ecosystems, the Group will deeply penetrate into CAPEX business, broaden OPEX business, and provide high-quality, standardized services to customers and support their transformation and upgrade, with a view to maintaining the Group's stable fundamentals.

In overseas market, the Group will capture the opportunities from the 'Belt and Road', focus on 'EPC+F+I+O+S'¹² model and strive to develop sizable turnkey projects. In response to the strong overseas demand for informatization, the Group will promote its smart products and services in overseas market to explore new drivers of growth. Meanwhile, the Group will strengthen its collaboration with domestic telecommunications operator customers, 'Go Abroad' Chinese enterprises, and local partners to expand overseas market and seek new breakthroughs for the development of overseas business.

It is now a crucial period for economic transformation and upgrade as well as the industrial reform, and the new era signifies new opportunities to the Group. The Group, as a 'New Generation Integrated Smart Service Provider', will leverage on State-owned Enterprise Reform to accelerate its pace on reform and commence a new round of transformation. The Group will adhere to the principle of value-driven, seeking steady yet progressive growth while striving towards high-quality development, and reward our shareholders and customers with better results and performance."

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¹² EPC+F+I+O+S: EPC (Engineering, Procurement, Construction)+ Finance + Investment + Operation + Solution

About China Comservice

China Comservice is a New Generation Integrated Smart Service Provider that provides integrated comprehensive solutions in the informatization and digitalization sector including 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 Corporation Limited), 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 2019, the Company was honored the "Best CEO" again in the "9th Asian Excellence Recognition Awards" by Corporate Governance Asia, an authoritative journal on corporate governance in Asia, as well as "Best Investor Relations". The Company was also ranked 86th in the "2019 FORTUNE China 500" released by FORTUNE China. In addition, the Company was ranked 5th in "100 Most Competitive Software & IT Service Enterprises 2019", up by one place compared to last year's ranking.

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.