



中国通信服务
CHINA COMSERVICE

China Comservice Announces 2019 Annual Results

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HIGHLIGHTS:

- Driven by the businesses related to digital services in the domestic non-telecom operator market, the OPEX business and the industry-oriented smart application businesses in the domestic telecommunications operator market, the Group's overall results maintained steady growth, with business value further manifested
- Domestic non-operator market became the largest customer group for the first time, the development quality of such market was enhanced and became increasingly significant to the profit growth of the Group
- The Group built up its strength in 5G technologies and capabilities while proactively satisfying 5G network construction demand of the domestic telecommunications operators. New Infrastructure led by 5G infrastructure will also bring the Group with great potential for growth

Financial Highlights (audited)

For the year ended 31 December	2018	2019	Change
Revenues (RMB million)	106,177	117,413	+10.6%
Profit Attributable to Equity Shareholders of the Company (RMB million)	2,901	3,049	+5.1%
Free Cash Flow (RMB million)	3,613	4,243	+17.4%
Gross Profit Margin (%)	12.1%	11.7%	-0.4pp
Net Profit Margin (%)	2.7%	2.6%	-0.1pp
Basic Earnings per Share (RMB)	0.419	0.440	+5.1%
Total Dividend per Share (RMB)	0.1508	0.1585	+5.1%
Final Dividend per Share (RMB)	0.1257	0.1321	--
Special Dividend per Share (RMB)	0.0251	0.0264	--

(Hong Kong, 31 March 2020) — 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 2019.

OPERATING PERFORMANCE

In 2019, businesses related to digital services in domestic non-telecom operator (the “domestic non-operator”) market served as the main growth driver of the Company. Meanwhile, OPEX¹ and intelligitization businesses in the domestic telecommunications operator market also provided sound support for the growth of the Group. Total revenues for the year amounted to RMB117,413 million, representing a year-on-year increase of 10.6%; profit attributable to equity shareholders of the Company was RMB3,049 million, representing a year-on-year increase of 5.1%. Free cash flow² remained healthy and amounted to RMB4,243 million, representing a year-on-year increase of 17.4%. The favourable results of operations and free cash flow provided strong support for the Group’s development, and laid a solid foundation for the Group’s enterprise transformation and responses to changes in industry development.

Dividend

The Board has proposed to distribute a final dividend of RMB0.1321 per share for the financial year ended 31 December 2019, representing a dividend payout ratio of 30%. Moreover, in view of the Group’s favourable operating results and free cash flow level for the year, the Board has proposed to distribute a special dividend of RMB0.0264 per share for 2019. Taking into consideration of the above factors, the Company’s total dividend for 2019 is RMB0.1585 per share, representing a total dividend payout ratio of 36%.

Mr. Zhang Zhiyong, Chairman of China Comservice commented: “In 2019, against the backdrop where overall macro-economy faced downward pressure and domestic telecommunications industry witnessed slowdown in growth, the Group, with concerted efforts and strong determination, pinpointed the new position of ‘New Generation Integrated Smart Service Provider’, adhered to the overall roadmap of ‘value-driven, seeking steady yet progressive growth and high-quality development’, focused on opportunities including ‘Cyberpower’, ‘Digital China’, ‘Smart Society’ and ‘Network Information Security’ and vigorously penetrated into industrial ecosystems, thus achieving favourable development. During the year, the Group’s total revenues, profit and free cash flow achieved steady growth, overall efficiency remained robust, and customer and business structures were further optimized, which all enabled the Group’s solid progression towards intelligent and digital transformation.”

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

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

MARKET DEVELOPMENT

In 2019, the Group adhered to the three main development tracks of the domestic non-operator market, the domestic telecommunications operator market and the overseas market, focused on the digitalization and intelligentization demands in society and industries, forged its integrated smart service capabilities and accelerated market development and deployment. As a result, the Group achieved satisfactory results with business and revenue structures continuously optimized and development quality noticeably enhanced.

Domestic Non-Operator Market

In 2019, with the Group's long-term investment and devotion to the field of smart service, the domestic non-operator market sustained a rapid and healthy development trend in recent years, and customers in the market became the largest customer group³ for the first time. The development quality of the domestic non-operator market was enhanced, which became increasingly significant to the profit growth of the Group. In 2019, the Group recorded a revenue of RMB41,727 million in domestic non-operator market, representing a year-on-year increase of 25.2% and accounting for 35.5% of the total revenues, 4.1 percentage points higher than last year. Of that, revenue from the Core Businesses⁴ in the domestic non-operator market reported a year-on-year increase of 29.8%, accounting for 92.4% of the overall revenue of such market. The development quality was further improved and the contribution to the Group's gross profit increased noticeably. By focusing on the intelligentization demand of the government, society and industries, in recent years, the Group has been constructing an industrial ecosystem and penetrating into key industries including electricity, transportation, airport and sport game, as well as increasing investment in research and development to accelerate the development and iteration of smart products. Driven by the development of smart products, the Group's has made remarkable achievements in the development of large-scale projects, including the "Smart Game" for the 7th CISM Military World Games which the Group provided comprehensive planning, integrated game management and command platform construction services; the Shanghai Lingang Data Center project which the Group provided "EPC + Operation and Maintenance" in the form of full-process BIM (Building Information Modeling) service; the Digital Government Project for Guangdong province in the form of "Consultation + Software (Smart Government Services) + Integration". Meanwhile, the Group has also accelerated deployment and looked for breakthroughs in the new fields of Industrial Internet, emergency management and network information security, and for instance, the Group have established the first provincial-level hazardous chemicals monitoring platform in Anhui and the Industrial Internet Big Data Platform in Chongqing.

³ Customers here are classified into four categories, including the domestic non-operator customers, China Telecom, other domestic telecom operator customers and overseas customers.

⁴ 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

Upon the issuance of 5G licenses by Ministry of Industry and Information Technology of the People's Republic of China ("MIIT") in June 2019, the domestic telecommunications operators further accelerated their 5G deployment, of which the construction has yet to come into scale. The Group responded proactively to market changes, and made full use of the "Dual Growth Drivers+" (i.e. CAPEX⁵ and OPEX + Smart Applications) development strategy to expand the domestic telecommunications operator market, which realized a revenue of RMB72,420 million, representing a year-on-year increase of 3.9% and accounting for 61.7% of the total revenues. The Group proactively integrated into the domestic telecommunications operator customers' ecosystems to provide customers with high-quality services in the fields of 5G, Internet of Things ("IoT"), network security, cloud-network integration and other aspects, thus facilitating their transformation and upgrade. The demand for industrial digitalization and intelligentization from domestic telecommunications operators became a new growth driver from such customer group following the OPEX business. During the year, the revenue from China Telecom of the Group amounted to RMB40,633 million, representing a year-on-year decrease of 1.6% and accounting for 34.6% of the total revenues. The Group proactively supported the network construction of the operators, and the aggregate revenue from operators other than China Telecom reported a year-on-year increase of 11.8%, accounting for 27.1% of the total revenues.

Overseas Market

In 2019, revenue from the Group's overseas market was RMB3,266 million, representing a year-on-year increase of 3.6% and accounting for 2.8% of the total revenues. The Group's overseas large-scale projects achieved continuous breakthroughs, such as the 4G network construction project in Nepal, the Digital Mali Project, the Ground and Submarine Cables Project in Congo-Brazzaville and the Power Communication Project in Saudi Arabia. In 2019, the Group was awarded the "Excellent Enterprise" for the "Belt and Road" 2019 Information Technology Industry by China Information Technology Industry Federation. The 4G Project in Nepal, the National Broadband Project in Saudi Arabia and the Optical Cable Backbone Network Project in Tanzania were awarded the Top 100 Outstanding "Belt and Road" Cases for the 2019 Information Technology Industry, demonstrating that the business strength and brand awareness of the Group have received wide recognition in the market.

BUSINESS DEVELOPMENT

In 2019, by focusing on digitalization and intelligentization businesses, the Group increased resources input to extend its integrated smart service capabilities centered on integrated solutions. New development features of the Group emerged with its consultation and planning businesses led the way and drove the development of software services and smart products, as well as the robust growth of digital infrastructure construction business. Meanwhile, the Group vigorously expanded the OPEX

⁵ CAPEX refers to the capital expenditure of domestic telecommunications operators.

business of domestic telecommunications operators and paid close attention to the new business demand arising from the transformation of such customers, thus strengthening its customers' loyalty continuously to ensure the Group's stable fundamentals. Following the business transformation and upgrade of the Group in recent years, its revenue sources became more diversified and its business structure became healthier.

Telecommunications Infrastructure (“TIS”) Services

In 2019, the Group's TIS services recorded a revenue of RMB64,689 million, representing a year-on-year increase of 12.8% and accounting for 55.1% of the total revenues. Capturing the domestic construction opportunities from Digital Economy and Smart Society, the Group has penetrated into the domestic non-operator market by adopting the “Consultant + Staff + Housekeeper” service model⁶ and provided digital infrastructure construction related services to its customers. During the year, such revenue from the domestic non-operator market was RMB20,910 million, representing a rapid year-on-year increase of 42.8%, and was the largest revenue growth driver of TIS services. During the year, the Group built up its strength in 5G technologies and capabilities while proactively satisfying 5G network construction demand of the domestic telecommunications operators. However, as the investment of the domestic telecommunications operators in 5G network has yet to come into scale, the TIS revenue from the domestic telecommunications operator market experienced a stable year-on-year growth of 2.1%, amounting to RMB41,153 million.

Business Process Outsourcing (“BPO”) Services

Revenue from the BPO services amounted to RMB36,637 million, representing a year-on-year increase of 4.4% and accounting for 31.2% of the total revenues. Adhering to the value-driven principle, the Group continued to contain its products distribution business with low gross profit, as a result, revenue from products distribution business for the year reported a year-on-year decrease of 11.5%. Excluding the products distribution business, the Core BPO services⁷ progressed well with a year-on-year revenue increase of 6.9%. The Group continued to penetrate into the OPEX business of the domestic telecommunications operators and facilitated the quality improvement of their networks. Revenue from the network maintenance business for the year reported a year-on-year increase of 7.0%. In 2019, the Group continued to establish comprehensive and integrated capabilities for the property management. Leveraging on the “Hui Yun” (慧雲) platform, the Group enhanced synergistic operation and promoted intelligent transformation. Our property management business extended to fields such as high speed rail, airport and achieved favourable development results. Revenue from the general facilities management (property management) business reported a year-on-year increase of 16.9% and

⁶ “Consultant + Staff + Housekeeper” service 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 “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. “Housekeeper” means the Group provides full life cycle management and accompanying service of the relevant business and creates values for customers.

⁷ Core BPO services include management of infrastructure for information technology (network maintenance), general facilities management (property management) and supply chain services.

maintained a growth rate of over 15% for two consecutive years⁸. The Group established the supply chain digitalized procurement platform, which enhanced the unified storage capabilities and network-wide operation capabilities. However, revenue growth of the supply chain business slowed down and reported a year-on-year increase of 1.7%, mainly because of the subdued growth in marketing agent and after-sale businesses attributable to the marketing strategy adjustment of the domestic telecommunications operators.

Applications, Content and Other (“ACO”) Services

Revenue from the ACO services amounted to RMB16,087 million, representing a rapid year-on-year increase of 17.3%, making it the fastest growing segment among the three major businesses. It accounted for 13.7% of the total revenues, which was 0.8 percentage point higher year-on-year. Through capturing the domestic opportunities arising from the digitalization construction by the government and industries, as well as the intelligent transformation of the domestic telecommunications operators, the Group provided smart products, smart services and industrial integrated solutions to customers. Currently, the Group have accelerated the promotion of over 30 smart applications among vertical industrial customers. In 2019, revenue from the Group’s system integration, software development and system support businesses reported a year-on-year increase of 23.5% and 14.2% respectively. Revenue from the ACO Major businesses⁹ reported a year-on-year increase of 18.6%, surpassing the growth rate of the national software business revenue¹⁰ and demonstrating a sound development result of such businesses.

INNOVATION AND TRANSFORMATION

In 2019, the Group deepened innovation and transformation continuously to ride on the new trend in Digital Economy era.

Construction of foundation platforms. The Group continued to promote the construction of “CCSYUN” (our cloud service) and “CCS Open IoT Platform” to drive transformation. Besides, the Group improved network and information security capabilities by the establishment of platforms including cloud security, cloud-based monitoring and content automated testing to satisfy market demand. Furthermore, the Group launched pilot maintenance platform to plan ahead for the new maintenance areas of the 5G and IoT era.

Enhancement of research and development capabilities. By focusing on social and industrial intelligentization demands, the Group increased investment in research and development by way of setting up a dispersed research and development system as well as capitalizing on its ecosystem alliances and research institutions. The Group converged capabilities based on its foundation platforms

⁸ In 2018, revenue from the general facilities management business reported a year-on-year increase of 15.9%.

⁹ ACO Major businesses include system integration, software development & system support and value-added services.

¹⁰ In 2019, the national software business revenue reported a year-on-year increase of 15.4% (source: MIIT).

to accelerate the research and development and the iteration of its products, so as to respond to market demand in a rapid manner and support development through capabilities enabling.

Optimization of ecosystem. On one hand, the Group continuously established the middle platforms for capabilities accumulation and capabilities enabling to optimize internal ecosystem and enrich industrial ecosystem, thus bringing in new partners from government, industries and research and development institutions. On the other hand, the Group emphasized the construction of talent ecosystem by ceaselessly enhancing various expert teams and Comservice Craftsmanship systems, with the view to accumulating adequate reserves of diverse talents.

PROSPECTS

Mr. Zhang Zhiyong, Chairman of China Comservice said: “In 2019, the Group adhered to the overall roadmap of ‘value-driven, seeking steady yet progressive growth and high-quality development’ and pinpointed its new position as ‘New Generation Integrated Smart Service Provider’. By firmly capturing the changes in the market and adhering to the main development tracks, the Group achieved favourable results and made a solid step towards high-quality development.

Currently, the domestic and global economic environments are experiencing profound adjustment, and the COVID-19 epidemic has increased the downward pressure on the domestic and international economies, and put considerable pressure to the Group’s operation and development during such period. At the same time, the COVID-19 epidemic has brought changes to the pattern of production, daily life and demand in the society, accelerating the digitalization progress of the society and industries, which has also brought the Group with rare opportunities. From the macro perspective, there is no change to the basic trend that the economy of China is still heading for long-term prosperity; there is no change to the development advantages accumulated since reform and opening up, including the technological base, the size of the market, and the domestic demand potential; there is no change to the regional economic development strategy and the trend of advancement of the ‘Belt and Road’. From the perspective of industrial development and technological progress, the further advancement of ‘Cyberpower’, ‘Network Information Security’ and commercial use of 5G, as well as the deep integration of emerging technologies such as 5G, IoT, Artificial Intelligence, Blockchain with the real economy, will create booming demand for digitalization from society and industries. During the epidemic, cutting-edge technologies such as 5G have played an important role and fostered great market demand. ‘New Infrastructure’ including data center and Industrial Internet, which is led by 5G infrastructure, will also be the critical foundation for digital transformation of the society and the construction of modern smart city. It will not only generate important driving force for future economic development, but also bring the Group with great potential for growth. In particular, the 5G infrastructure will give rise to application investment in the upstream and downstream of the industry value chain and various industries, which would facilitate the continuous emergence of new demand, new business forms and new applications, creating further growth potential in the domestic telecommunications operator market and the domestic non-operator market.

In the future, the Group will adhere to the overall roadmap and focus on the main development tracks based on its positioning of ‘New Generation Integrated Smart Service Provider’ to fit into the overall development of China, the society and industries, with a view to further promoting value transformation and forming new development advantages.

In the domestic non-operator market, by focusing on opportunities arising from New Infrastructure such as 5G and riding on the accelerating trends of modern smart city upgrade, digital governance and industrial digitalization as the epidemic broke out, the Group will take various measures to continuously expand its business scale in such market and optimize its integrated smart service capabilities, including: speeding up its deployment in key regions such as Beijing-Tianjin-Hebei, Yangtze River Delta, Yangtze River Economic Belt, Guangdong-Hong Kong-Macao Greater Bay Area, intensifying its development in key sectors such as government, electricity and transportation as well as making breakthroughs in key fields such as Industrial Internet, emergency management and network information security.

In the domestic telecommunications operator market, the Group will uphold the ‘Dual Growth Drivers+’ development strategy and take advantage of its advanced deployment in aspects including the 5G construction as well as the research and development for applications. The Group will also integrate into customers’ ecosystem in light of the changing industrial development. Furthermore, the Group will further develop the 5G network construction and the OPEX business, while capturing the demand for smart applications and assisting customers in transformation. By taking all these efforts, the Group will secure the fundamentals of our operation while making new breakthroughs in development.

In overseas market, by grasping the opportunities arising from the advancement of ‘Belt and Road’ and leveraging on its ‘EPC+F+I+O+S’¹¹ model, the Group will focus on the overseas demand for network infrastructure and digital services with the promotion of its smart products and services, thus realizing steady growth of overseas revenue. Meanwhile, the Group will strengthen collaboration with domestic telecommunications operators, ‘Go Abroad’ Chinese enterprises, and local partners to expand overseas market and explore new development potential.

At the same time, the Group will allocate more resources to research and development in respect of 5G, Big Data and IoT, as well as improving our dispersed research and development based on our foundation platforms, with a view to enhancing the quality and quantity of smart products and facilitating capabilities enabling for social and industrial development. The Group will enhance its corporate governance by pushing forward the State-owned Enterprise Reform ‘Double-hundred Action’, develop flexible mechanism that is adaptive to the changing market, talent team, innovative mechanism and symbiotic ecosystem, with a view to promoting value transformation and becoming an integrated smart service provider with cutting-edge technologies and supreme intelligence.”

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¹¹ 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(property 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.

The Group ranked 86th in the “2019 FORTUNE China 500” published by *FORTUNE China*, and was listed among the “2019 Forbes Global 2000 — World’s Largest Public Companies” by *Forbes*. In the voting for “The Asset ESG Corporate Awards 2019” held by the magazine *The Asset*, the Group was awarded “Gold Award — Corporate Governance, Social Responsibility and Investor Relations”. The Group was also granted “The Best of Asia — Icon on Corporate Governance” in the 2019 “15th Asian ESG Awards” held by *Corporate Governance Asia*. In addition, the Group won the “Best TMT Company” and the “Most Socially Responsible Listed Company” awards in the voting of the 2019 “Golden Hong Kong Equities Awards”. In 2019, Mr. Zhang Zhiyong, the Chairman, was again awarded the “Asian Corporate Director” in the 2019 “15th Asian ESG Awards” held by *Corporate Governance Asia*. Mr. Si Furong, the President, entered the 2019 *Forbes China* “Best Multinational CEO List”, and won the “Best CEO” in the awards by *The Asset* and *Corporate Governance Asia*, respectively.

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.