



中国通信服务
CHINA COMSERVICE

China Comservice Announces 2020 Interim Results

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HIGHLIGHTS:

- In the first half of 2020, the pandemic brought unprecedented pressure and challenges to the Group's operation, which resulted in short-term impact on its operating results
- The Group took various measures proactively to cope with the impact of the pandemic, which facilitated a noticeable rebound of its operations in the second quarter of the year; but this recovery has not fully mitigated the impact brought by the pandemic at the beginning of the year
- The Group seized opportunities from the 5G construction by domestic telecommunications operators, as it cultivated and leveraged its edges in general contracting capabilities to consolidate its leading market position
- Domestic non-operator market continued to be the main growth driver for the overall development, and contributed over 40% of total revenues for the first time with further improving development quality
- The Group continuously increased R&D investment to upgrade software service capabilities, and ACO business maintained a sustained and rapid growth, with its revenue contributed approximately 15% of total revenues
- The pandemic facilitated the development of New Infrastructure and digital transformation of enterprises, and brought various new opportunities. The Group, with its businesses and capabilities tallying with the overall development demand of New Infrastructure, will seize new opportunities and further promote its high-quality and sustainable development

Financial Highlights (unaudited)

For the six months ended 30 June	2019	2020	Change
Revenues (RMB million)	56,049	53,834	-4.0%
Profit Attributable to Equity Shareholders of the Company (RMB million)	1,712	1,588	-7.2%
Free Cash Flow (RMB million)	-425	-1,596	--
Gross Profit Margin (%)	11.2%	11.0%	-0.2pp
Net Profit Margin (%)	3.1%	2.9%	-0.2pp
Basic Earnings per Share (RMB)	0.247	0.229	-7.2%

(Hong Kong, 26 August 2020) — 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 2020.

OPERATING PERFORMANCE

In the first half of 2020, the Group’s total revenues recorded RMB53,834 million, representing a year-on-year decrease of 4.0%. Revenue from Core Businesses¹ accounted for 96.6% of the total revenues, representing a year-on-year increase of 0.7 percentage point. Cost of revenues recorded RMB47,931 million, representing a year-on-year decrease of 3.7%. Gross profit recorded RMB5,903 million, representing a year-on-year decrease of 6.3%. Gross profit margin was 11.0%, representing a year-on-year decrease of 0.2 percentage point. With the benefits from developing high-margin businesses, optimizing business structure, controlling costs and enhancing efficiency, the Group effectively mitigated the impact of the pandemic on its gross profit margin, thus the decline of the gross profit margin slowed down noticeably². Having considered both the pandemic situation and the needs for its own development, the Group sped up the pace of its digital transformation and leveraged various supplemental measures such as “online” and “remote” to promote sales and marketing and strengthen communications, thereby enhancing operating and management efficiency. As a result, selling, general and administrative expenses amounted to RMB4,785 million, representing a year-on-year decrease of 4.0% and accounting for 8.9% of total revenues, which remained at the same level as compared with the same period of last year. Profit attributable to equity shareholders of the Company was RMB1,588 million, representing a year-on-year decrease of 7.2%; net profit margin was 2.9%, representing a year-on-year decrease of 0.2 percentage point. Basic earnings per share amounted to RMB0.229, representing a year-on-year decrease of 7.2%. Free cash flow³ was RMB–1,596 million.

Mr. Zhang Zhiyong, Chairman of China Comservice commented, “In the first half of 2020, the novel coronavirus (the “COVID-19”) pandemic made a huge impact on the overall social economic development, in which the Group also faced unprecedented pressure and challenges on its operation. Due to the pandemic, the Group faced difficulties including deferred tendering from our major customers, delay in the commencement of work and project delivery as well as the constraints on cross-regional works. In particular for the first quarter, it was a critical period in China for fighting against the pandemic and most of the Group’s businesses could not be carried out normally. Meanwhile, rigid costs were incurred while anti-pandemic expenses increased, and there was an overall dislocation of our operation, leading to immense pressure on its revenue and profit.

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

² In the first half of 2019, the gross profit margin of the Group was 11.2% and recorded a year-on-year decrease of 1.0 percentage point.

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

The Group seized the accelerating informatization construction such as ‘Emergency Management’, ‘5G construction’, ‘Digital Society’, and also the demand on ‘New Infrastructure’ prompted by the pandemic. The Group sought to overcome challenges by broadening the sources of revenue while cutting costs and adopting various measures to proactively promote resumption of work and production. With the pandemic situation in China turned relatively stable in the second quarter, the Group’s overall operating performance was marked with a recovering year-on-year growth.

The Group has been adhering to the ‘value-driven’ principle since 2015 with continuous investment and experience accumulation on the informatization for serving the society, which helped us overcome the challenges and quickly resume normal operating conditions in an effective manner during this extraordinary period in history. In view of this, the Group is confident with the outlook for the second half of this year, as well as the sustainable and healthy development in the future.”

MARKET EXPANSION

In the first half of 2020, notwithstanding the onslaught of the pandemic, the Group overcame difficulties and challenges resulting from the sharp decline in tenders and business volume, and project suspension brought by the pandemic. By focusing on key operation aspects, namely, key regions, major customers, tender volume, key projects, new contracts, and production volume since work resumption (“the Six Key Focuses”), the Group endeavored to resume work and production while combating the pandemic, thus safeguarding the stable fundamentals for its development and laying a solid foundation for the year’s operating performance.

Domestic Non-operator Market

Domestic non-telecom operator (“domestic non-operator”) customers, as the Group’s largest customer group⁴, maintained the growth momentum and played a decisive role in stabilizing the overall operating performance in the first half of 2020. Revenue generated from such market recorded RMB21,851 million, representing a year-on-year increase of 3.7%. The contribution to the total revenues from the domestic non-operator market exceeded 40% for the first time and reached 40.6%. Among which, the Core Businesses revenue recorded a year-on-year increase of 5.9% and accounted for 93.4% of the overall revenue from such market, representing a year-on-year increase of 1.9 percentage points. The Group took up the mission of “Building Smart Society, Boosting Digital Economy, Serving a Good Life”, strived to look into the needs of customers in the vertical industries and leveraged its unique “Consultant + Staff + Housekeeper” service model⁵ and “Platform + Software + Service” competitive

⁴ Customers here are classified into four categories, including the domestic non-operator customers, China Telecom, other domestic telecommunications operator customers and overseas customers.

⁵ “Consultant + Staff + Housekeeper” service model is a unique business model adopted by the Group in recent years. “Consultant” means that the Group acts as the “Consultant” to help its customers through leveraging its talents and product 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.

capabilities⁶ to provide its customers with vast variety of smart products and solutions. The Group achieved major breakthroughs in the fields of Emergency Management, Data Center, Digital Government, Smart Game and Smart Airport. The proportion of new contracts in the domestic non-operator market with a size of over RMB100 million (per contract) increased from 8% in 2019 to 14% in the first half of 2020. The new contract value for the Core Businesses in the domestic non-operator market increased by 6.7% year-on-year.

Domestic Telecommunications Operator Market

Owing to the pandemic, the bidding and tendering process and project commencement of the domestic telecommunications operators were behind schedule early in the year, and the Group's performance in the domestic telecommunications operator market experienced some fluctuation. Revenue from such market recorded RMB30,546 million, representing a year-on-year decrease of 9.2% and accounting for 56.7% of total revenues; among which, revenue from China Telecom amounted to RMB17,162 million, representing a year-on-year decrease of 6.5% while accounting for 31.9% of the total revenues. Revenue from domestic telecommunications operators other than China Telecom recorded RMB13,384 million, representing a year-on-year decrease of 12.5% while accounting for 24.8% of the total revenues. Although the development in the first half was affected by the pandemic, the Group continued to persist in its "Dual Growth Drivers+"⁷ development strategy, and supported its customers' 5G development and cloud-network integration construction remained unchanged. In addition, pursuant to the change in our customers' needs, the Group made use of the EPC general contracting service model to support our customers' constructions such as 5G, and the relevant business volume increased steadily.

Overseas Market

The Group's revenue from the overseas market recorded RMB1,437 million in the first half of 2020, representing a year-on-year increase of 7.3% and accounting for 2.7% of the total revenues. Benefiting from the smooth execution of projects in Nepal, Saudi Arabia, etc., and revenue from the respective projects being recognized in phases, overseas business achieved growth amid the headwind in the first half of 2020. The Group strictly implemented the scientific prevention and control measures for the pandemic, and its staff stationed in overseas business regions recorded zero infection in the first half of 2020.

⁶ "Platform + Software + Service" capabilities: utilize core foundation platforms, including Cloud and IoT, focus on the application of various smart applications for customer scenarios, and the integrated service capabilities covering consultation and planning, project construction, operation and maintenance, to provide customers with customized integrated solutions.

⁷ "Dual Growth Drivers+" refers to CAPEX and OPEX + Smart Applications. CAPEX refers to the capital expenditure of domestic telecommunications operators while OPEX refers to the operating expenditure of domestic telecommunications operators.

BUSINESS DEVELOPMENT

Telecommunications Infrastructure (“TIS”) Services

In the first half of 2020, the impact brought by the pandemic on domestic construction projects was particularly evident. The Group’s revenue from telecommunications infrastructure (“TIS”) services recorded RMB29,037 million, representing a year-on-year decrease of 5.7% and accounting for 53.9% of the total revenues. Among which, TIS revenue from domestic non-operator customers amounted to RMB11,185 million, representing a year-on-year increase of 4.9%. TIS revenue from overseas customers amounted to RMB1,108 million, recording a robust year-on-year growth of 18.3%. TIS revenue from domestic telecommunications operators amounted to RMB16,744 million, representing a year-on-year decrease of 12.8%.

Business Process Outsourcing (“BPO”) Services

Revenue from business process outsourcing (“BPO”) services recorded RMB16,959 million, representing a year-on-year decrease of 6.4% and accounting for 31.5% of the total revenues. Among which, revenue from network maintenance business decreased by 0.4% year-on-year, and revenue from general facilities management (property management) business increased by 4.7% year-on-year. The impact inflicted by the pandemic on the supply chain business was relatively more apparent and revenue from such business recorded a decrease of 13.9% year-on-year. The Group continued to exercise proactive control over its products distribution business, with the revenue from such business recording a decrease of 20.3% year-on-year, and accounting for 3.4% of the total revenues, which represented a decrease of 0.7 percentage point year-on-year.

Applications, Content and Other (“ACO”) Services

Revenue from applications, content and other (“ACO”) services amounted to RMB7,838 million, representing a year-on-year increase of 10.1% and accounting for 14.6% of the total revenues, up by 1.9 percentage points. Among which, revenue from system integration business recorded a year-on-year increase of 15.6%, whereas revenue from software development and system support business recorded a year-on-year increase of 21.1%. The rapid growth of ACO services and its positive contribution to the overall operating performance reflected the favorable results of the early deployment of the Group’s software and digital service capabilities in recent years, which also facilitated the development of its traditional TIS business.

PROSPECTS

In the domestic non-operator market, the Group will grasp the window of opportunity in the post-pandemic era and focus on new market potential, including the “New Infrastructure” represented by 5G, modern Smart City upgrade, Digital Governance and the digitalization of industries. Besides, the Group will be focusing on the massive potential for incremental business volume brought by the integration and upgrade of traditional infrastructure with the digital technologies and accelerating our deployment in this area. Meanwhile, the Group will focus on the key sectors such as government, transportation, electricity and games, and provide our customers with a rich portfolio of products and services such as smart solutions, emergency management and security. As such, the Group would be able to realize the in-depth promotion of our smart business and market share expansion leading to another breakthrough in the domestic non-operator market.

In the domestic telecommunications operator market, the Group will continue the “Dual Growth Drivers+” development strategy. By focusing on the CAPEX investment planning of the domestic telecommunications operators and adapting to the demand of the acceleration in 5G construction and the change in construction model, the Group will undertake projects using the general contracting model and take full advantage of the CAPEX opportunities. Meanwhile, the Group will focus on OPEX business opportunities and help customers to build competitive edges by consolidating and improving their network operation and service capabilities. The Group will seize the window of opportunity regarding our customers’ transformation, leveraging its unique position in terms of smart applications, industry solutions, network information security and project implementation to fully support the cloud-network integration of our customers, proactively integrating into the customers’ value chain and symbiotic ecosystem. The Group will jointly expand the new ICT market with customers while expanding our own value to ensure the sustainable and stable development of the domestic telecommunications operator market.

In the overseas market, the Group will seize opportunities from the continuous opening-up of China and in-depth promotion of the “Belt and Road” to accelerate the transformation and upgrade of its “EPC+F+I+O+S”⁸ model. The Group will accelerate its business expansion by focusing on key regions including Southeast Asia, the Middle East and Africa and developing key businesses including “New Infrastructure” overseas represented by 5G, maintenance, data center and electricity. At the same time, by integrating digitalization demand from overseas customers, the Group will promote the launch of smart products and services in overseas market. Meanwhile, the Group will enhance its collaboration with domestic telecommunications operators and “Go Abroad” Chinese enterprises to explore new room for development in overseas business.

⁸ “EPC+F+I+O+S”: EPC (Engineering, Procurement, Construction) + Finance + Investment + Operation + Solution

Mr. Zhang Zhiyong, Chairman of China Comservice said, “The Group fully understands that, although the COVID-19 has had a relatively large impact on both society and the economy, there is no change in the fundamental development trends for China’s macro-economy, which is still heading for long-term prosperity, steady improvement and high-quality development. China is continuing its determination to provide policy support in promoting synergistic development among industries and facilitating innovation and transformation of enterprises. There is no change on the penetrative and extensive implementation of the ‘Belt and Road’. The advent of the pandemic brings both crises and opportunities, including the acceleration in the progress of digitalization, cyberization and intelligentization of society, the acceleration in the development of New Infrastructure as represented by 5G, and the acceleration in the process of upgrading social governance as represented by Emergency Management. All of the above opportunities will expedite the process of deep integration of digital economy and real economy. As a ‘New Generation Integrated Smart Service Provider’, the Group will implement the government’s requirement for ‘stability on the six fronts’ and ‘security in the six areas’ and focus on its ‘three main tracks of development’⁹ to seize opportunities brought by the government’s new growth momentum as leveraged and cultivated by informatization and intelligentization. Meanwhile, the Group will proactively explore the vast development potential brought by the deep integration of the digital and real economies, whilst accelerating our transformation and upgrade, and facilitating integration into the digital society ecosystem, with a view to achieving high-quality development of the Group.”

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⁹ “Three main tracks of development” refer to the domestic telecommunications operator market, the domestic non-operator market, and the overseas market.

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.

In the first half of 2020, the Group ranked 86th in *Fortune China*'s "2020 Fortune China 500" and 1,488th in *Forbes*' "2020 Forbes Global 2000 — The World's Largest Public Companies". The Group was named as "Honored Companies in Asia" in *Institutional Investor*'s 2020 "All-Asia Executive Team" Rankings for the first time. Mr. Si Furong, the President, and Ms. Zhang Xu, the Chief Financial Officer, ranked third in the "Best CEO" and "Best CFO" respectively in the relevant rankings in the telecommunications sector. In addition, the Group also received accolades for "Best ESG" and in the field of investor relations.

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.