



CHINA COMMUNICATIONS SERVICES CORPORATION LIMITED

STOCK CODE: 552



2014 Interim Results
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<http://www.chinaccs.com.hk>



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Overview



Business Review



Financial Results



OVERVIEW

Overall Operating Results Remained Stable

- ◆ Market diversification supported revenue up by 4.3% despite different paces of CAPEX investment by domestic operators on 4G network construction

Two New Engines¹ Supported Overall Development

- ◆ Contribution from domestic non-operator market and overseas market exceeded 90% of total incremental revenue

Recent Development Opportunities Emerging

- ◆ China Telecom has commenced 4G hybrid network trial in certain PRC cities; Tower Company² has given us priority right in business development
- ◆ Benefits to be reaped from Comprehensive Deepen Reform in China

Integrated Business Model Bolstered Development

- ◆ Revenue from maintenance and ACO services achieved double-digit growth; growth of businesses with lower value was effectively controlled

Cash Flow Management and Cost Control Showed Effect

- ◆ Improved free cash flow and lowered SG&A as a % of total revenues

¹Two New Engines refer to Domestic Non-operator Market and Overseas Market

²Tower Company refers to China Communications Facilities Services Corporation Limited



Revenue was RMB33.7 billion, up by 4.3%; net profit margin remained relatively stable



Free cash flow was RMB -1.1 billion, improved over the same period last year

(RMB'M, except EPS & % figures)

	1H2013	1H2014	Change
Revenue	32,361	33,743	4.3%
Gross Profit	4,971	4,823	-3.0%
Gross Profit Margin (%)	15.4%	14.3%	-1.1pp
Net Profit	1,242	1,238	-0.4%
Net Profit Margin (%)	3.8%	3.7%	-0.1pp
Free Cash Flow ¹	-2,005	-1,077	46.3%
EPS (RMB)	0.179	0.179	-

¹ Free cash flow = profit for the year + depreciation/ amortization – changes in working capital – CAPEX

Two New Engines Became Major Growth Driver; Domestic Operator Market Remained Stable



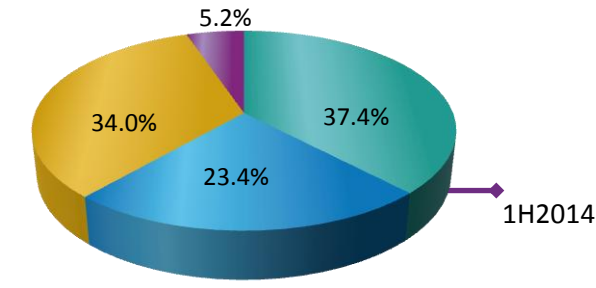
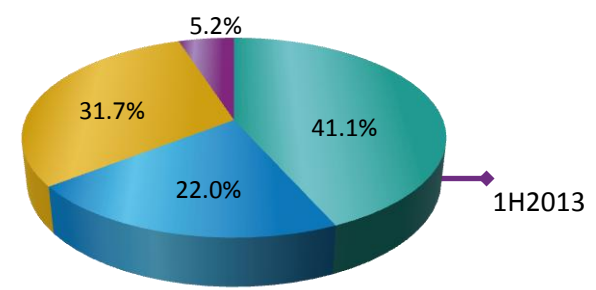
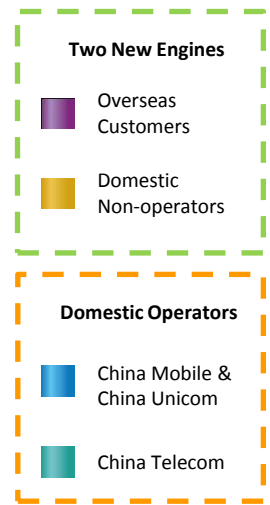
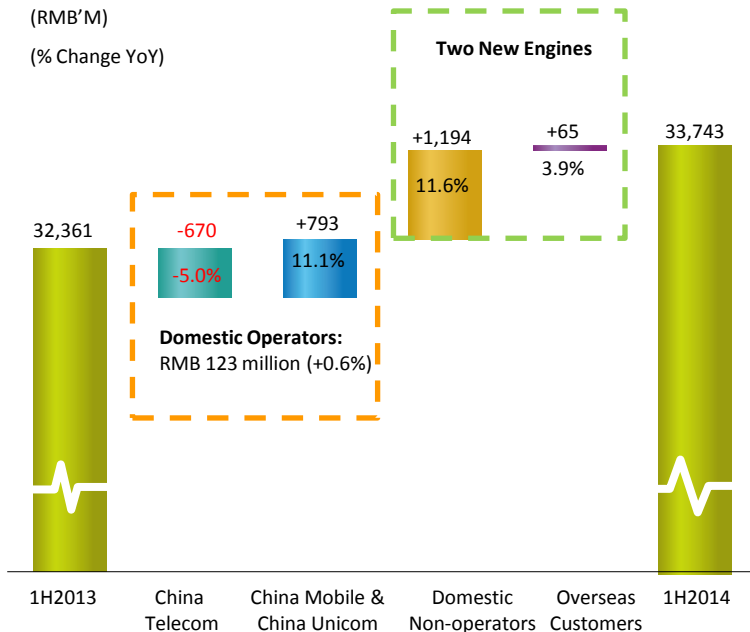
Business development momentum continued in domestic non-operator market and overseas market, contribution from these two markets accounted for over 90% of total incremental revenues



With effective business development strategies, aggregate revenues from China Mobile and China Unicom up by 11.1%; accounting for 23.4% of total revenues, up 1.4pp

Revenue Growth by Customer

Revenue Mix by Customer



Integrated Business Model Bolstered Development



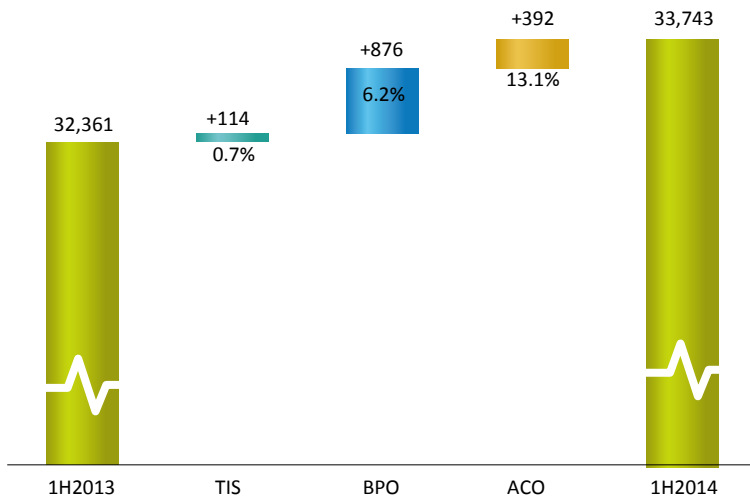
Captured opportunities from domestic operators' demand for maintenance outsourcing, BPO revenue up by 6.2%, in which revenue from maintenance business up by 20.6%



ACO revenue maintained favorable development momentum; up by 13.1%

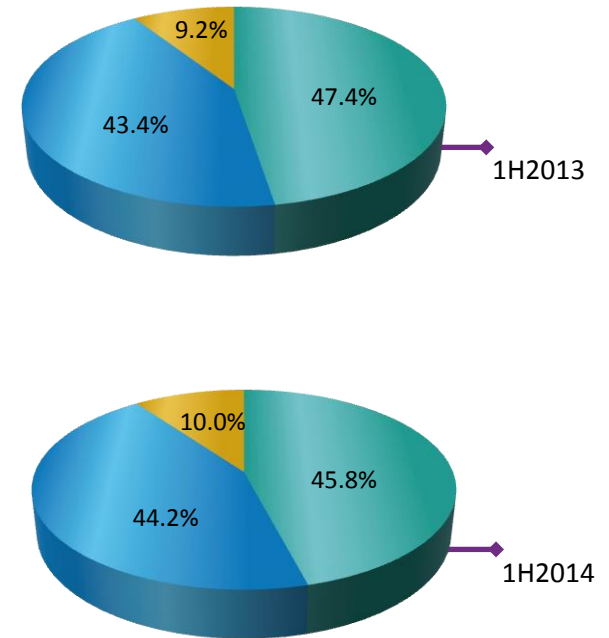
Revenue Growth by Business

(RMB'M)
(% Change YoY)



Revenue Mix by Business

ACO
BPO
TIS



Domestic Operator Market

- ◆ Speed-up of 4G network construction
- ◆ Growing demands for OPEX-driven maintenance and outsourcing
- ◆ New opportunities brought by the establishment of Tower Company, and the priority rights given on public tender of construction and maintenance of telecommunications tower and ancillary facilities
- ◆ Growing demands of “Pan-operators”¹ for data center construction, and the design, construction and maintenance of networks, ancillary facilities & machine rooms
- ◆ Expanding domestic non-operator market and overseas market with domestic operators

Domestic Non-operator Market

- ◆ Urbanization and informatization expedite demand for information consumption
- ◆ Enormous development demand in Smart City, Safe City, Intelligent Building, Cloud Computing, etc



中国通信服务
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Overseas Market

- ◆ Huge construction demand in emerging markets for “Broadband Countries, Smart Capitals and Regional Hubs”
- ◆ Foreign policies of China effectively support project financing and business development; innovative financing tactics of the Company support future development

¹ “Pan-operators” refer to companies including but not limited to Internet companies and virtual operators

Second Round Innovation and Transformation of China Comservice

Innovation in Business Model:

- ◆ Strengthen external cooperation
- ◆ Advance financing innovation
- ◆ Explore cross-border operation
- ◆

Innovation in Operational Management Model:

- ◆ Optimize organization structure and procedures
- ◆ Improve resource allocation and performance assessment
- ◆ Enhance corporation vitality and capabilities
- ◆

Build a “Hundred-Billion”
Enterprise with Superior
Performance

Changes in External Operating Environment and Policies

- ◆ Issuance of 4G license; Trial of hybrid network has commenced
- ◆ Formation of Tower Company
- ◆ Implementation of VAT Reform
- ◆ Impact from the amended PRC Labor Contract Law
- ◆ Comprehensive Deepen Reform in China
- ◆

Changes in Internal Operating Environment

- ◆ Change of existing operational model
- ◆ Wage inflation
- ◆ Increasing demand on our vitality and innovation capability
- ◆



BUSINESS REVIEW

Revenue Breakdown

(RMB'M)	1H2013	1H2014	Change	% of Revenue
TIS¹	15,339	15,453	0.7%	45.8%
Design	2,910	2,903	-0.2%	8.6%
Construction	11,379	11,460	0.7%	34.0%
Supervision	1,050	1,090	3.8%	3.2%
BPO²	14,035	14,911	6.2%	44.2%
Maintenance	3,140	3,789	20.6%	11.3%
Distribution	9,402	9,493	1.0%	28.1%
Facility Management	1,493	1,629	9.1%	4.8%
ACO³	2,987	3,379	13.1%	10.0%
System Integration	1,287	1,597	24.1%	4.7%
Software Development & System Support	454	451	-0.5%	1.3%
VAS	564	587	4.1%	1.8%
Others	682	744	9.1%	2.2%
Total	32,361	33,743	4.3%	100.0%

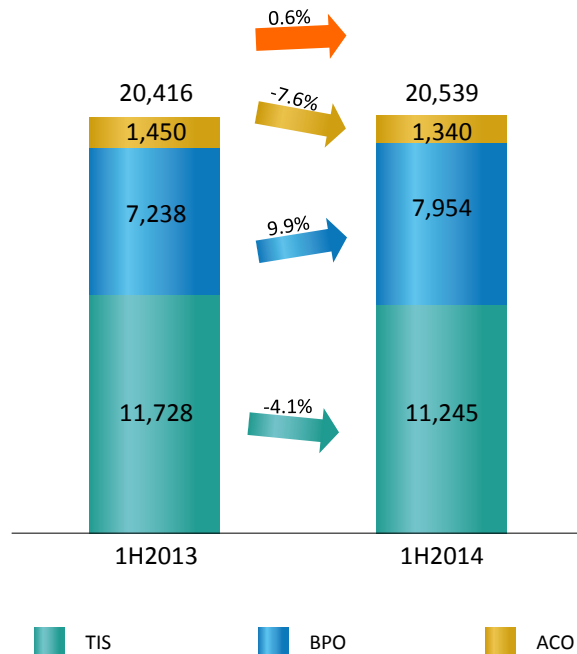
¹ TIS refers to Telecommunications Infrastructure Services

² BPO refers to Business Process Outsourcing Services

³ ACO refers to Applications, Content and Other Services

Revenue from Domestic Operator Market

(RMB'M)



Revenue from domestic operators grew moderately by leveraging on our integrated business model and effective strategy to explore OPEX-driven BPO business

- ◆ Maintenance revenue up by 19.0% (1H2013: 7.1%)
- ◆ 16 subsidiaries were selected as “Top 50 Integrated Maintenance Services Providers of China Communications Network¹”



TIS revenue dropped as a result of different paces of CAPEX investment by each domestic operator on 4G licensing



Aggregate revenues from China Mobile and China Unicom up by 11.1%

¹ Awarded by China Association of Communications Enterprises

Domestic Operators: Opportunities

CAPEX

- ◆ 4G infrastructure, optic fiber broadband, cloud computing center

OPEX

- ◆ Focus on maintenance, enhance scale of outsourcing

IT System

- ◆ Centralization and integration

Business Expansion

- ◆ Internet application, ICT business

Pan-operators: Opportunities

Internet Company

- ◆ Machine room construction, network planning and maintenance

IDC Operators

- ◆ IDC construction, maintenance and operation

Virtual Operators

- ◆ Informatization, support system development

Continue the Strategy of Maintaining a Leading Position
Leverage our Edges in Integrated Service

Grasp 4G construction opportunities and speed up market expansion

Expand further into OPEX-driven BPO business

Proactively pursue new business opportunities from Tower Company and expand market share

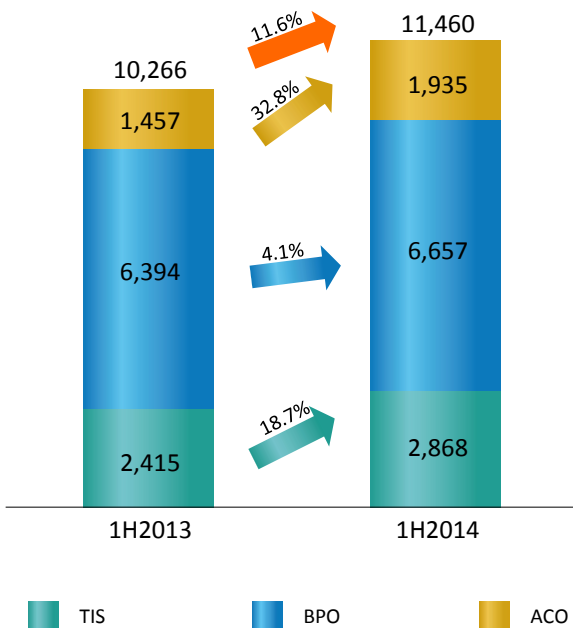
Leverage on existing resources and capacity to serve the demand for EPC solutions from pan-operators

Integrate and collaborate internal resources to enhance operating leverage



Revenue from Domestic Non-operator Market

(RMB'M)



Business grew rapidly due to the booming demand from urbanization and informatization

- ◆ TIS revenue up by 18.7%
- ◆ ACO revenue up by 32.8%



Remarkable business development in intelligent building, video surveillance system, data center construction and Smart City



BPO business grew moderately due to our prudent approach in developing certain businesses with lower value

Continue the Strategy of Differentiation & Cooperation
Mechanism Renovation, Resources Integration & Product Development

Enormous Market Opportunities from Three Major Customer Groups

Government Customers:

Smart City, information security,
manufacturing informatization, etc

Industrial Customers:

Informatization of construction, property
and transportation sectors, etc

SME Customers:

Cloud products, virtual operation, etc

Focus on Demand
from Three
Major Customer
Groups

Our Services & Solutions

Smart City solutions:

- ◆ Planning & consultation on top-tier design
- ◆ Intelligent video surveillance system
- ◆ Top-tier design + application

Safe City, Smart Security solutions, Intelligent Building solutions

Data Center solutions

- ◆ Consultation & design, system integration
& application, operation & maintenance
management, software development &
value-added services

Cooperation with SAP on public cloud

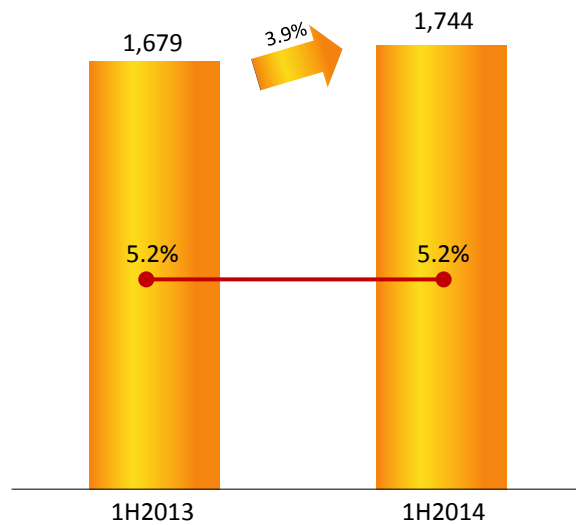
- ◆ Human Resources “Success Factor” &
other solutions

successfactors
An SAP Company

Mobile financial service solution “Griipay”

Revenue from Overseas Market

(RMB'M)



● — ● % of total revenues



Development in overseas market tilting towards large EPC projects, showing characteristic of project volatility, revenue structure kept optimizing

- ◆ Revenue from EPC projects accounted for almost 50% of revenue from overseas market
- ◆ Overseas TIS revenue up by 12.1%; proactively managed the growth of businesses with lower operating efficiency



Backlog for overseas EPC projects increased further

- ◆ Several projects including Tanzania ICT phase III project and Niger optic fiber backbone network project, are scheduled to be started in 2H2014



Speed up cash cycle and avoid overseas risk through AR factoring and various financial instruments



■ Presence in overseas

Continue the Strategy of “Overseas Market-Focused & Four-Step”¹ Approach Realize Breakthrough in the Scale of Overseas Business

Focus on Three Booming Demand

Broadband Countries

- ◆ National optic fiber backbone transmission network
- ◆ Metropolitan area network
- ◆ Internet
- ◆ 4G

Smart Capitals

- ◆ Capital CBD broadband access network, construction & maintenance of cloud center
- ◆ Smart Government, Smart Enterprises

Regional Hubs

- ◆ Country as regional hub
- ◆ Switching center for transmission, voice, internet
- ◆ Information & content center (data center, cloud center)

Major Projects:

- ◆ Congo (K) phase II optic fiber backbone network project
- ◆ Tanzania ICT phase III project
- ◆ Saudi Arabia FTTx project
- ◆ Niger optic fiber backbone network, 4G base station and core network project
- ◆

- ◆ Focus on large EPC projects and expedite business development through innovation in project financing and delivery
- ◆ Target at core markets, including Africa, Middle East, Hong Kong, Macau and South East Asia, expand to surrounding countries and explore Latin America and Eastern Europe markets
- ◆ Optimize internal organizational structure and strengthen projects assessment to minimize overseas risk exposure.

¹Strategy of Overseas Market-Focused & Four-Step Approach: subcontracting projects, EPC projects, operation outsourcing, equity acquisition

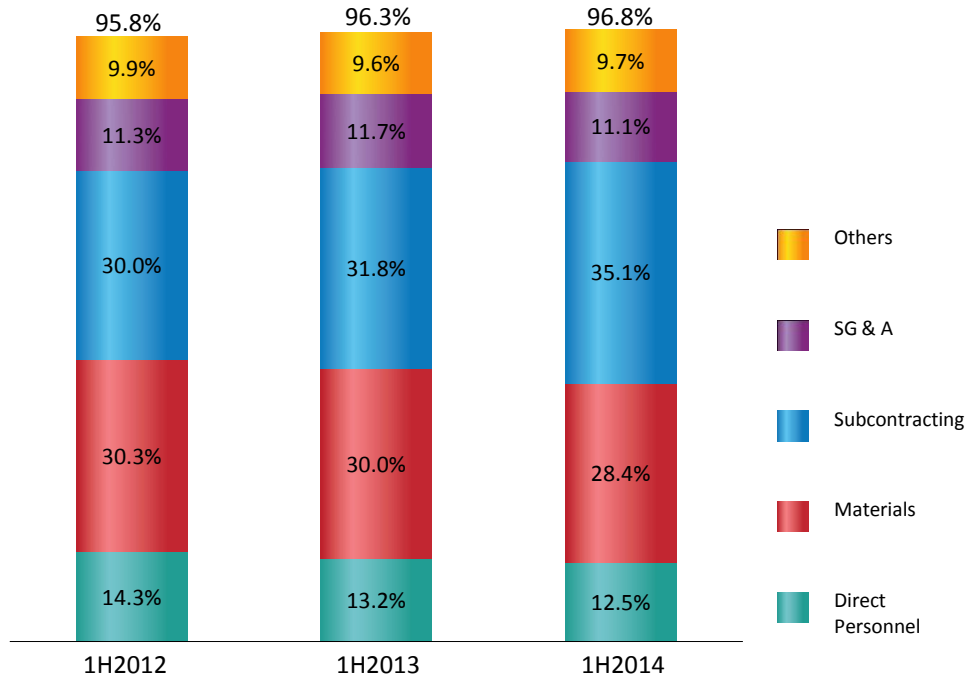


FINANCIAL RESULTS

(RMB'M)	1H2013	1H2014	Change	% of Revenue
Revenue	32,361	33,743	4.3%	100.0%
Cost of Revenue	27,390	28,920	5.6%	85.7%
Direct personnel	4,289	4,221	-1.6%	12.5%
Materials ¹	9,695	9,586	-1.1%	28.4%
Subcontracting	10,291	11,841	15.1%	35.1%
D&A	215	223	3.8%	0.7%
Others	2,900	3,049	5.1%	9.0%
Gross Profit	4,971	4,823	-3.0%	14.3%
SG&A	3,778	3,730	-1.3%	11.1%
Net Profit	1,242	1,238	-0.4%	3.7%
EPS (RMB)	0.179	0.179	-	-

¹ Materials refer to purchase of materials and telecommunications products

Cost as a % of Total Revenues



Except for subcontracting cost, most of the costs (as a % of total revenues) decreased generally

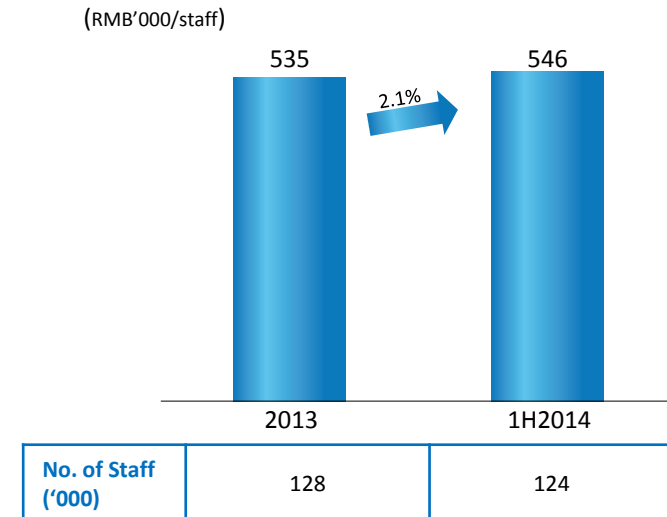


Subcontracting cost grew relatively fast:

- ◆ Persistently promoted transformation and outsourced low-end tasks
- ◆ The amended PRC Labor Contract Law and wage inflation contributed to the increase in subcontracting cost

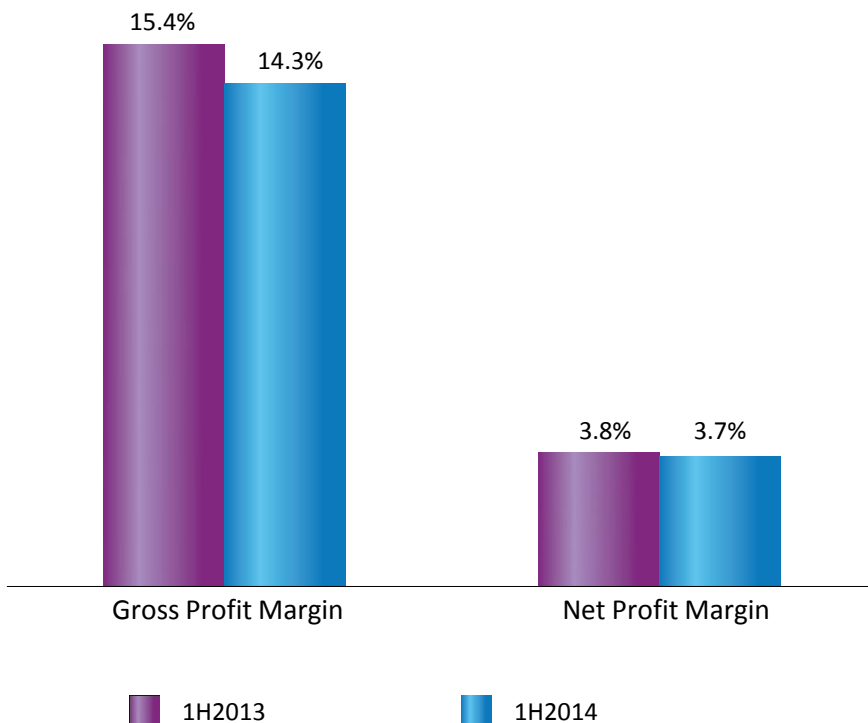


Labor Productivity¹



¹Labor productivity = revenue over period end staff number (annualized basis)

Gross Profit Margin and Net Profit Margin



Drop in gross profit margin mainly due to:

- ◆ Business growth and labor policies induced faster growth in certain costs
- ◆ Industry competitive environment and policy changes brought pricing pressure



Optimization of revenue structure and cost control alleviated certain pressure imposed by external environment



Effective SG&A expenses management helped to maintain relatively stable net profit margin



Cyclical fluctuation affects cash flow cycle, and free cash flow for 1H2014 was RMB-1,077 million, showing improvement over the same period last year



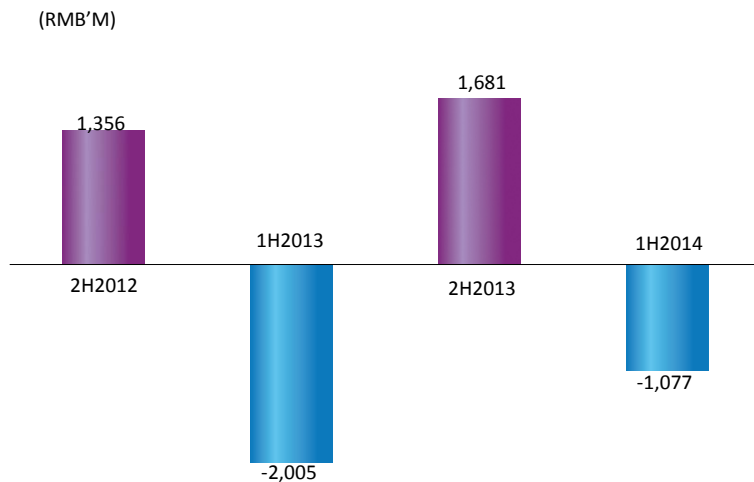
Prolonged account receivables repayment cycle continued to impose pressure on operation



Risk on account receivables is controllable as the increase of account receivables was mainly from customers with good credit records, such as domestic operators



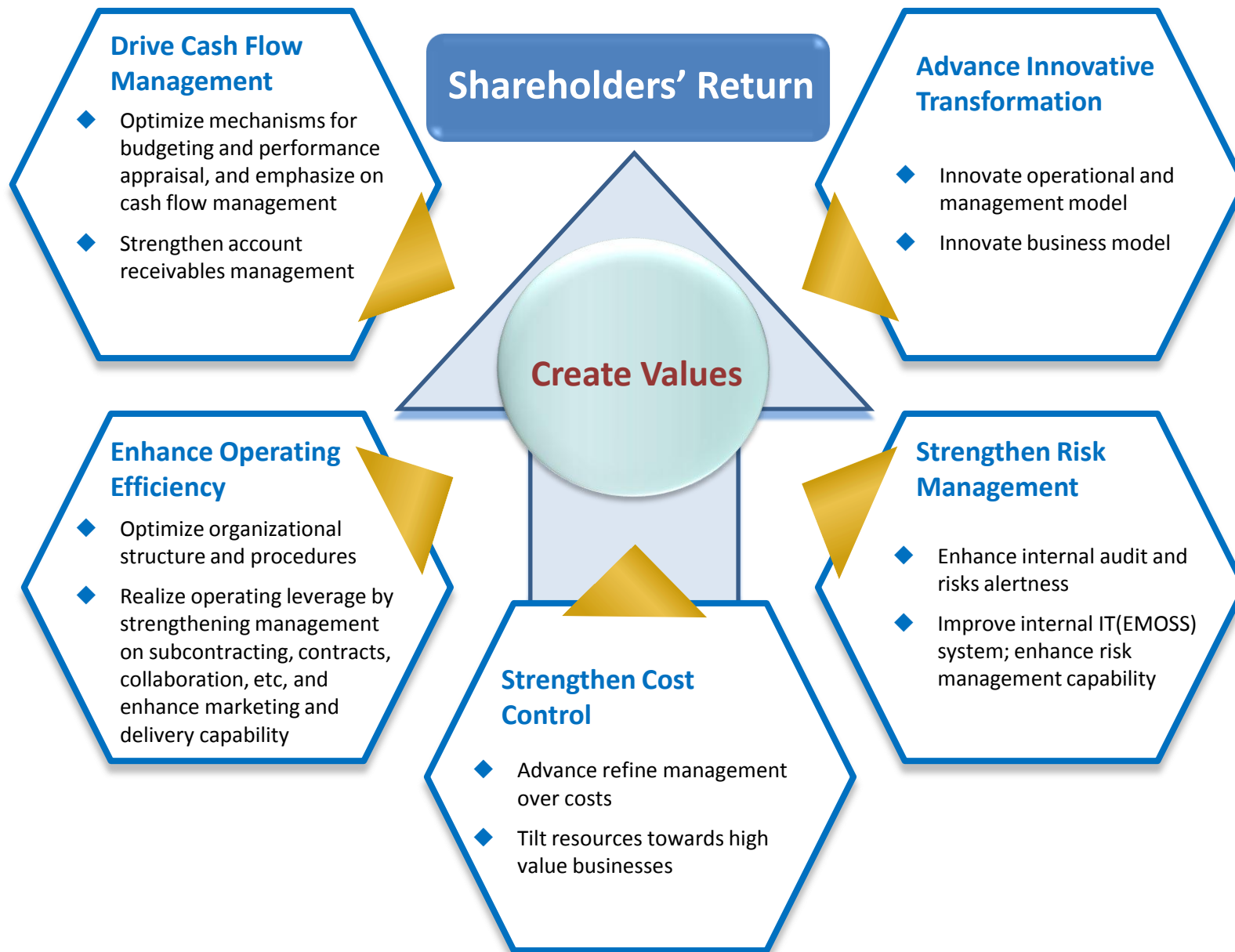
Free Cash Flow



(Day)

	1H2012	1H2013	1H2014
Account Receivables Turnover Days	119	131	146
Change	-	12	15
Account Payables Turnover Days	138	142	150
Change	-	4	8

(RMB'M)	31.12.2013	30.6.2014
Total Assets	48,251	50,575
Cash and cash equivalents	6,760	5,735
Account receivables	25,428	28,454
Fixed assets (NBV)	4,687	4,434
Total Liabilities	25,963	27,953
Interest-bearing borrowings	105	160
Account payables	17,081	18,186
Equity Attributable to Equity Shareholders	21,773	22,113
Total Liabilities / Total Assets (%)	53.8%	55.3%
Debt-to-Capitalization Ratio (%)	0.5%	0.7%





THANK YOU

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