

**Press Release**

**28 August 2014**

**For Immediate Release**



**中国通信服务**  
CHINA COMSERVICE

## **CHINA COMSERVICE ANNOUNCES 2014 INTERIM RESULTS**

### **HIGHLIGHTS:**

- Overall steady operating results achieved; total revenues were RMB33,743 million, up by 4.3%.
- Profit attributable to equity shareholders of the Company was RMB1,238 million, down by 0.4%.
- Gross profit margin and net profit margin were 14.3% and 3.7%, respectively.
- Expansion into the domestic non-operator market and overseas market supported the overall development of the Group. Aggregate revenues from these two markets increased by 10.5%, contributing to more than 90% of total incremental revenues.
- Continuously enhanced internal management improved free cash flow and controlled selling, general and administrative expenses.

### **Financial Highlights (unaudited)**

<b>For the six months ended 30 June</b>	<b>2013</b>	<b>2014</b>	<b>Change</b>
Revenues (RMB million)	32,361	33,743	4.3%
Gross Profit (RMB million)	4,971	4,823	-3.0%
Gross Profit Margin (%)	15.4%	14.3%	-1.1pp
Profit Attributable to Shareholders (RMB million)	1,242	1,238	-0.4%
Basic Earnings per Share (RMB)	0.179	0.179	-

(Hong Kong, 28 August 2014) — 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 2014.

During the first half of 2014, the Group strived to overcome the impacts from the slow growth of overall capital expenditure of the domestic telecommunications operators<sup>1</sup> by actively implementing various strategies, including the “Strategy of Maintaining a Leading Position in the Domestic Telecommunications Operator Market”, “Strategy of Differentiation and Cooperation in the Domestic Non-operator Market” and “Strategy of Overseas Market-Focused and Four-Step Approach”<sup>2</sup>, and achieved steady operating results. Total revenues amounted to RMB33,743 million, up by 4.3% over the same period last year. Cost of revenues amounted to RMB28,920 million, representing an increase of 5.6% over the same period last year. Due to the slowdown of total revenues growth, the pressure from industry competition and relatively rapid increase in certain costs, gross profit decreased by 3.0% over the same period last year to RMB4,823 million. Gross profit margin was 14.3%, down by 1.1 percentage points over the same period last year. As the Group continued to strengthen its internal management, selling, general and administrative expenses amounted to RMB3,730 million, accounting for 11.1% of total revenues, decreased by 0.6 percentage points over the same period last year. Profit attributable to equity shareholders of the Company was RMB1,238 million, down by 0.4% over the same period last year, while net profit margin was 3.7%. Basic earnings per share amounted to RMB0.179. Due to the cyclical fluctuations of the Group’s cash flow, the free cash flow<sup>3</sup> for the first half of 2014 amounted to RMB-1,077 million, representing an improvement of RMB928 million over the same period last year, which is attributable to the Group’s strengthened working capital management.

Mr. Li Ping, Chairman of the China Comservice commented, “During the first half of 2014, in light of the government’s initiatives in comprehensively deepening reforms, the Group’s development was affected by various impacts brought by the changes in the internal and external operating environments. Among others, the introduction of industrial policies, including the 4G license issuance, was the critical factor affecting the Group’s operating performance. During this period, leveraging on its experience, capabilities and resources accumulated throughout the years in the communications industry, the Group proactively responded to uncertainties by continuously implementing its Customer-Focused and Service-Innovative Strategy” and strongly promoting its second round of innovation and transformation. As a result, the Group maintained its leading position in the domestic telecommunications operator market, drove its business development through the

<sup>1</sup> Telecommunications fixed assets investment for the first half of 2014 was RMB136.11 billion, increased by 5.0% over the same period last year. (Source: Ministry of Industry and Information Technology of the PRC).

<sup>2</sup> The “Strategy of Overseas Market-Focused and Four-Step Approach” involves subcontracting projects, turnkey projects, operation outsourcing and equity acquisition.

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

continuing expansion into the domestic non-operator market and overseas market, and achieved overall steady operating performance.”

### **Business Development**

Revenue from the Group’s telecommunications infrastructure (“TIS”) services for the first half of 2014 amounted to RMB15,453 million, representing an increase of 0.7% over the same period last year and accounting for 45.8% of total revenues. Due to the impact of the slowdown in progress of overall network investment by the domestic telecommunications operators, revenue from TIS services attributable to the three telecommunications operators decreased by 4.1% over the same period last year. Meanwhile, the Group actively expanded into the domestic non-operator market and overseas market, and aggregate revenues from TIS services in these two markets recorded a relatively rapid growth, up by 16.6% over the same period last year.

The Group endeavored to expand its maintenance business with a view to capture the opportunities arising from the continuously increasing operating expenditure of the domestic telecommunications operators and their demands for outsourcing. Meanwhile, the Group also provided differentiated products and services to domestic non-operator customers in response to the trend of “New Four Modernizations”<sup>4</sup>, and thus the businesses of “business process outsourcing (“BPO”) services” and “applications, content and other (“ACO”) services” became the major growth drivers of the Group’s development. Revenue from BPO services for the first half of 2014 amounted to RMB14,911 million, representing an increase of 6.2% over the same period last year and accounting for 44.2% of total revenues. Among which, the revenue from network maintenance services increased by 20.6%. The revenue from ACO services amounted to RMB3,379 million, increased by 13.1% over the same period last year and accounting for 10.0% of total revenues. Among which, revenue from the core ACO services<sup>5</sup> amounted to RMB2,635 million, increased by 14.3% over the same period last year, and such growth showed encouraging results from the Group’s efforts to promote innovation and transformation and expand into high-value businesses.

During the first half of 2014, by leveraging on its integrated services advantages, the Group made dedicated efforts to achieve steady development notwithstanding the inconsistent progress of network investment among the domestic telecommunications operators. Revenue from the domestic telecommunications operator market amounted to RMB20,539 million, representing a growth of 0.6% over the same period last year and accounting for 60.8% of total revenues. Among which, the revenue from China Telecom

<sup>4</sup> New Four Modernizations refer to new Industrialization, Informatization, Urbanization, and Agricultural Modernization with Chinese characteristics.

<sup>5</sup> Core ACO services include system integration, software development and system support, and value added service.

amounted to RMB12,637 million, representing a decrease of 5.0% over the same period last year and accounting for 37.4% of total revenues. The Group made sufficient preparation for 4G technology and changes of customer demands in advance and continued to enhance the service quality and responsiveness. Aggregate revenues from China Mobile and China Unicom totaled RMB7,902 million, representing a growth of 11.1% and an increase of 1.4 percentage points to 23.4% of total revenues over the same period last year.

During the first half of 2014, aggregate revenues from the Group's two "New Engines", namely the domestic non-operator market and overseas market, amounted to RMB13,204 million, representing a growth of 10.5% over the same period last year and accounting for 39.2% of total revenues and more than 90% of total incremental revenues. Among which, revenue from the domestic non-operator customers amounted to RMB11,460 million, representing an increase of 11.6% over the same period last year and accounting for 34.0% of total revenues. Focusing on the governmental "Smart City", solutions and data centre construction for industrial customers, and the demand for informatization services from small and medium enterprises, the Group has achieved a breakthrough in the development of key businesses and large-scale turnkey projects and entered into strategic cooperation agreements with a number of well-known enterprises. The Group's revenue from overseas market amounted to RMB1,744 million, representing a growth of 3.9% over the same period last year and accounting for 5.2% of total revenues. The Group persistently optimized its overseas business structure by effectively controlling the development of certain businesses with relatively low efficiency and vigorously developing turnkey projects, and the proportion of revenue from turnkey projects to the revenue from overseas market increased to approximately 50%. During this period, the Group adopted a multi-level and multi-dimension marketing strategy and approach, and continued to expand its backlog for overseas turnkey projects. A number of large-scale turnkey projects are expected to be delivered in the second half of the year. During this period, the Group also made good attempts for external cooperation.

## **Prospects**

Mr. Li Ping, Chairman of China Comservice said, "The Group believes that the development of 4G licensing in China is getting more clarity, and capital expenditure will be further released following the increase in the number of pilot cities of 4G hybrid network in future. While focusing on the development of their core business, the domestic telecommunications operators will continue to outsource their maintenance business, which creates more opportunities for the Group to expand into the domestic telecommunications operator market. The Chinese government has been putting greater efforts to develop strategic emerging industries, strengthen the informatization of manufacturing industries and promote information consumption, which offers the Group

with ample opportunities to expand into the markets of domestic non-operator customers and pan-operators<sup>6</sup>. The strong demand in overseas emerging countries for telecommunications construction and the Chinese government's policies of "go abroad" create huge business opportunities for the Group to expand into overseas markets. In addition, China Communications Facilities Services Corporation Limited (the "Tower Company") was established. The Tower Company has indicated to the Company the relevant arrangements of preferential treatment and non-competition, which will offer the Group with new business opportunities and market space.

Looking into the future, the Group will endeavor to overcome adverse influences, and leverage on its deepening reform measures to implement its second round of innovation and transformation, boost internal vitality and encourage innovation, so as to promote its sustainable development. The Group will actively promote the innovation of its business model and operational management model, utilize its financial leverage and operating leverage effectively and realize soft management through Internet-based operation with a view to cut cost and open up more income sources, and ultimately create more value for its customers and shareholders."

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<sup>6</sup> Pan-operators include without limitation to internet companies and virtual operators.

**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 maintenance, distribution to facility management; 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, domestic non-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 Corporation, China United Network Communications Group Company Limited and China National Postal and Telecommunications Appliances Corporation are also shareholders of the Company.

In 2014, the Group was awarded "Best CFO" and "Best Investor Relations" of the Asian Excellence Recognition Awards by *Corporate Governance Asia*, a renowned journal on Corporate Governance in Asia, fully demonstrating the recognition of the Group's excellent performance in corporate governance and management by the capital market.

For further information, please browse the Company's website at: [www.chinaccs.com.hk](http://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.