



中国通信服务
CHINA COMSERVICE

CHINA COMSERVICE ANNOUNCES 2013 ANNUAL RESULTS

HIGHLIGHTS:

- Total revenues were RMB68,459 million, up by 11.3%.
- Profit attributable to equity shareholders of the Company was RMB2,238 million, down by 7.0%.
- Gross profit margin and net profit margin were 15.2% and 3.3%, respectively.
- Fundamentals of the Group are still solid although its operating results in 2013 were affected by various factors, including changes in industry environment.
- The revenue of the Group from domestic telecommunications operators increased steadily, up by 9.0% compared to that of last year; the revenues from domestic non-operator customers and overseas customers both recorded double-digit growth compared to that of last year, up by 16.1% and 11.8%, respectively.
- The Board proposed to maintain a 40% dividend payout ratio and pay a final dividend of RMB0.1293 per share for the financial year ended 31 December 2013.

Financial Highlights (audited)

For the year ended 31 December		2012	2013	Change
Revenues (RMB million)		61,517	68,459	11.3%
Gross Profit (RMB million)		9,785	10,378	6.1%
Gross Profit Margin (%)		15.9%	15.2%	-0.7pp
Profit Attributable to Shareholders (RMB million)		2,407	2,238	-7.0%
Basic Earnings per Share (RMB)		0.353	0.323	-8.4%
Dividend per Share (RMB)		0.1390	0.1293	-7.0%

Comservice” or “the Company”), and its subsidiaries (the “Group”) (HKSE code: 552), today announced its audited annual results for the year ended 31 December 2013.

In 2013, the Company recorded total revenues of RMB68,459 million, representing a year-on-year growth of 11.3%. The sustained growth of total revenues was mainly attributable to the Company’s focus on three major markets. While maintaining the steady business growth in the domestic telecommunications operator market, the Company also actively expanded into the domestic non-operator market and the overseas market, which achieved relatively rapid growth.

In 2013, profit attributable to equity shareholders of the Company amounted to RMB2,238 million, representing a year-on-year decrease of 7.0%. The changes of operating results in 2013 were attributable to various factors, mainly including the slowdown in revenue growth and decrease in gross profit margin. In 2013, the issuance of 4G licenses in China and the new industry regulatory policies affected the Group’s operating environment and imposed greater pressure on the Group. Gross and net profit margins were 15.2% and 3.3% respectively. Basic earnings per share amounted to RMB0.323.

Near the end of 2013, the Group devoted more resources to undertake more 4G network construction projects, also affecting its operating results to certain extent. In addition, due to the lengthened repayment cycle of its major customers, free cash flow¹ of the Group decreased as compared with the same period last year. In 2013, the free cash flow of the Group was RMB -324 million, and the net cash inflow from operating activities was RMB321 million.

Having considered the interests of and returns to shareholders, the Board proposed to maintain a 40% dividend payout ratio and pay a final dividend of RMB0.1293 per share for the financial year ended 31 December 2013. Total dividend amount is approximately RMB896 million.

Mr. Li Ping, Chairman of China Comservice commented: “The Group has maintained a steady and favourable development since its listing by continuously enhancing its operating and management capabilities. In 2013, the fundamentals of the Group remained solid although the Group recorded a negative profit growth for the first time due to various factors, including changes in our industry environment. During the year, the expansion into the two new markets that the Group has strived to explore and the development of our innovative businesses have gradually shown positive results, signifying its right strategic positioning and development direction. Our operating environment will still be challenging in the future, however, we believe that the national policies on comprehensive and in-depth reforms, information consumption and 4G licensing will continue to create new opportunities for the long-term development of the Group. The Group remains confident in its future development,

¹ Free cash flow = Profit for the year + Depreciation and amortization – Changes in working capital – Capital expenditure

and will adhere to its “Five Development Strategies²” so as to facilitate a sustainable growth in the future.”

Telecommunications Infrastructure Services

In 2013, the revenue from telecommunications infrastructure (“TIS”) services sustained relatively rapid growth, representing a year-on-year increase of 12.8% and accounting for 46.8% of total revenues. During the year, the Company’s TIS business was impacted by the back-end loaded capital expenditure (“CAPEX”) of domestic telecommunication operators and the change in CAPEX structure due to 4G development. Nonetheless, attributable to continuous business development efforts and breakthroughs achieved in the domestic non-operator market and overseas market, aggregate TIS revenues from such markets recorded a year-on-year growth of 18.1% and accounted for 22.3% of the total revenue of TIS services, leading to a relatively rapid growth of overall TIS business.

Business Process Outsourcing Services

In 2013, the growth of revenue from business process outsourcing (“BPO”) services moderated with a growth rate of 10.3% over the last year, accounting for 42.4% of total revenues. The Company firmly adhered to the principle of efficient development and prudently managed certain businesses with relatively low or decreasing operating efficiency. Therefore, growth of revenue from the distribution of telecommunications services and products, as well as the network maintenance businesses decreased to 11.7% and 7.3%, respectively.

Applications, Content and Other Services

In 2013, the revenue from applications, content and other (“ACO”) services achieved a year-on-year increase of 9.0%, accounting for 10.8% of total revenues. The Group strived to enhance openness and innovation, as well as optimize business structure. The revenue from the core ACO services³ grew by 14.1%, with its proportion to the total revenue from ACO services increased by 3.6 percentage points to 79.7%. Moreover, the Group proactively grasped the opportunities brought by the society and industry informatization in China and further explored system integration projects in the domestic non-operator market, making such market as an important driver for the healthy and steady growth of the revenue from ACO services.

Market Development

In 2013, in light of the progress of 4G license issuance in China, the domestic telecommunications operators were overall more prudent in network construction investment. In addition, the industry landscape was also affected by the structural changes in capital expenditures of the domestic telecommunications operators and the implementation of new industry regulatory policies, which

² Strategy of Maintaining a Leading Position in the Domestic Telecommunications Operator Market, Strategy of Differentiation and Cooperation in the Domestic Non-operator Market, Strategy of Overseas Market-Focused and Four-Step Approach, Strategy of Talents Management and Strategy of Synergistic Operation.

³ Core ACO services include system integration, software development and system support, and value added services.

accelerated the openness and competition in the communications market. Near the end of 2013, the Company gradually undertook more 4G-related network construction projects which have begun to drive the revenue growth of the Company. In 2013, the revenue of the Company from domestic telecommunications operators increased by 9.0% compared to that of last year, representing 63.3% of the total revenues.

In 2013, the Group effectively implemented the “Strategy of Differentiation and Cooperation in the Domestic Non-operator Market” and “Strategy of Overseas Market-Focused and Four-Step Approach”⁴. The favourable development by the Group in the two new markets made important contribution to the growth of revenue, and the aggregate revenues from such markets increased by 15.4% over the last year.

In 2013, the progress of new urbanization and informatization in China continued to accelerate, and the construction of “Smart City” was also burgeoning. Driven by strong domestic demands in information consumption, the Group proactively explored governmental customers and participated in “Smart City” projects by offering high-end consulting services, which achieved satisfactory results. Furthermore, the Group endeavoured to solicit customers from real estate construction and transportation industries, and steadily promote small and medium-sized enterprises (“SME”) customers, which showed a favourable development momentum. In 2013, the revenue from domestic non-operator customers increased by 16.1% compared to that of last year, representing 31.1% of the total revenues.

In 2013, demands for communications network construction in the overseas market remained strong. The Group further optimized its overseas revenue structure and vigorously developed large turnkey projects, increasing revenue contribution from overseas turnkey projects remarkably. In addition, the Group started to implement the third step of its “Strategy of Overseas Market-Focused and Four-Step Approach” by undertaking an operation and management outsourcing project for an overseas operator. In 2013, the revenue from overseas customers increased by 11.8% compared to that of last year, representing 5.6% of the total revenues.

Breakthroughs in External Cooperation and Mechanism Innovation

In 2013, the Group made breakthroughs in business development of ACO services with the benefits of robust development of and demands for Big Data, cloud computing and mobile Internet applications. In 2013, the Group implemented core staff share participation in its key subsidiaries engaging in ACO services. In addition, the Group successfully established cooperation with SAP in the area of cloud computing to jointly promote the application of cloud products in SMEs in China. During the year, “Gripay (掌錢)”, the mobile financial services platform developed by the Group was officially

⁴ The “Strategy of Overseas Market-Focused and Four-Step Approach” involves sub-contracting projects, turnkey projects, operation outsourcing and equity acquisition.

launched. Through the introduction of the above-mentioned products and services, the Group further strengthened its service capability and competitive edges.

Prospects

Mr. Li Ping, Chairman of China Comservice said: “Although the challenges currently faced by the Group will continue to weigh in its operation and management, the comprehensive and deepened reforms promoted by the government have further motivated social and economic development and brought new opportunities for long-term growth in all businesses of the Group. Domestic telecommunications operators will accelerate the strategic transformation. Their demands for the infrastructures of 4G, cloud valley and data centre, continuous operation and maintenance outsourcing, the implementation of the “Broadband China” strategy and issuance of virtual operator licenses by the government will bring various opportunities to the Group. Meanwhile, the government is promoting new urbanization and information consumption, and devoting more efforts to develop the information industry as a new driver of economic growth, all of which brought opportunities for the Group to accelerate the expansion into the domestic non-operator market. Regarding the overseas market, emerging regions saw a continuous increase in the demand for establishing “Broadband Countries, Smart Capitals and Regional Hubs”. The Group will also speed up its expansion into the overseas market with the support of national policies. Looking forward, the Group will continue to firmly implement the “Five Development Strategies”, deepen its innovation and transformation, and strive to improve its synergistic operation and management, so as to create greater value for customers and shareholders.”

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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 Company Limited and China National Postal and Telecommunications Appliances Corporation are also shareholders of the Company.

In 2013, the Company was for the first time voted the No. 1 "Best Managed Company in China" in the ranking of "Asia Best Managed Companies 2013" by *Euromoney*. Meanwhile, the Company ranked 3rd among the "Best Managed Company in China" in the 2013 "Asia's Best Managed Companies" hosted by *Finance Asia*. The Company was also awarded as "The Best of Asia – Icon on Corporate Governance" by *Corporate Governance Asia*, and the Gold Award by *The Asset* for four consecutive years.

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.