



CHINA COMMUNICATIONS SERVICES CORPORATION LIMITED
STOCK CODE: 552

Interim Results 2012

August 29, 2012

MANAGEMENT

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CHAIRMAN

MR. ZHENG QIBAO

PRESIDENT

MS. HOU RUI

EXECUTIVE VICE PRESIDENT & CFO

MR. LIANG SHIPING

EXECUTIVE VICE PRESIDENT

AGENDA



Overview



Business Review



Financial Results

Overview

HIGHLIGHTS

Revenue and net profit both up by >15% with stable net profit margin, demonstrating solid development momentum

Revenue from domestic operator up 19.4% by further tapping into such market, indicating favourable fundamental

HIGHLIGHTS

Proceeds from rights issue deployed as planned, and acquisition of strategic assets accomplished as promised

Internal management further strengthened to improve managerial efficiency

Note: Historical financial data of 2011 have been restated to include the results of the newly acquired companies where the acquisition was completed as of 30 June 2012, and the retrospective impact of adopting accounting standard - IFRS 1 amendment.

FAVOURABLE OVERALL PERFORMANCE

Revenue and net profit reached RMB29.4 billion and RMB1.2 billion , up 16.4% and 15.7%, respectively. EPS were RMB0.180/per share, up 2.3%

Gross profit margin was 15.4%; net profit margin remained stable at 4.1%

(RMB'M, except EPS & % figures)	1H2011	1H2012	Change
Revenue	25,213	29,356	16.4%
Gross Profit	3,950	4,520	14.4%
Gross Profit Margin	15.7%	15.4%	-0.3pp
Net Profit	1,045	1,209	15.7%
Net Profit Margin	4.1%	4.1%	-
EPS (RMB)	0.176	0.180	2.3%

MARKET DEVELOPMENT: FAVOURABLE RESULTS IN DOMESTIC OPERATOR MARKET AND DOMESTIC NON-OPERATOR MARKET



Revenue from domestic operator market achieved rapid growth of 19.4% and became the major growth driver



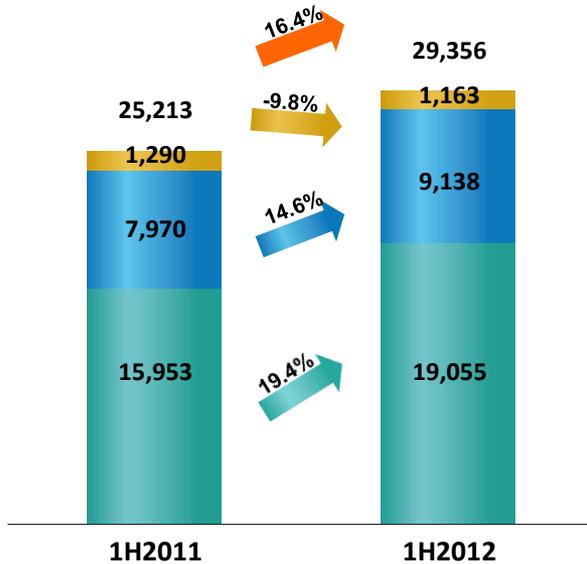
Revenue from domestic non-operator market recorded steady growth of 14.6%



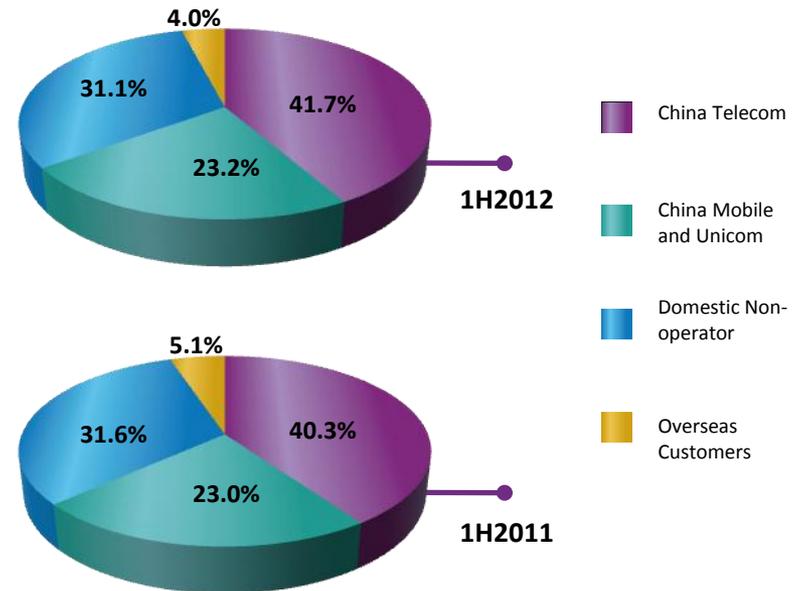
Affected by factors including the project cycle, revenue from overseas market showed short-term volatility

Revenue by Customer

(RMB'M)



Revenue Mix by Customer



■ Domestic Operators
 ■ Domestic Non-Operator
 ■ Overseas Customers

BUSINESS DEVELOPMENT: BUSINESS MIX REMAINED STABLE



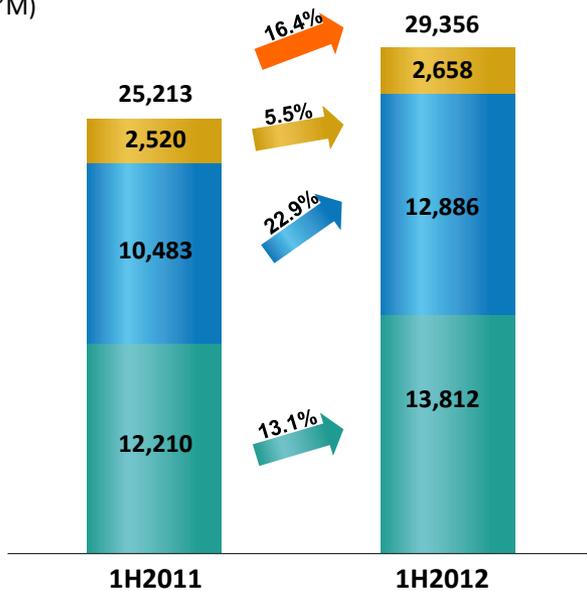
BPO revenue grew 22.9% driven by almost 28% growth in maintenance and 23% growth in distribution businesses



TIS revenue steadily grew 13.1% , among which, TIS growth from domestic operators exceeded 20%

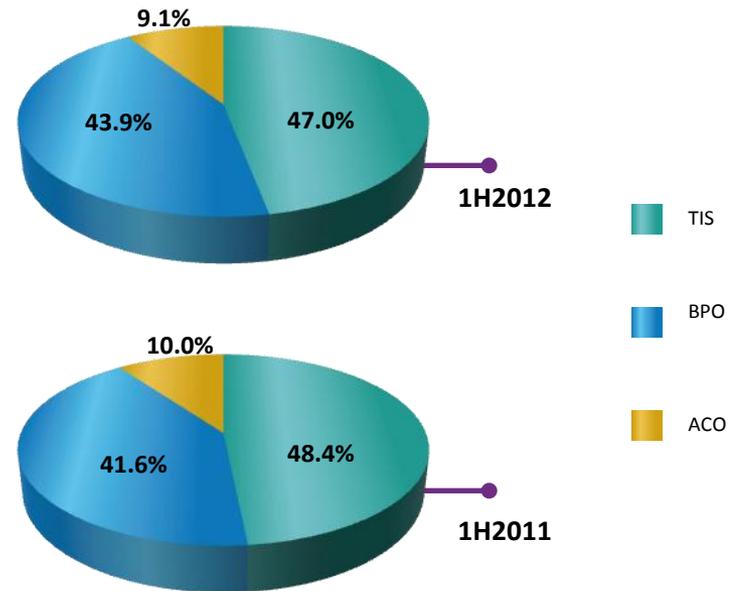
Revenue by Business

(RMB'M)

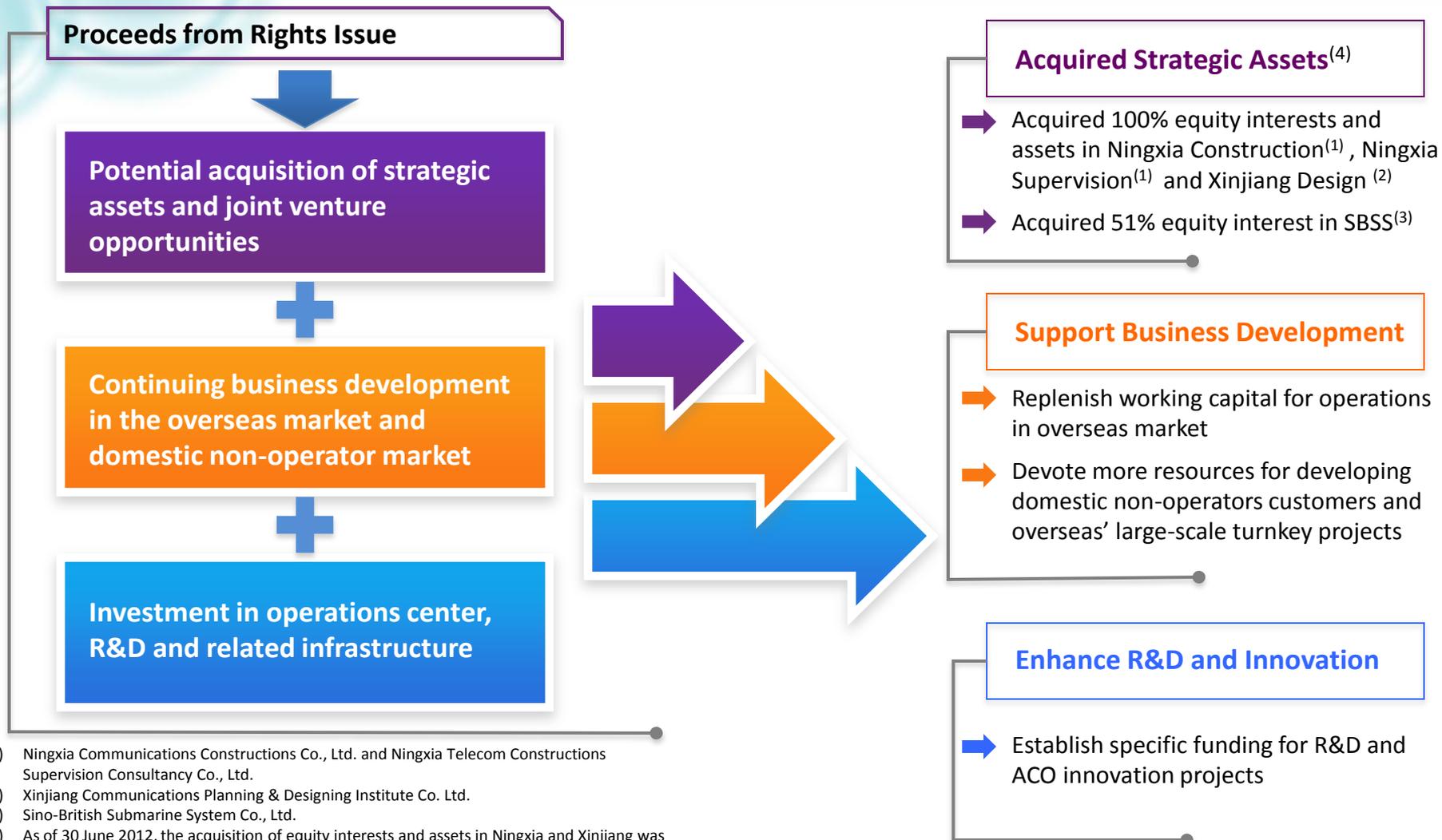


TIS BPO ACO

Revenue Mix by Business



PROCEEDS FROM RIGHTS ISSUE DEPLOYED AS PLANNED



(1) Ningxia Communications Constructions Co., Ltd. and Ningxia Telecom Constructions Supervision Consultancy Co., Ltd.

(2) Xinjiang Communications Planning & Designing Institute Co. Ltd.

(3) Sino-British Submarine System Co., Ltd.

(4) As of 30 June 2012, the acquisition of equity interests and assets in Ningxia and Xinjiang was completed, and the relevant results have been consolidated into the financial statements and historical data have been restated. Acquisition of equity interest in SBSS was completed on 26 July 2012 and the relevant results have not been consolidated into the Group's results as of 30 June 2012.

ECO-ENVIRONMENT AND PROSPECTS

Domestic Operator

- ➔ “Broadband China” expected to become a national strategy
- ➔ Further investment in fibre-optic broadband
- ➔ Increasing investments in 4G/LTE

Domestic Non-Operator

- ➔ Smart Cities
- ➔ Industrial informatization solutions
- ➔ SME’s operation outsourcing due to informatization

Overseas Customer

- ➔ State policies encourage companies to ‘go abroad’
- ➔ Great demand in emerging markets
- ➔ More opportunities in overseas by collaboration with domestic operators

Technology Innovation & Management Innovation

- ➔ Mobile Internet technology
- ➔ Innovation in business model

Opportunities

Challenges

Uncertainties in Macro Economy Recovery

- ➔ Increase in labor cost and marketing cost
- ➔ Pressure in managing account receivables

TMT Industry Further Open

- ➔ New competitors continuously emerging
- ➔ Higher requirement for service quality by key customers

Core Capability of the Company to be Improved

- ➔ Business innovation and marketing capability
- ➔ Management innovation and collaboration ability

Business Review

REVENUE BREAKDOWN

(RMB'M)	1H2011	1H2012	Change	% of Revenue
TIS	12,210	13,812	13.1%	47.0%
Design	2,439	2,753	12.9%	9.4%
Construction	8,992	10,138	12.7%	34.5%
Supervision	779	921	18.2%	3.1%
BPO	10,483	12,886	22.9%	43.9%
Maintenance	2,361	3,014	27.7%	10.3%
Distribution	6,924	8,517	23.0%	29.0%
Facility Management	1,198	1,355	13.1%	4.6%
ACO	2,520	2,658	5.5%	9.1%
IT Applications	1,315	1,336	1.6%	4.6%
Internet Services	244	203	-16.7%	0.7%
Voice VAS	348	357	2.6%	1.2%
Others	613	762	24.3%	2.6%
Total	25,213	29,356	16.4%	100.0%

Note: TIS refers to Telecommunications Infrastructure Services

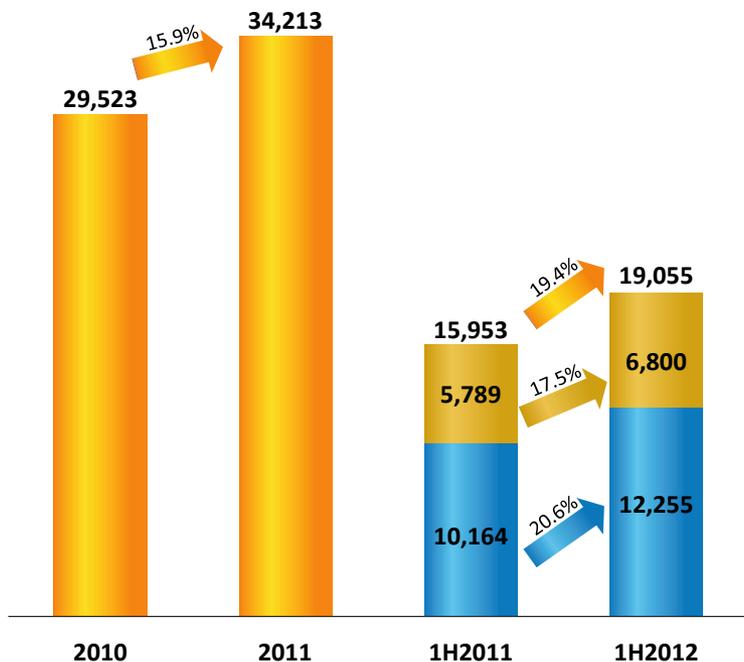
BPO refers to Business Process Outsourcing Services

ACO refers to Applications, Content and Other Services

DOMESTIC OPERATOR MARKET (1/2): DEVELOPMENT FURTHER ENHANCED AND LEADING POSITION REINFORCED

Revenue by Customer

(RMB'M)



Domestic Operators

China Telecom

China Mobile and China Unicom

Sustained favourable momentum since 2011 and achieved nearly 20% growth in 1H12 by grasping opportunities brought by the stable growth of operators' CAPEX

Revenue from China Mobile and China Unicom in aggregate increased by 17.5% by conforming to changes of customer demands and enhancing our service capability

Develop network construction and maintenance businesses proactively in the northern market following the start-up of Shandong subsidiary

Capability of high-end business operation enhanced: several design subsidiaries and supervision subsidiaries won awards related to cloud computing solutions from the China Data Center Industry Alliance during 2011-2012

DOMESTIC OPERATOR MARKET (2/2): DEVELOPMENT FURTHER ENHANCED AND LEADING POSITION REINFORCED

Revenue by Business

(RMB'M)	1H2011	1H2012	Change
TIS	8,970	10,825	20.7%
BPO	5,680	6,947	22.3%
ACO	1,303	1,283	-1.5%
Total	15,953	19,055	19.4%



Provided differentiated services to our customers by capturing opportunities in fibre-optic broadband construction, mobile network upgrade and expansion, as well as the introduction of new businesses

- TIS revenue increased by 20.7% and favourable growth trend sustained since 2011
- Market position further reinforced



Leveraging our advantage of providing integrated services

- Revenue from operator's maintenance business grew rapidly by 27.6%

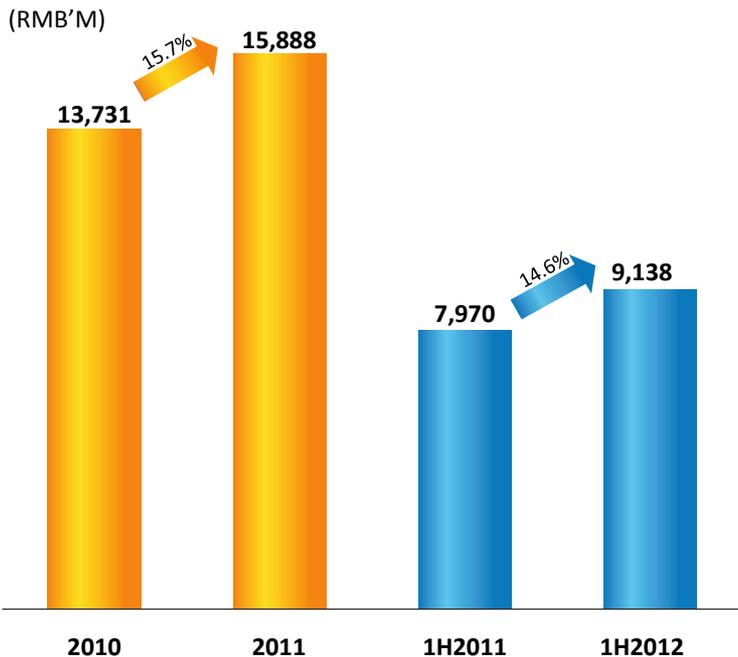


Conforming with 3G development opportunities led by smart phones, we supported operator to distribute smart phones and communications machineries

- Revenue from operators' distribution business increased by 21.3%

DOMESTIC NON-OPERATOR MARKET: STABLE GROWTH MAINTAINED

Revenue from Domestic Non-operator Market



Stable mid double-digit growth sustained and overall development pace of the Company ensured even affected by the slowing economic growth in China

First step of “Three Steps⁽¹⁾” strategy commenced: achieved initial success in replication of businesses

- South to North Water Diversion Project: communications network construction
- Chongqing Cloud Computing Center: system integration
- China Oil: communications system construction
- Song Jiang City of Shanghai: ‘Safe City’ project

Marketing teams formed at all levels within the Group to enhance ability for capturing opportunities:

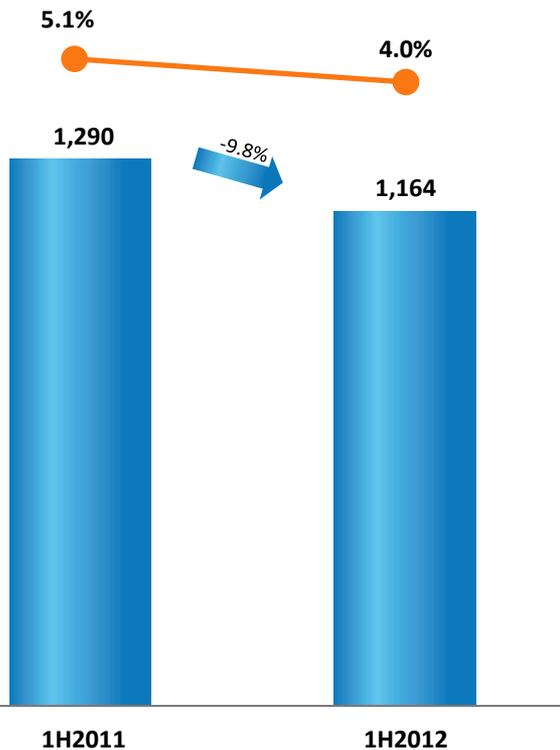
- Sales and marketing center for non-operator customers established at headquarter
- Professional sales and marketing teams built at provincial and subsidiaries level

(1) Three Steps strategy: replication of businesses, extension of abilities and innovation of industry informatization

OVERSEAS MARKET: GREAT GROWTH POTENTIAL

Revenue from Overseas Market

(RMB'M)



● ● % of revenue



Even though overseas business experienced short-term volatility, abundant new contracts obtained through enhanced sales and marketing



Recent overseas turnkey projects being implemented smoothly:

- Congo (K): national backbone optic network construction (Phase II)
- Saudi Arabia: ITC fibre-optic broadband MAN construction project
- Algeria: dedicated communications network construction



Customer loyalty further enhanced:

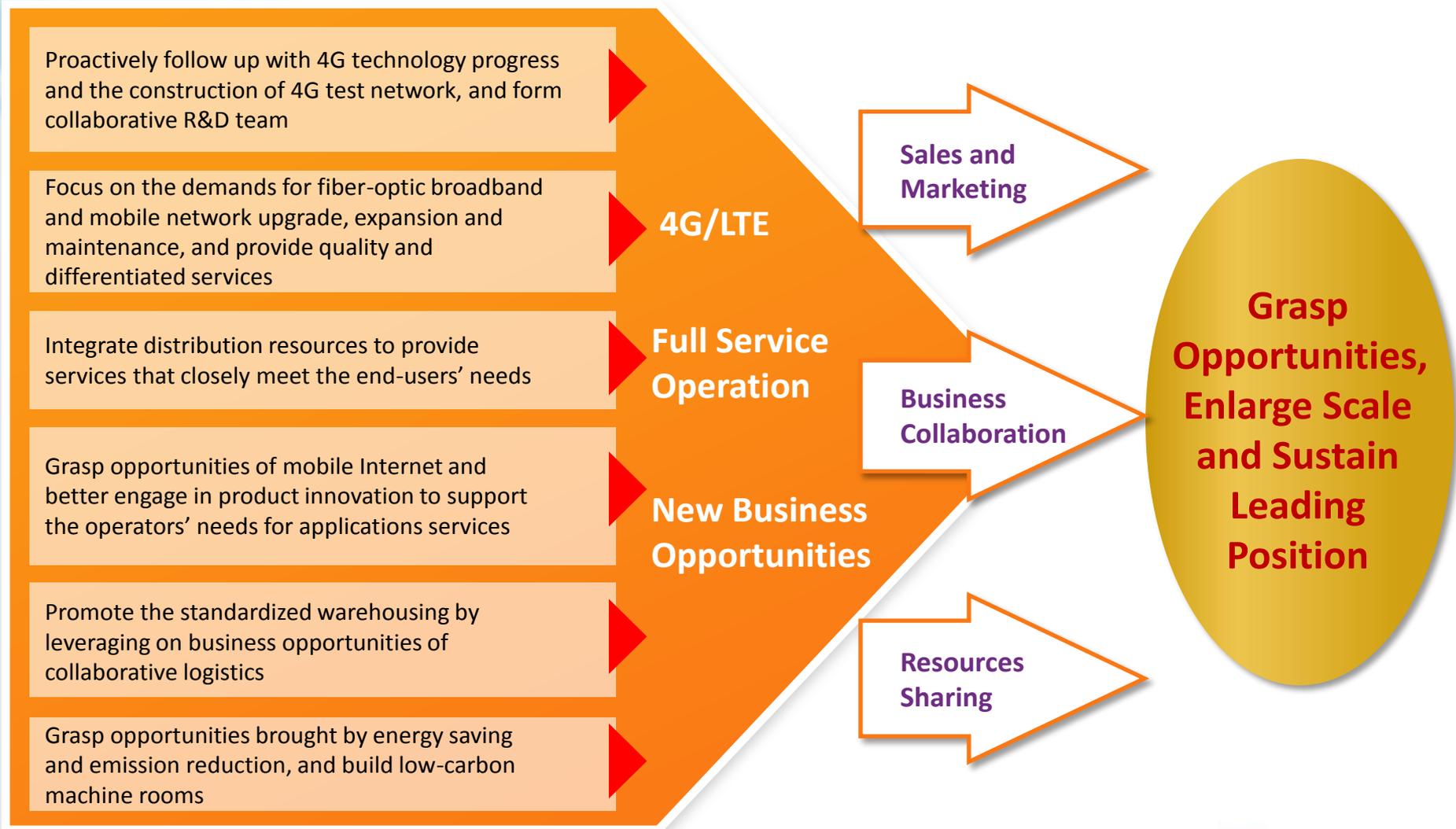
- Established 4 core markets, including Congo (K), Saudi Arabia, Hong Kong/Macau and Tanzania, and poised for scale development in regions



Proactive business promotion among senior management:

- Participated in China and Africa Cooperation Forum
- Partnered with domestic operators and held marketing events targeting at customers from Mid Asia, Latin America, South East Asia

BUSINESS DEVELOPMENT STRATEGY – DOMESTIC OPERATOR



BUSINESS DEVELOPMENT STRATEGY – DOMESTIC NON-OPERATOR

Continue our “ Three Steps ” Strategy

Focus on:
3 Non-operator Customer Groups ⁽¹⁾ &
3 Categories of Businesses⁽²⁾

- Provide tailor-made services by leveraging on our edges of integrated service model
- Develop innovative informatization products; understand, satisfy, discover and guide customers’ needs
- Strengthen innovation in marketing methods and enhance collaborative marketing
- Carry out thorough industry analysis, build and maintain long-term customer relations

Nurture several key non-operator customers

Realize scale breakthrough with high quality

Partner with domestic operators and realize synergies in collaboration



中国通信服务
CHINA COMSERVICE

(1) Three Non-operator Customer Groups: government, large industrial enterprise and SME
(2) Three Categories of Businesses: solution for Smart Cities, industry solution and SME’s ICT operation outsourcing

BUSINESS DEVELOPMENT STRATEGY – OVERSEAS CUSTOMERS

Persist in our “4 Steps” Strategy, and provide services to operators and non-operators in overseas

Prudently choose partners for subcontracting business and selectively implement subcontracting projects to improve operating results

Focus on key countries and key regions, develop turnkey projects to enlarge the scale in our existing core markets and establish new core markets

Continue to explore business in operation outsourcing

Firmly and confidently develop overseas market to realize scale development of overseas business

Adhere to the principle of risk-controllable and efficient development, and avoid operational risks in high risk areas and financial risks in foreign exchange controlled areas

Financial Results

FINANCIAL PERFORMANCE

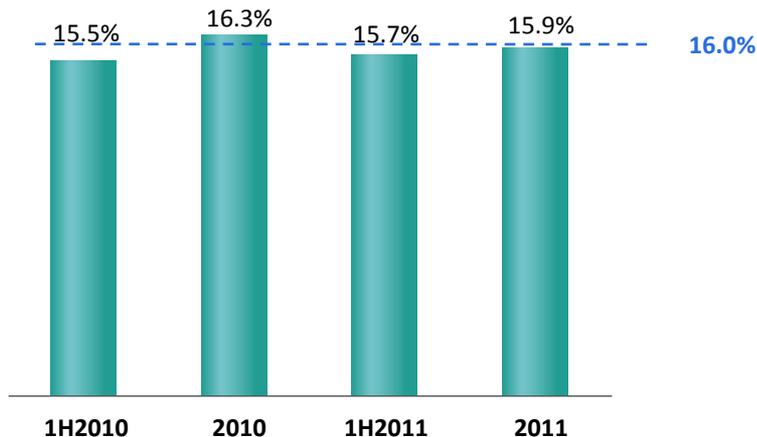
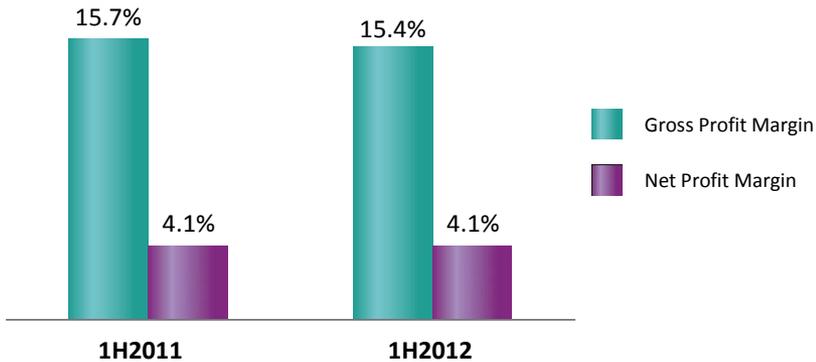
(RMB'M)	1H2011	1H2012	Change	% of Revenue
Revenue	25,213	29,356	16.4%	100.0%
Cost of Revenue	21,263	24,836	16.8%	84.6%
Direct personnel	3,784	4,193	10.8%	14.3%
Materials ⁽¹⁾	7,605	8,928	17.4%	30.4%
Subcontracting	7,319	8,868	21.2%	30.2%
D & A	185	195	5.5%	0.7%
Others	2,370	2,653	11.9%	9.0%
Gross Profit	3,950	4,520	14.4%	15.4%
SG&A	2,841	3,297	16.0%	11.2%
Net Profit	1,045	1,209	15.7%	4.1%
EPS (RMB)	0.176	0.180	2.3%	-
ROE (%)⁽²⁾	14.1%	13.7%	-0.4PP	-

(1) Materials refer to purchase of materials and telecommunications products

(2) Annualized basis

PROFITABILITY REMAINED STABLE

Gross Profit Margin & Net Profit Margin (%)



Stable net profit margin sustained in spite of volatile economic environment in China and overseas



Due to seasonality and the Company's business characteristics, gross profit margin and net profit margin remain stable for the full year according to past experience



Challenges exist to maintain current gross profit margin level under current economic situation, and business model transformation to be accomplished



Strive to improve profitability through different methods:

- Focus on turnkey project development and undertake high-margin businesses
- Enhance business collaboration and ensure competitiveness and value
- Promote project management and implement precise cost control

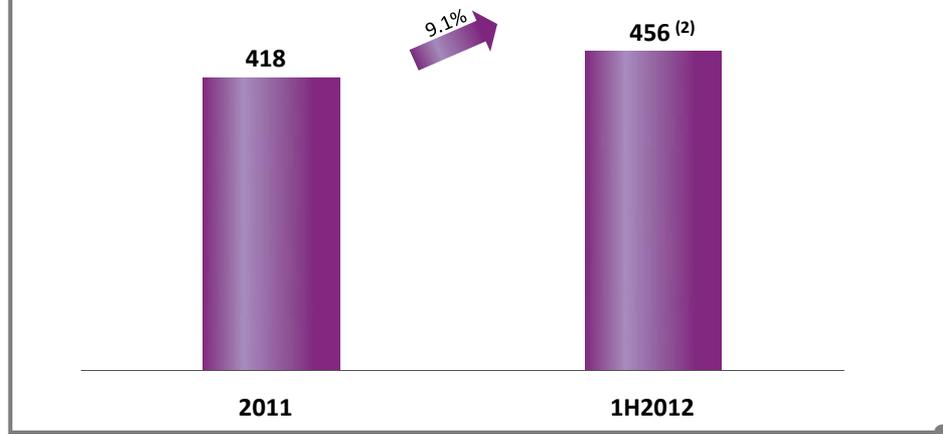
STABLE COST STRUCTURE

Cost as a % of Revenue

(%)	Materials	Subcontracting	Direct Personnel	SG&A	Other	Total
1H2011	30.2%	29.0%	15.0%	11.3%	10.1%	95.6%
1H2012	30.4%	30.2%	14.3%	11.2%	9.7%	95.8%

Labor Productivity ⁽²⁾

(RMB' 000 / staff)



- (1) Total personnel cost = direct personnel + staff cost in SG&A
 (2) Labor productivity = revenue over period end staff number (annualized basis)
 (3) As of 30 June 2012, the total number of staff was 129 thousand



Cost as a % of revenue remained stable while revenue scale enlarging



Material cost up by 17.4% to RMB8.9 billion

- Material cost related to purchase of telecommunications products up by 26.9% to RMB7.0 billion, in line with distribution business growth triggered by market demands



Total personnel cost ⁽¹⁾ up by 14.2% to RMB6.3 billion, grew slower than net profit, and labor productivity continued to grow



Subcontracting cost up by 21.2% to RMB8.9 billion, growth moderated versus prior period



SG&A up by 16.0% to RMB3.3 billion, down by 0.1pp as a % of revenue

SOLID BALANCE SHEET



Leveraging on internal funding pool to better utilize cash resources to support business development, and interests cost saved



Overall capital structure remained stable; account receivables increased relatively faster

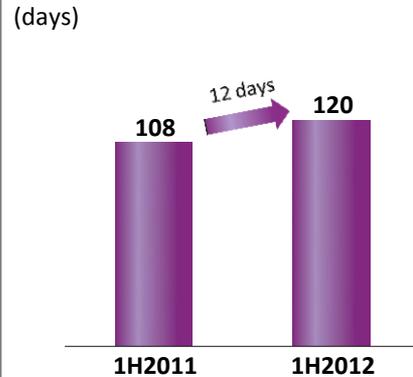
(RMB'M)	31.12.2011	30.6.2012	Change
Total Assets	38,284	44,280	5,996
Cash and cash equivalents	7,309	8,430	1,121
Account receivables	17,304	21,259	3,955
Fixed assets (NBV)	3,933	3,912	-21
Total Liabilities	22,118	24,760	2,642
Interest-bearing borrowings	998	264	-734
Account payables	12,766	14,162	1,396
Equity Attributable to Equity Shareholders	16,044	19,325	3,281
Total Liabilities / Total Assets	57.8%	55.9%	-1.9PP
Debt-to-Capitalization Ratio	5.9%	1.3%	-4.6PP

ACCOUNT RECEIVABLES MANAGEMENT

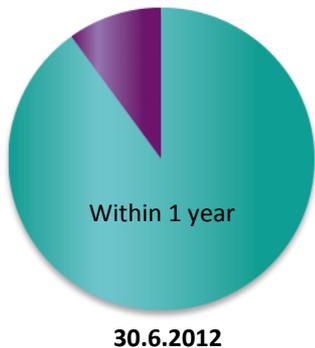
Account Receivables



AR Turnover days



Ageing analysis of Account Receivables



Account Receivables Customer Mix



Account receivables mostly from quality customers (domestic operators) with good credit record

About 90% account receivables were due within 1 year, and bad debt ratio remained at low level

Enlarged business scale brought new challenges in managing account receivables

Strengthen management and address challenges:

- Carry out periodic assessment on account receivables and free cash flow, and implement incentive policy to encourage account receivables collection
- Assess and monitor credit ratings of customers
- Apply appropriate financial instruments properly to avoid potential risks

STRENGTHEN INTERNAL MANAGEMENT AND INNOVATION

Precision Management

- Collaboration management
- Project management
- Fully utilize funding pool
- Assessment on account receivables

Risk Management

- Subcontracting management and contract management
- EMOSS application support

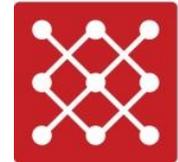
Innovation

- Business innovation
- R&D for core products
- All-round marketing

HR Management

- Share appreciation rights schemes (phase II) implemented
- Talent selection
- Incentive enhancement
- Results sharing

Support
Development



Enhance
Shareholder
Return

THANK YOU

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