



中国通信服务  
CHINA COMSERVICE

CHINA COMMUNICATIONS SERVICES CORPORATION LIMITED

STOCK CODE: 552



**Annual Results 2013**

March 26, 2014



# Management Present



**MR. LI PING**

**CHAIRMAN**

**MR. SI FURONG**

**PRESIDENT**

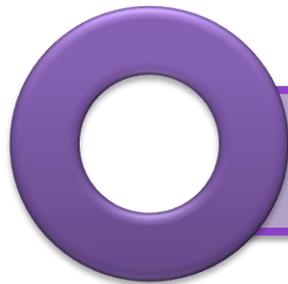
**MS. HOU RUI**

**EXECUTIVE VICE PRESIDENT & CFO**

**MR. YAN DONG**

**EXECUTIVE VICE PRESIDENT & CRO**





**Overview**



**Business Review**



**Financial Results**

# Overview

# Key Messages



- Sustained favorable business development in the past years and revenue up 11.3% in 2013
- Maintained solid fundamentals despite changes in operating environment imposed pressures to our operation
- Achieved double-digit revenue growth in both domestic non-operator market and overseas market
- Enhanced impetus and vitality for sustainable development by external cooperation, innovation and transformation
- Continued stable dividend payout for 7 consecutive years and cumulative dividends totalled RMB4.99 billion over the years

# Key Performance Indicators



- Revenue and net profit realized RMB68.5 billion and RMB2.2 billion respectively
- The Board recommended a final dividend of RMB0.1293 per share

(RMB'M, except EPS, DPS & % figures)

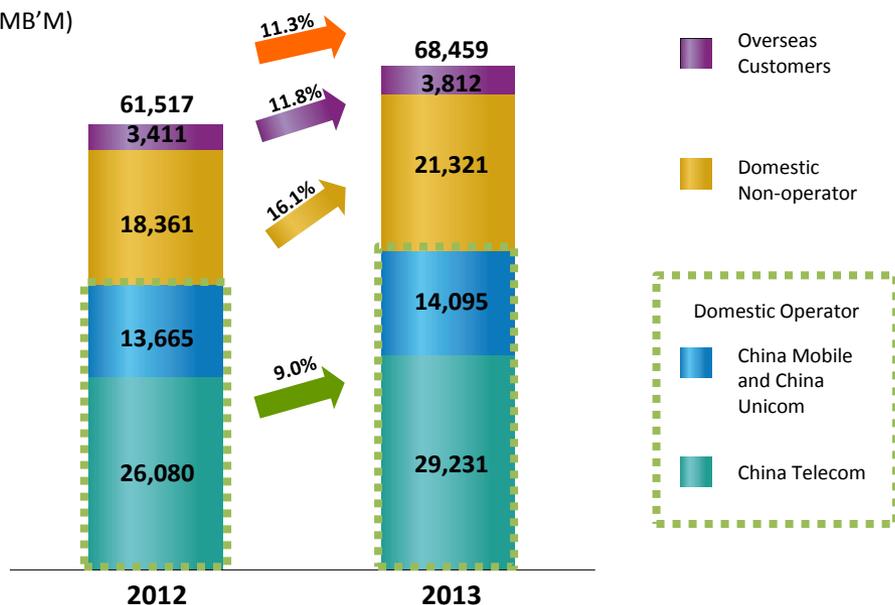
	2012	2013	Change
<b>Revenue</b>	61,517	68,459	11.3%
<b>Gross Profit</b>	9,785	10,378	6.1%
<b>Gross Profit Margin (%)</b>	15.9%	15.2%	-0.7pp
<b>Net Profit</b>	2,407	2,238	-7.0%
<b>Net Profit Margin (%)</b>	3.9%	3.3%	-0.6pp
<b>Free Cash Flow</b>	166	-324	-
<b>EPS (RMB)</b>	0.353	0.323	-8.4%
<b>DPS (RMB)</b>	0.1390	0.1293	-7.0%

# Favorable Development Momentum in Three Markets

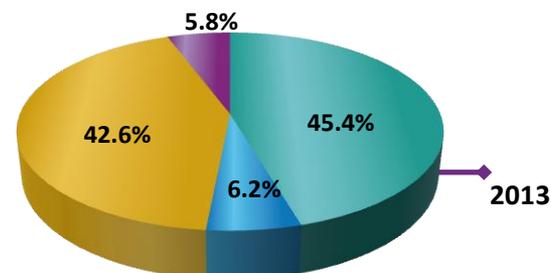
- Innovation and transformation demonstrating initial results, revenue from domestic non-operator market and overseas market up 16.1% and 11.8% respectively; contribution from these two new markets accounting for nearly half of the total incremental revenue
- Revenue from domestic operator market grew steadily, and 4G development has started revenue contribution around the end of 2013

## Revenue Growth by Customer

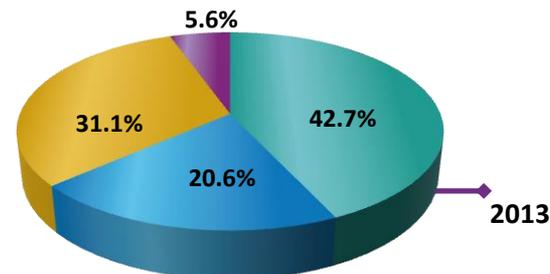
(RMB'M)



## Incremental Revenue Mix by Customer



## Revenue Mix by Customer



Note: China Telecom, China Mobile/China Unicom, Domestic Non-operator and Overseas Customers accounted for 42.4%, 22.2%, 29.9%, 5.5% of total revenues in 2012

# Impetus and Vitality Enhanced for Growth by External Cooperation, Innovation and Transformation

## External Cooperation

- ◆ Cooperated with international renowned enterprises in the areas of Smart City, intelligent building and energy saving and emission reduction, etc.
- ◆ Cooperated with SAP and first launched public cloud



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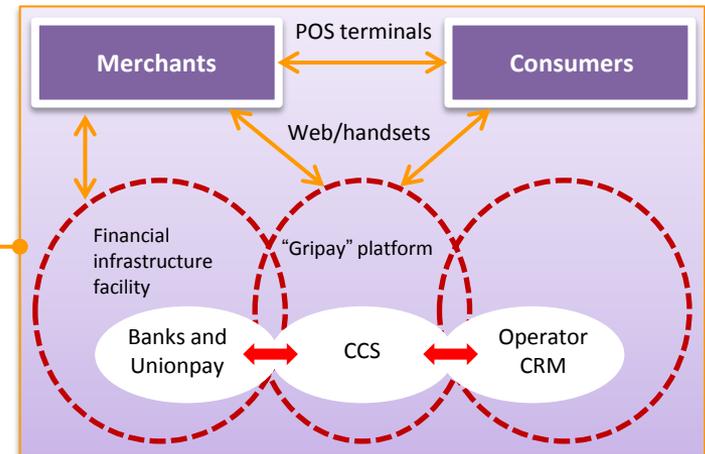
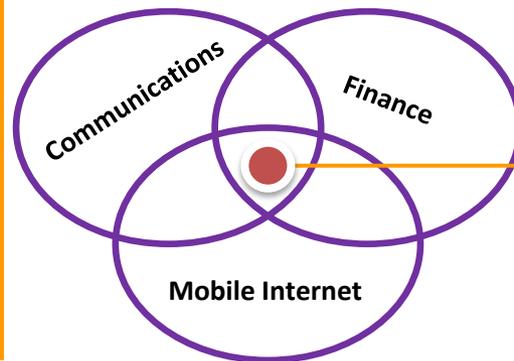
## Deepen the Reform (Mechanism Innovation)

- ◆ Explore to establish subsidiaries focusing on knowledge and technology with diversified ownership structure
- ◆ Establish collaboration and sharing system of resource and capability

- ◆ Focused on “Sweet Spot ” to transform and innovate, cooperated with banks and launched our first mobile financial service solution “Gripay”



### “Gripay” - a cross-boundary innovative product



# New Business Opportunities from Domestic Operators and Pan-Operators<sup>(1)</sup>



## Changing Demands from Domestic Operators

### CAPEX

- 4G/LTE
- “Broadband China”; increasing network investment to support data traffic operation
- Enlarging investment in cloud data centers

### OPEX

- Distribution outsourcing
- Maintenance outsourcing
- Logistics

### IT System

- IT centralization
- System structure from IOE to LAMP
- Respond to customer demands for development

### Business

- New businesses such as IM, online payment, etc.
- Joint development of ICT
- CPN, WIFI...

## New Demands from “Pan-Operators<sup>(1)</sup>”

### Base Station

- Tower sharing
- Centralized maintenance outsourcing

### Customer Premises Network (CPN)

- Real estate developers require professional teams when investing in and constructing CPN

### IDC

- Internet enterprises and local governments require cloud solution and data center construction

### Virtual Operation

- Virtual operators require IT construction and value-added services

<sup>(1)</sup> “Pan-Operators” means companies including but not limited to internet companies, virtual operators

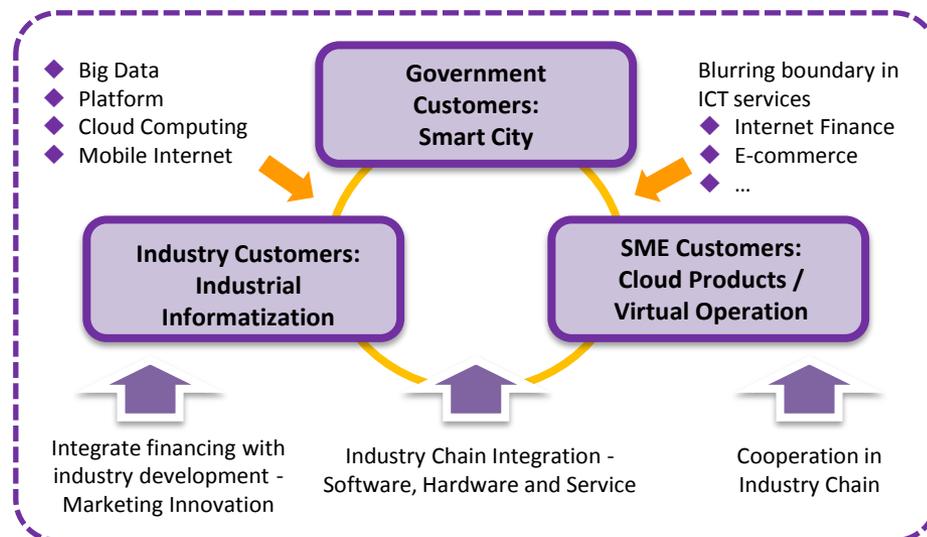
# Domestic Non-operator Market and Overseas Market: Great Development Potential



Urbanization and informatization expedite and the demand for information consumption will exceed RMB3.2 trillion by 2015 with CAGR of 20%<sup>(1)</sup>

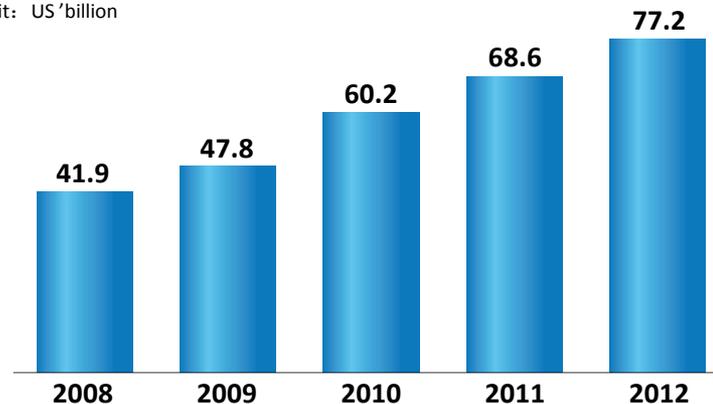


Financing policies of China supporting overseas development; Steadily increasing CAPEX by telecom operators in Asia Pacific and African areas; Booming demand for ICT services in developing countries



## China's Non-financial Investment in Overseas

Unit: US 'billion



Source: Department of Commerce

<sup>(1)</sup> Source: Document from State Council



Aim to achieve “hundred-billion” revenue scale in 4 to 5 years, while aggregate revenue contribution from domestic non-operator market and overseas market reaching 50% of total revenues

## Build a ‘Hundred-Billion’ Enterprise with Superior Performance

Transformation and Innovation

Transformation to stimulate vitality

Openness and Cooperation

Cooperation to enhance capability

Quality and Effectiveness  
Enhancement

Management to improve  
effectiveness

## Customer-focused and Service Innovative Strategy

Innovation Capability

Marketing Capability

Implementation Capability

Operation and  
Management Capability

# Business Review

# Revenue Breakdown

(RMB'M)	2012	2013	Change	% of Revenue
<b>TIS (1)</b>	<b>28,413</b>	<b>32,036</b>	<b>12.8%</b>	<b>46.8%</b>
Design	5,788	6,326	9.3%	9.3%
Construction	20,638	23,426	13.5%	34.2%
Supervision	1,987	2,284	14.9%	3.3%
<b>BPO (2)</b>	<b>26,304</b>	<b>29,012</b>	<b>10.3%</b>	<b>42.4%</b>
Maintenance	6,414	6,884	7.3%	10.1%
Distribution	16,944	18,934	11.7%	27.6%
Facility Management	2,946	3,194	8.4%	4.7%
<b>ACO (3,4)</b>	<b>6,800</b>	<b>7,411</b>	<b>9.0%</b>	<b>10.8%</b>
System Integration	2,861	3,356	17.3%	4.9%
Software Development & System Support	1,294	1,378	6.5%	2.0%
VAS	1,019	1,171	14.9%	1.7%
Others	1,626	1,506	-7.3%	2.2%
<b>Total</b>	<b>61,517</b>	<b>68,459</b>	<b>11.3%</b>	<b>100.0%</b>

Note: (1) TIS refers to Telecommunications Infrastructure Services  
 (2) BPO refers to Business Process Outsourcing Services  
 (3) ACO refers to Applications, Content and Other Services

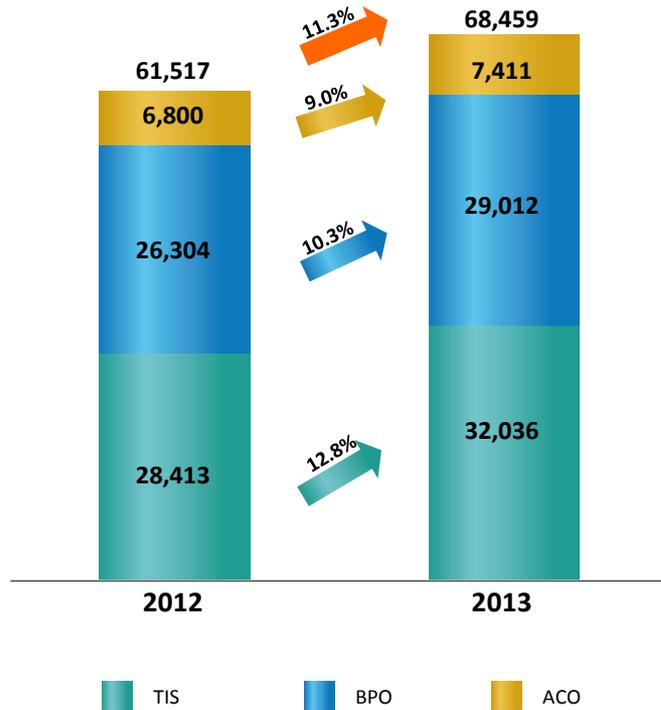
(4) Starting from 1 January 2013, the Company has adjusted the business classification among ACO in accordance with its business development focus. This change in classification has no effect on total revenues. The comparative figures have been reclassified to conform to current year's presentation.

# Steady Growth of Core Businesses (TIS/BPO/ACO)



## Revenue Growth by Business

(RMB'M)



- Construction and supervision services grew relatively fast, driving TIS revenue up by 12.8%
- Distribution service showed favorable momentum, driving BPO revenue up by 10.3%
- ACO service developed rapidly with revenue of core ACO business<sup>(1)</sup> up by 9.0%

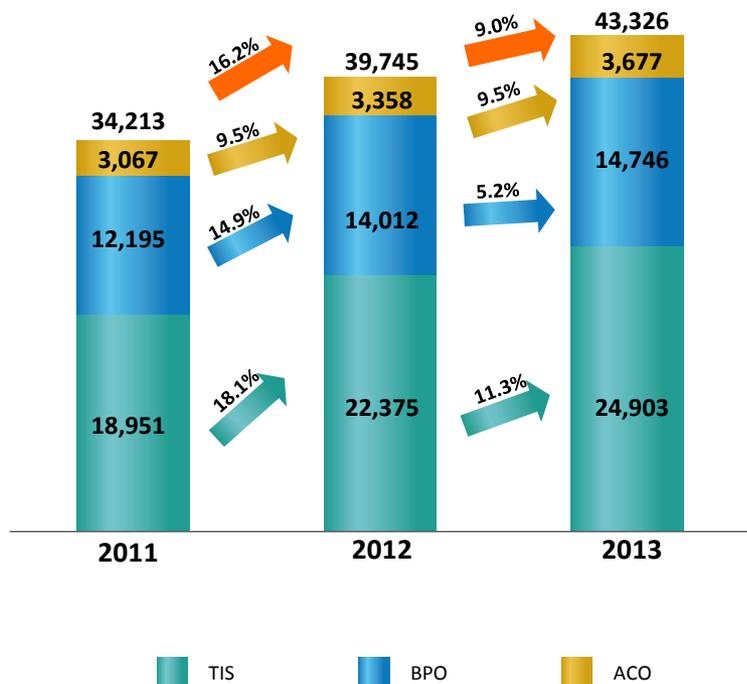
<sup>(1)</sup> Core ACO business includes System Integration, Software Development and System Support and VAS

# Performance in Domestic Operator Market



## Revenue from Domestic Operator Market

(RMB'M)



Revenue up by 9.0% to RMB43.3 billion, leveraging on edges of integrated business model



TIS revenue up by 11.3% amid prudent CAPEX investment by domestic operators



Growth in BPO moderated as a result of our prudent approach in engaging certain businesses with lower efficiency



ACO revenue up by 9.5% as a result of the new demands from data traffic & e-commerce

# Domestic Operator Market: Continue our Strategy of Market Leadership



**Integrated  
Service Edges  
+  
Leading  
Company of  
Producer  
Services in ICT**

**1**

Grasp LTE opportunities and target to increase market share with China Mobile

**2**

Expand businesses driven by domestic operators' OPEX, including network optimization and supply chain service

**3**

Enhance project management and integrate our resources to ensure profitability

**4**

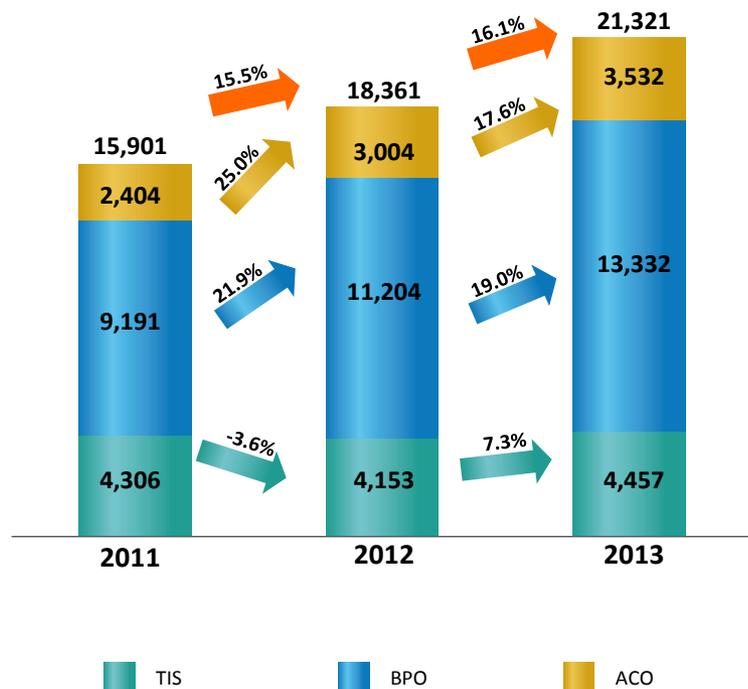
Explore new service model for “pan-operators” and provide IT services for virtual operators

- ◆ Increasing CAPEX , & tilting toward 4G
- ◆ Steadily increasing OPEX, with growing demands for network optimization and distribution
- ◆ Replacement of old switching equipments (Energy saving and emission reduction)
- ◆ .....

# Performance in Domestic Non-operator Market

## Revenue from Domestic Non-operator Market

(RMB'M)



- Maintained steady growth and aggregate revenue from government, industrial and SME customers up by 16.1%
- Expand government “Smart City” projects leveraging our high-end consulting services. “Smart Nanjing” and “Safe Xinjiang” became the benchmark projects
  - ◆ Contract amount from government customers accounted for 26%<sup>(1)</sup>
- Favorable development in construction projects for intelligent building, surveillance system, ...
  - ◆ Contract amount from industries of transportation, real estate construction, Internet and IT media accounted for 55%<sup>(1)</sup>
- Cooperation with business partners including SAP to expedite business development in SME
  - ◆ Contract amount from SME customers accounted for 12%<sup>(1)</sup>

<sup>(1)</sup> The proportion of service contract for projects with size over RMB1 million

# Domestic Non-operator Market: Continue our Strategy of Differentiation and Strategic Partnership



## Incubate Key Customers/Product Lines

### Government Customers

Promote “Smart City” integrated solutions

- ◆ Top-tier design capability
- ◆ Video surveillance system
- ◆ Security business

### Industrial Customers

Promote industrial solutions by leveraging our ACO products

#### Key industries:

- ◆ Construction and real estate
- ◆ Transportation
- ◆ Manufacturing (joint development with operators)

#### Key products:

- ◆ Intelligent building
- ◆ Security business
- ◆ Video surveillance system
- ◆ Data center

### SME Customers

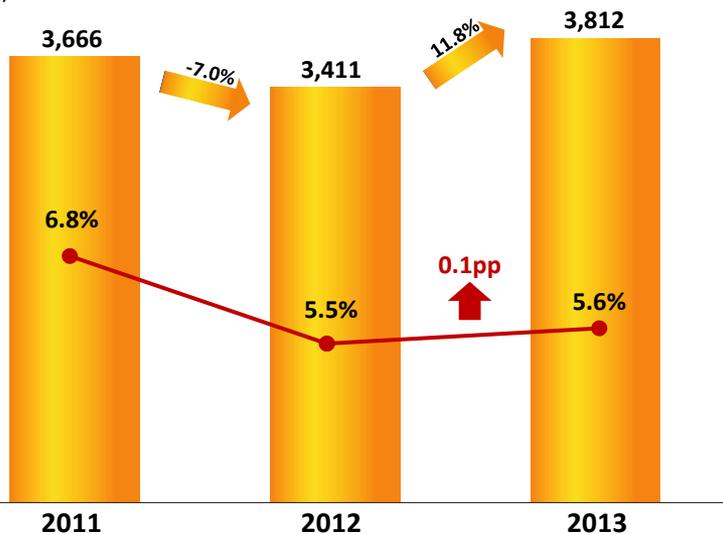
Promote virtual operation and IT outsourcing by leveraging our cloud solution

- ◆ Develop SME customers with our SAP application solutions (CRM , ERP, HR, BI)
- ◆ Expand customer base of “Gripay” and explore internet financial service

# Performance in Overseas Market

## Revenue from Overseas Market

(RMB'M)



● — ● % of total revenues



EPC projects accounted for 42% of revenue from overseas market, up by 9pp y-o-y



Backlog for major projects to be started / being implemented reached hundreds of millions of US dollars



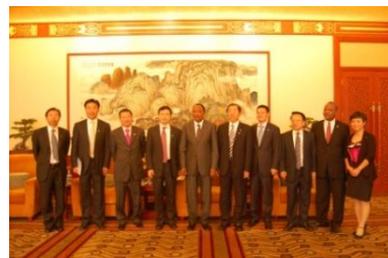
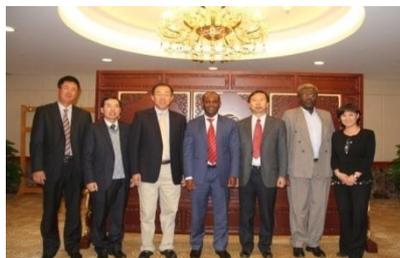
Congo (K) operation and management outsourcing project formally started



Speed up cash cycle and avoid overseas risks by utilizing AR factoring and credit insurance with Sinosure



Build close top-level contacts with several foreign government officials and customers



# Overseas Market: Continue our Strategy of “Overseas Market-Focused and Four-Step<sup>(1)</sup> Approach”



“Broadband Countries,  
Smart Capitals and  
Regional Hubs”

**Target regions: Africa,  
Asia, Middle East**

Capitalize on China financing policies for emerging markets; strengthen financing innovation

Marketing by frontline management and HQ senior management

Incubate 5 to 10 key markets

Expand business in surrounding countries/regions in appropriate timing

## Major projects:

- Congo (K) phase II project
- Saudi Arabia project
- Brunei telecom project
- Tanzania phase III project
- Algeria project
- Zimbabwe project
- Congo (K) operation outsourcing project
- Niger project
- Cote d’ivoire project

(1) “Four-Step”: subcontracting projects, EPC projects, operation outsourcing projects, equity investment

# Financial Results

# Financial Performance

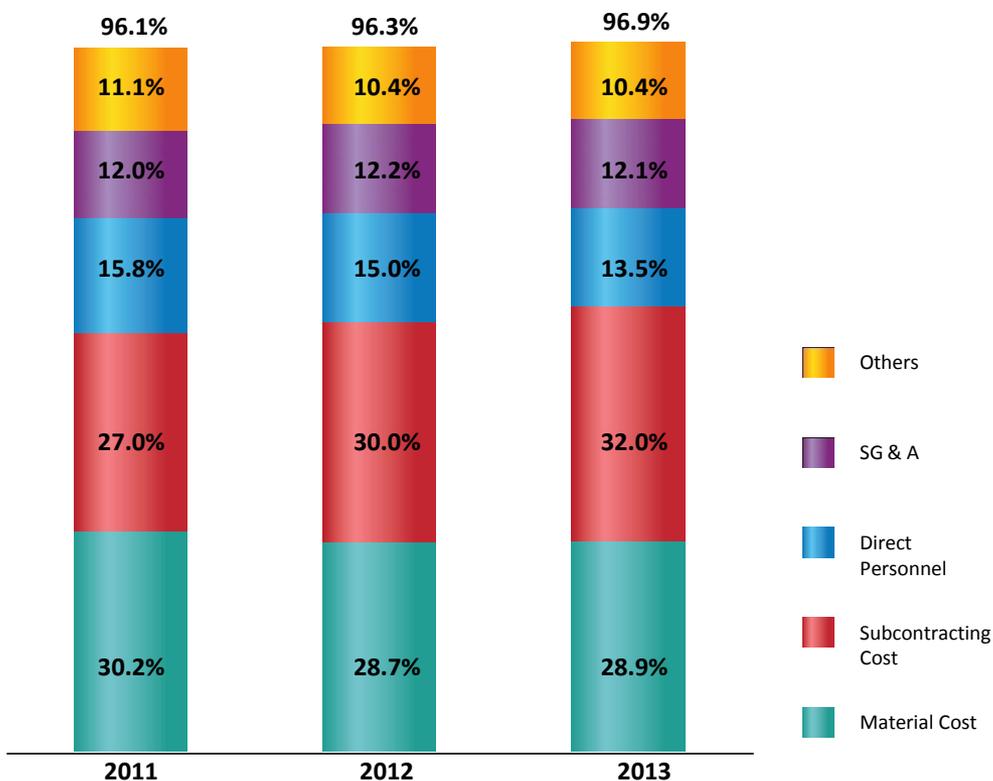
(RMB'M)	2012	2013	Change	% of Revenue
<b>Revenue</b>	<b>61,517</b>	<b>68,459</b>	<b>11.3%</b>	<b>100.0%</b>
<b>Cost of Revenue</b>	<b>51,732</b>	<b>58,081</b>	<b>12.3%</b>	<b>84.8%</b>
Direct personnel	9,229	9,252	0.2%	13.5%
Materials <sup>(1)</sup>	17,646	19,804	12.2%	28.9%
Subcontracting	18,448	21,874	18.6%	32.0%
D & A	439	462	5.2%	0.7%
Others	5,970	6,689	12.0%	9.7%
<b>Gross Profit</b>	<b>9,785</b>	<b>10,378</b>	<b>6.1%</b>	<b>15.2%</b>
<b>SG&amp;A</b>	<b>7,515</b>	<b>8,288</b>	<b>10.3%</b>	<b>12.1%</b>
<b>Net Profit</b>	<b>2,407</b>	<b>2,238</b>	<b>-7.0%</b>	<b>3.3%</b>
<b>EPS (RMB)</b>	<b>0.353</b>	<b>0.323</b>	<b>-8.4%</b>	<b>-</b>
<b>ROE (%)</b>	<b>13.1%</b>	<b>10.6%</b>	<b>-2.5pp</b>	<b>-</b>

<sup>(1)</sup> Materials refer to purchase of materials and telecommunications products

# Cost Structure



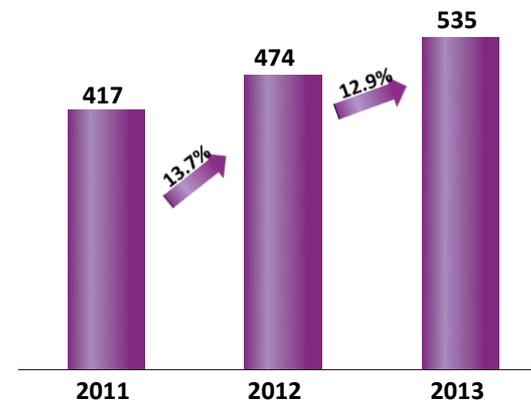
## Cost as a % of Total Revenues



- Total personnel cost <sup>(1)</sup> up 4.9% to RMB14.5 billion; Labor productivity up 12.9%
- Subcontracting cost up 18.6% to RMB21.9 billion
  - Subcontract low-end business to maintain headcount scale, and thereby lowering direct personnel cost as a % of total revenues

## Labor Productivity <sup>(2)</sup>

(RMB'000/ staff)

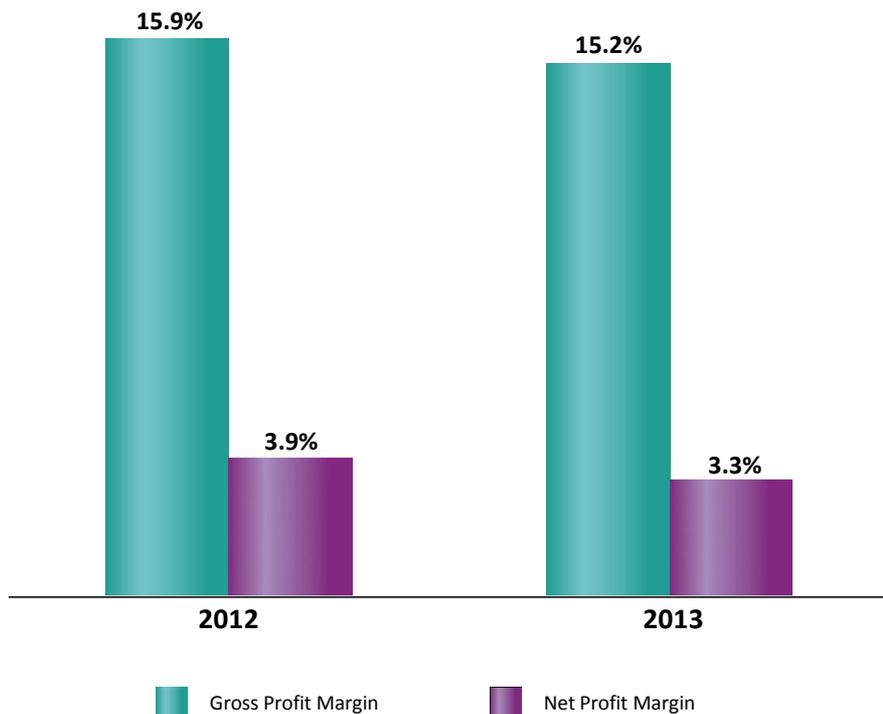


(1) Total personnel cost = direct personnel + staff cost in SG&A  
 (2) Labor productivity = revenue over period end staff number  
 (3) As of 31 December 2013, total number of staff was 127.9 thousand

# Gross Profit Margin and Net Profit Margin



## Gross Profit Margin and Net Profit Margin (%)



### Profitability mainly affected by various factors:

- ◆ New industry regulatory policies and intensifying competition in domestic operator market caused tariff decrease and pricing pressure
- ◆ Costs increase generally in China
- ◆ Impact by government policies: VAT reform, tender law



### Measures in maintaining profitability:

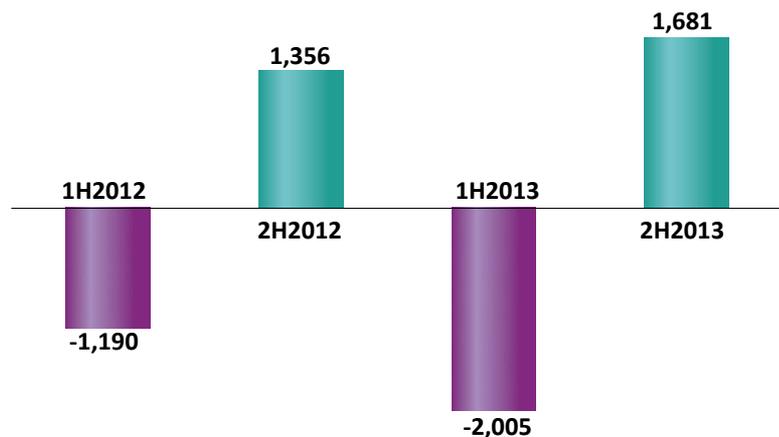
- ◆ Optimization of business structure: Increase revenue contribution from ACO business, and EPC projects in overseas market and domestic non-operator market; Prudently control growth of businesses with low value
- ◆ Costs Control: Strengthen project management & manage costs precisely, enhance subcontracting management and strictly control administrative expenses
- ◆ Innovation of business model by collaboration on resources and capabilities

# Free Cash Flow

- Seasonality fluctuation affects cash flow cycle, and more repayment happens in second half. Free cash flow for 2013 FY was RMB-324million, and operating net cash inflow was RMB321 million
- Cash flow mainly affected by prolonged account receivables repayment cycle by domestic operators, increasing working capital and upfront costs for 4G construction projects
- Risk on account receivable is controllable as the increase of accounts receivables were mainly from customers with good credit records, such as domestic operators

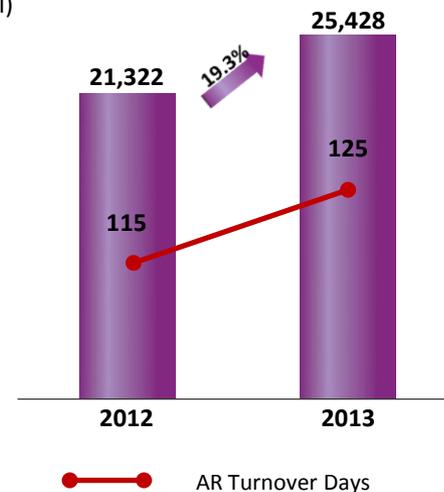
## Free Cash Flow

(RMB'M)



## Account Receivables

(RMB'M)



AR turnover days = average balance of account receivables / revenue \*365

# Solid Balance Sheet



Robust capital structure provides strong support for future development

(RMB'M)	31.12.2012	31.12.2013
<b>Total Assets</b>	<b>44,961</b>	<b>48,251</b>
Cash and cash equivalents	8,879	6,760
Account receivables	21,322	25,428
Fixed assets (NBV)	4,518	4,687
<b>Total Liabilities</b>	<b>23,958</b>	<b>25,963</b>
Interest-bearing borrowings	500	105
Account payables	14,844	17,081
<b>Equity Attributable to Equity Shareholders</b>	<b>20,503</b>	<b>21,773</b>
<b>Total Liabilities / Total Assets (%)</b>	<b>53.3%</b>	<b>53.8%</b>
<b>Debt-to-Capitalization Ratio (%)</b>	<b>2.4%</b>	<b>0.5%</b>

# Favorable Shareholder Return



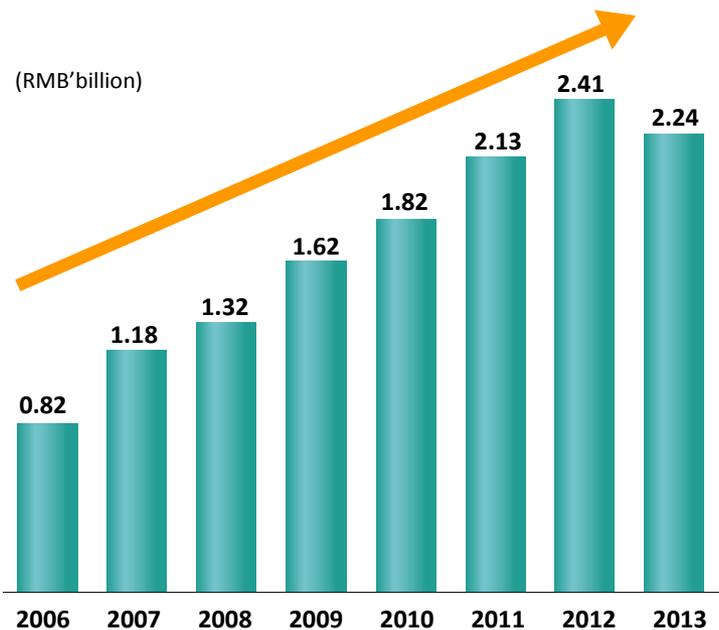
Since IPO, CAGR of revenue and net profit were 18.9% and 15.4% respectively



The Board recommended 2013 final dividend of RMB0.1293 per share, totalled RMB0.896 billion, and cumulative dividend payment since IPO amounted to RMB4.99 billion

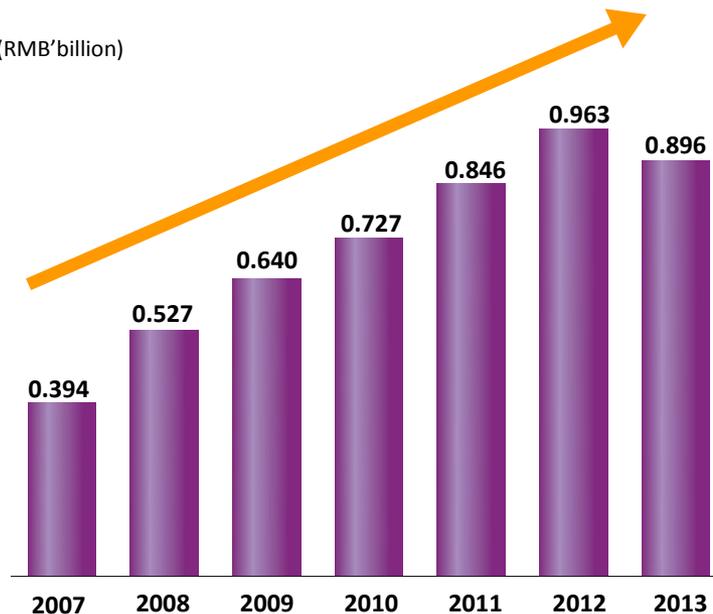
## Net Profit

(RMB' billion)

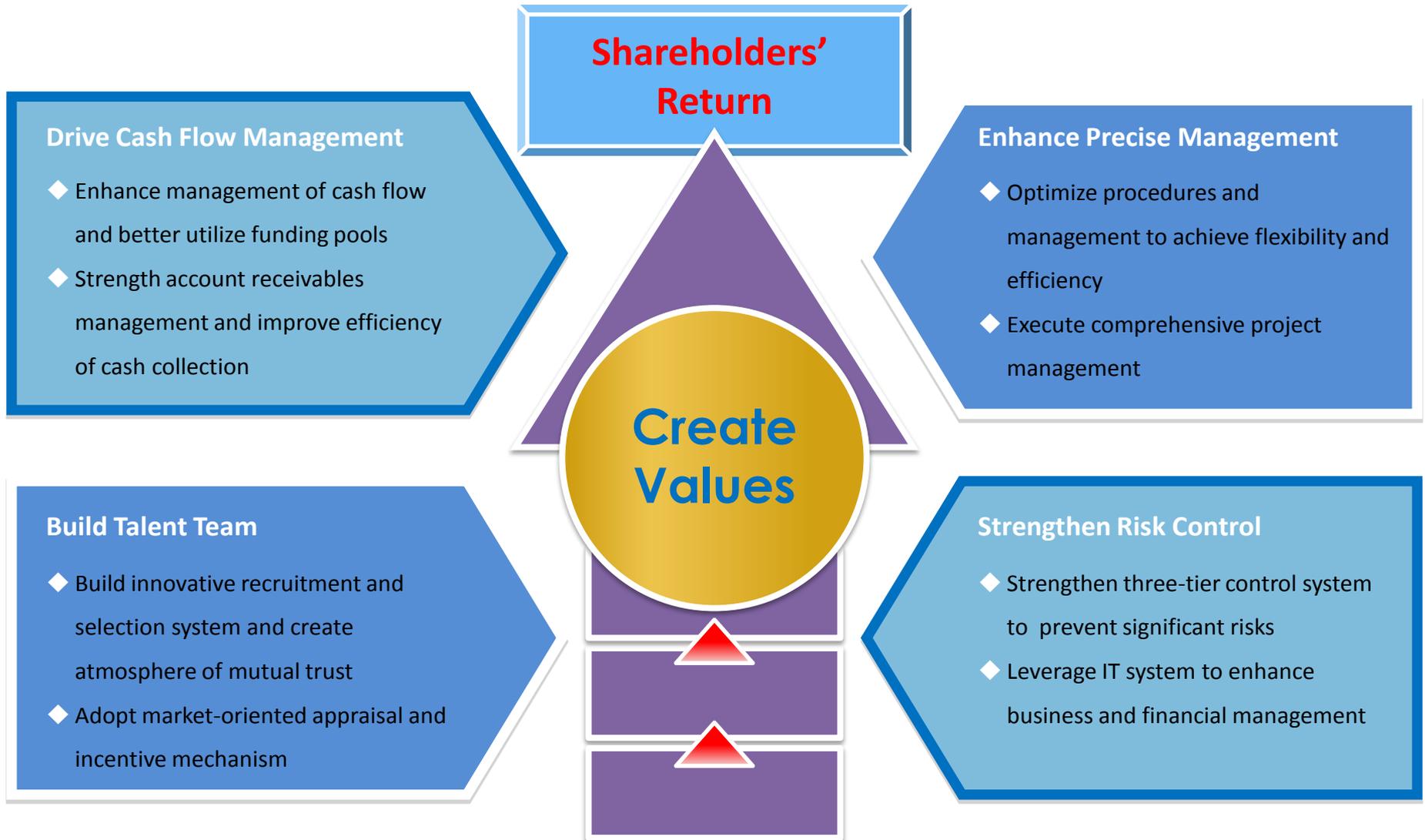


## Dividend

(RMB' billion)



# Proactive and Prudent Management on Values



**Thank You**

# Forward Looking Statement

**This presentation and the presentation materials distributed herewith include "forward-looking statements". All statements, other than statements of historical facts, that address activities, events or developments that China Communications Services Corporation Limited ("China Communications Services") expects or anticipates will or may occur in the future (including but not limited to projections, targets, estimates and business plans) are forward-looking statements. China Communications Services' actual results or developments in the futures, including those of the businesses that China Communications Services may acquire, may differ materially from those indicated by these forward-looking statements as a result of various factors and uncertainties, including but not limited to the level of demand for telecommunications services; competitive forces in more liberalized markets; the effects of tariff reduction initiatives; changes in the regulatory policies and other risks and factors beyond China Communications Services' control. In addition, China Communications Services makes the forward-looking statements referred to herein as of today and undertakes no obligation to update these statements.**