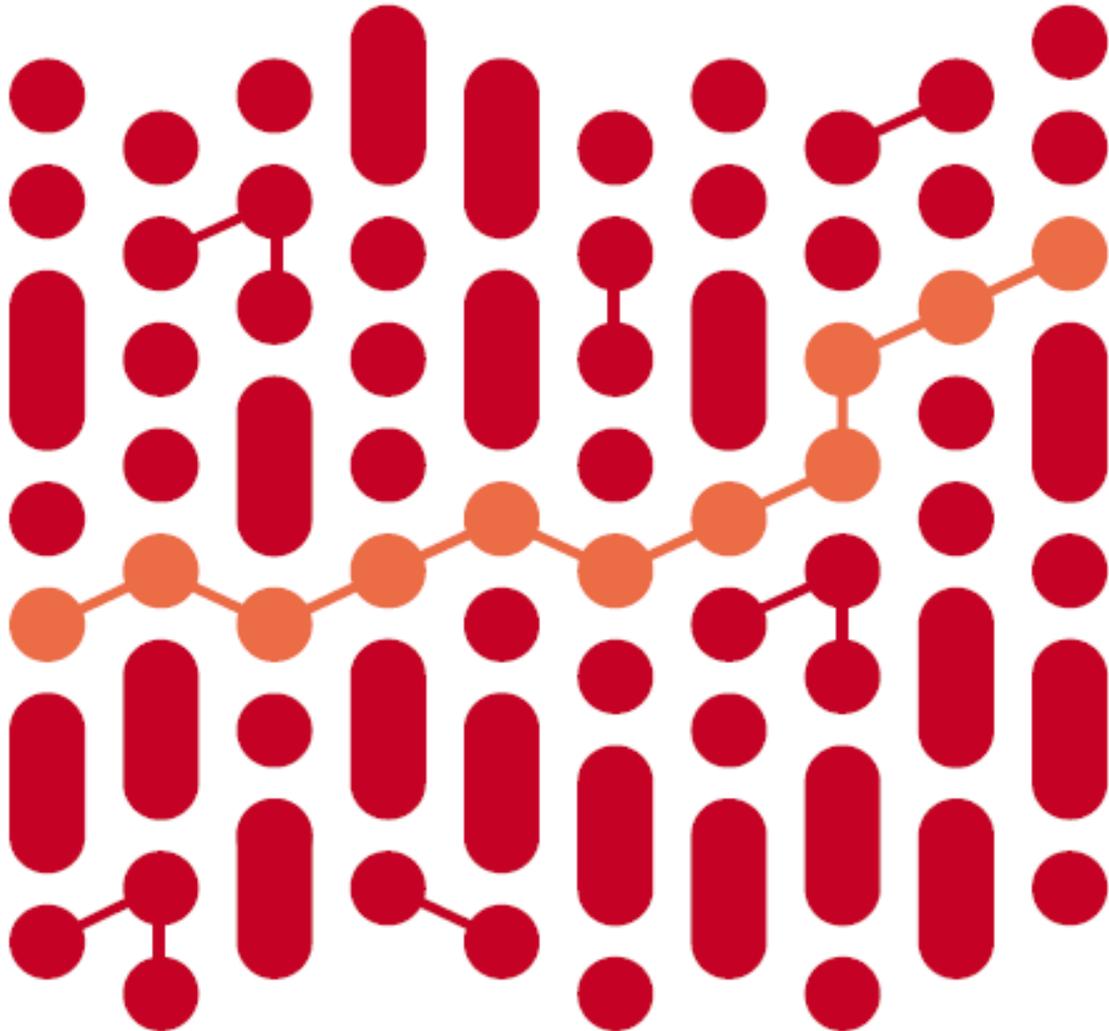




CHINA COMMUNICATIONS SERVICES CORPORATION LIMITED

STOCK CODE: 552



Annual Results 2014
March 25, 2015

<http://www.chinaccs.com.hk>

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EXECUTIVE VICE PRESIDENT

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Overview

Domestic Operator Market Achieved Stable Growth with Diversified Revenue Sources

- Rapid growth in domestic operator market in 2H2014 boosted overall development for the year, with more than half of the incremental revenue from domestic operator market generated from non-TIS business

Two New Markets⁽¹⁾ Nourished for Efficient Development

- Innovation and transformation achieved initial progress, further deepen reform initiatives were introduced to facilitate future development

Precise Management Capability Further Enhanced

- Account receivables management showed effect with substantial improvement in free cash flow, and steady decrease in SG&A expenses as a percentage of total revenues

Changes in Macro Economy and Operating Environment Posed Challenges

- Proactively responded to changes and challenges by measures including allocating resources adaptively to capture opportunities and optimizing business mix, to ensure solid fundamentals of the Company

⁽¹⁾ Two New Markets refer to Domestic Non-operator Market and Overseas Market

Key Performance Indicators

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

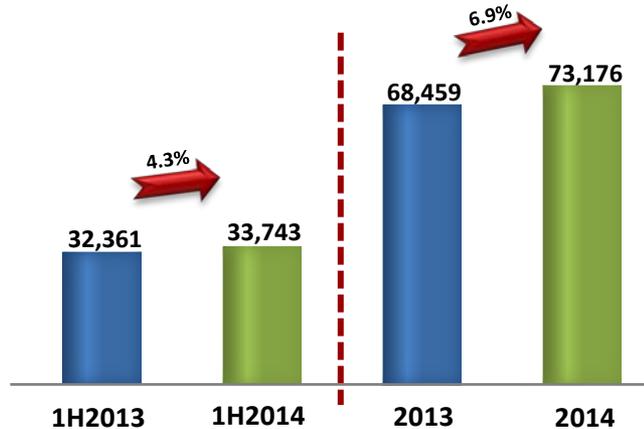
| | 2013 | 2014 | Change |
|-------------------------------|--------|--------|--------|
| Revenue | 68,459 | 73,176 | 6.9% |
| Gross Profit | 10,378 | 10,682 | 2.9% |
| Gross Profit Margin (%) | 15.2% | 14.6% | -0.6pp |
| Net Profit | 2,238 | 2,150 | -3.9% |
| Net Profit Margin (%) | 3.3% | 2.9% | -0.4pp |
| Free Cash Flow ⁽¹⁾ | -324 | 833 | - |
| EPS (RMB) | 0.323 | 0.310 | -4.0% |
| DPS (RMB) | 0.1293 | 0.0931 | -28.0% |

⁽¹⁾ Free cash flow = profit for the year + depreciation & amortization - changes in working capital - CAPEX

Steady Development in Domestic Operator Market Boosted Overall Revenue Growth

Revenue

(RMB'M)

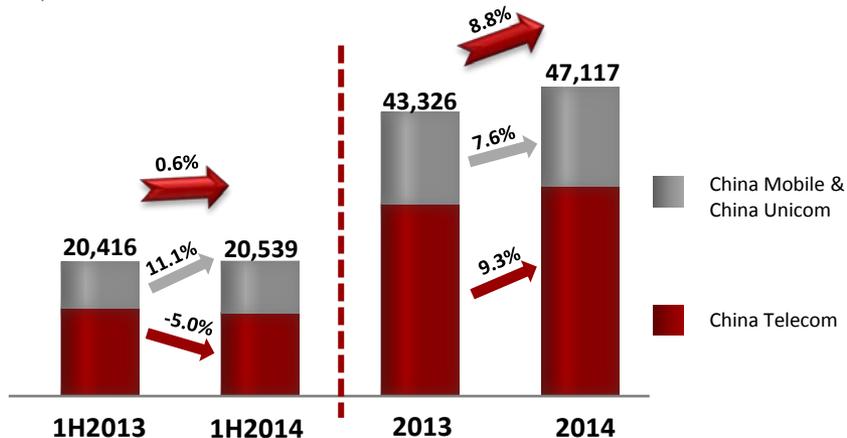


Revenue up by 6.9% for FY2014 (1H2014:+4.3%), and growth in 2H2014 accelerated

In 2H2014, revenue from domestic operators up by 29.4% compared to 1H2014

Revenue from Domestic Operator Market

(RMB'M)

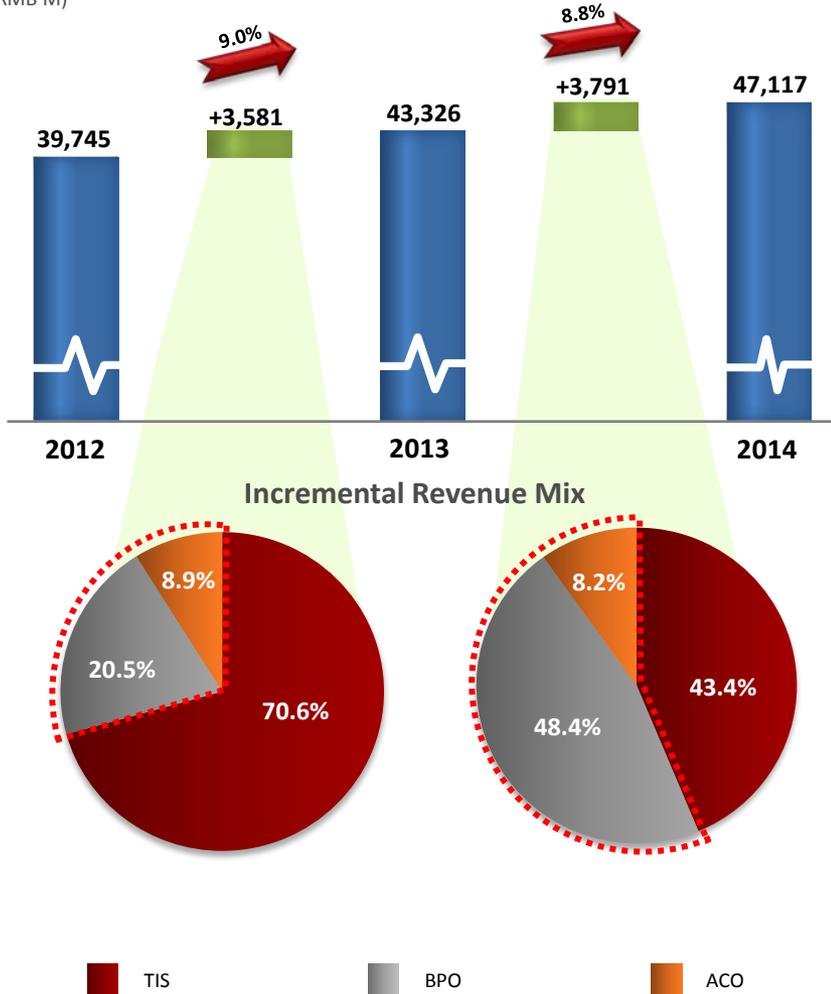


Development in domestic operator market boosted the overall revenue growth

Revenue Sources from Domestic Operator Market Further Diversified

Revenue from Domestic Operator Market

(RMB'M)



- Overcame the impacts of the progress of 4G license issuance, revenue from domestic operators maintained steady growth
- Captured the opportunities from CAPEX and OPEX investment by domestic operators, revenue sources further diversified
- Non-TIS business made up more than half of the incremental revenue in 2014 (56.6%) (2013:29.4%)

Innovation and Transformation Achieved Initial Progress

- Business mix of domestic non-operator and overseas markets was further optimized
- Key products such as Smart City and Safe City received high recognition in the industry
- Strategic cooperation was strengthened and strategic agreements were signed with various domestic and overseas renowned corporations to jointly develop ICT turnkey projects
- Self-developed Internet mobile financial service platform “Gripay” has built up its client base and brand awareness locally
- Agreements were signed with 18 corporate clients for Success Factors HR solutions jointly launched with SAP
- Strategic investor was introduced to offer valuable resources for overseas market expansion

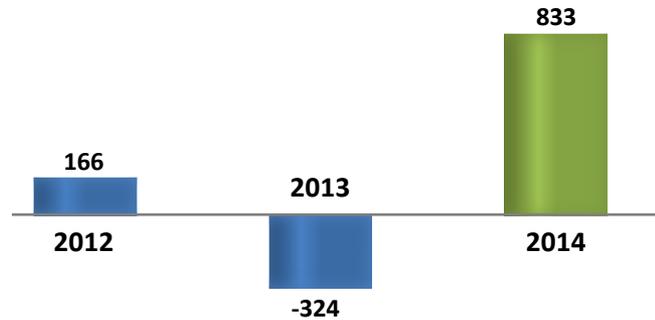
Adopt Market-oriented Approach and Allocate Resources Adaptively for Different Markets, and Proactively Grasp the Vast Opportunities from the Two New Markets

Further Initiatives of Deepen Reform

- Organizational structure optimization: adopt three-tier sales and marketing mechanism for domestic non-operator market
- Product Innovation: develop group-level and provincial-level product lines for domestic non-operator customers
- Business model innovation: Initiate projects through consultation and planning, launch projects through investment and financing, develop projects through operation and maintenance
-

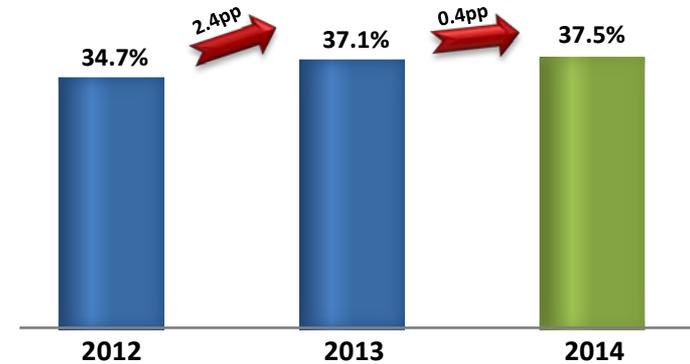
Free Cash Flow

(RMB'M)



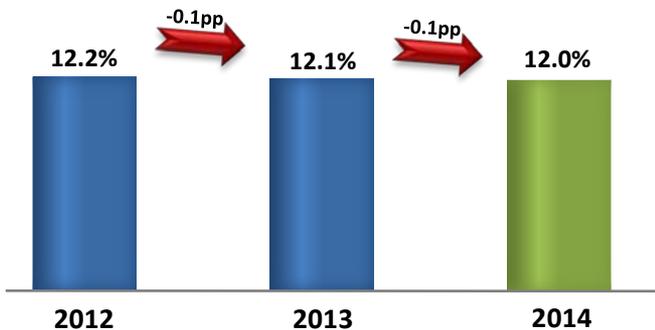
Account Receivables as a % of Total Revenues

(%)



SG&A Expenses as a % of Total Revenues

(%)



Free cash flow achieved substantial improvement through strengthened cash flow management

Account receivables as a % of total revenues remained stable by enhancing account receivables management

SG&A expenses as a % of total revenues dropped for two consecutive years through tightening selling and administrative expenses

Opportunities

- China is encouraging informatization of the society
- Acceleration of the national Comprehensive and Deepened Reform initiatives
- Further promotion of “Broadband China” strategy
- Issuance of LTE FDD licenses
- Tower Company already in operation
- Implementation of the “One Belt One Road” initiative
- “Going Abroad” policy offers favorable opportunities for projects leveraging on ‘preferential loan’ and ‘commercial loan’

Challenges

- Chinese economy is entering a “New Normal” era, and growth in telecommunication industry is decelerating
- Implementation of various national and industrial policies, such as VAT Reform, the amended PRC Labour Contract Law...
- Operators are promoting Internet-oriented transformation (lead to changes in business and investment structure), centralizing procurement and tightening marketing expenses
- Gradual decline in operator CAPEX after the peak construction cycle for 4G network
- Higher requirements and demand from customers on the capability and technological standard of the Company



On Development

- Explore beyond to accelerate market expansion

Expanding business scope, customers base, regional presence

On Reform

- Focus on key areas and deepen innovation & transformation

Lifting vibrancy and strengthening capability

On Management

- Pursue precise management and strengthen synergistic operation and management

Enhancing efficiency and reducing costs



Business Review



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Revenue Breakdown

| (RMB'M) | 2013 | 2014 | Change | % of Revenue |
|---------------------------------------|---------------|---------------|-------------|---------------|
| TIS ⁽¹⁾ | 32,036 | 34,008 | 6.2% | 46.5% |
| Design | 6,326 | 6,664 | 5.3% | 9.1% |
| Construction | 23,426 | 24,875 | 6.2% | 34.0% |
| Supervision | 2,284 | 2,469 | 8.1% | 3.4% |
| BPO ⁽²⁾ | 29,012 | 31,215 | 7.6% | 42.6% |
| Maintenance | 6,884 | 8,146 | 18.3% | 11.1% |
| Distribution | 18,934 | 19,599 | 3.5% | 26.8% |
| Facility Management | 3,194 | 3,470 | 8.7% | 4.7% |
| ACO ⁽³⁾ | 7,411 | 7,953 | 7.3% | 10.9% |
| System Integration | 3,356 | 3,574 | 6.5% | 4.9% |
| Software Development & System Support | 1,378 | 1,448 | 5.0% | 2.0% |
| VAS | 1,171 | 1,285 | 9.8% | 1.8% |
| Others | 1,506 | 1,646 | 9.2% | 2.2% |
| Total | 68,459 | 73,176 | 6.9% | 100.0% |

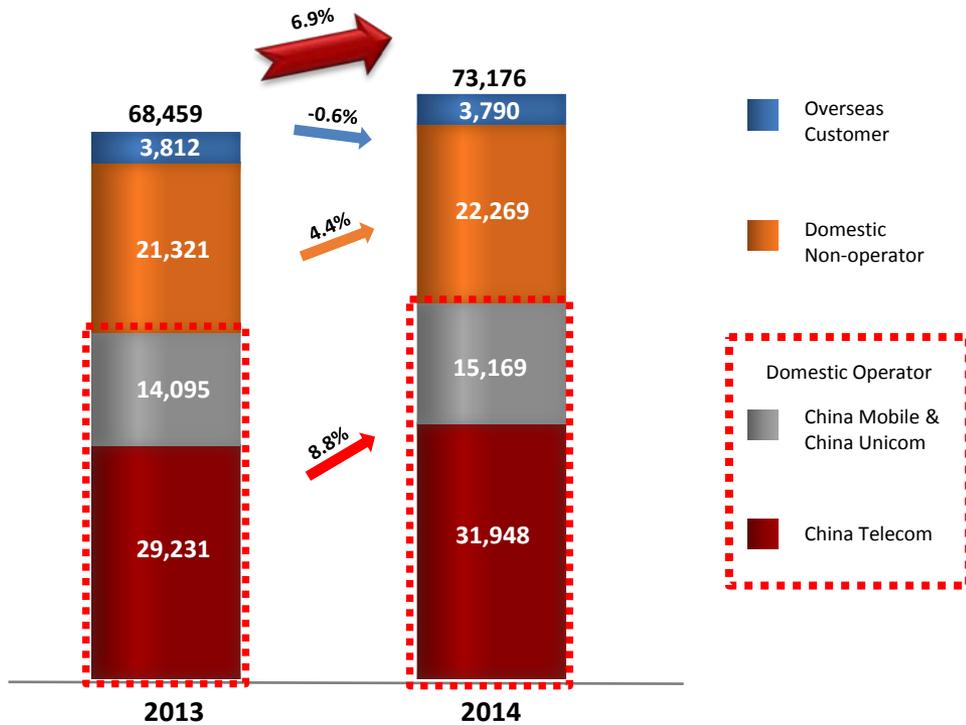
⁽¹⁾ TIS refers to Telecommunications Infrastructure Services

⁽²⁾ BPO refers to Business Process Outsourcing Services

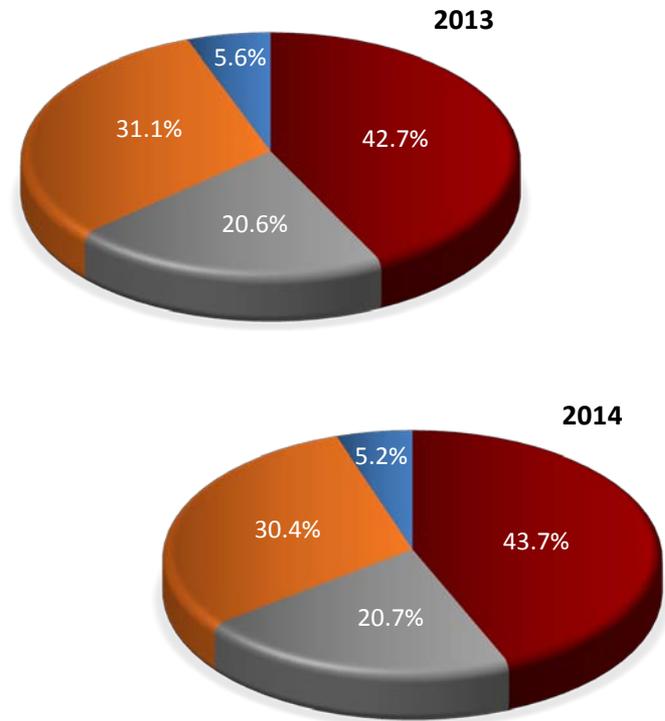
⁽³⁾ ACO refers to Applications, Content and Other Services

Revenue Growth by Customer

(RMB'M)

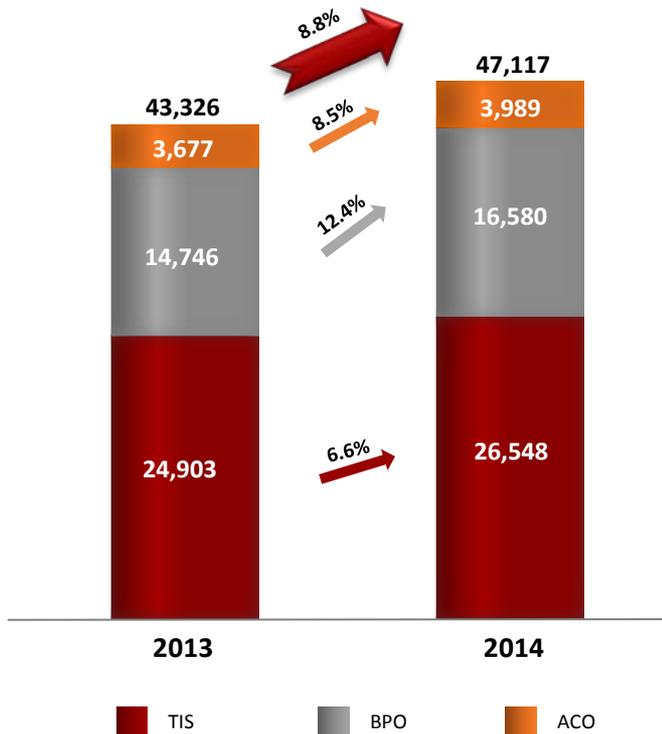


Revenue Mix by Customer



Revenue from Domestic Operator Market

(RMB'M)



 TIS revenue growth slowed down as a result of different paces of CAPEX investment by each domestic operator on 4G licensing progress

 Domestic operators accelerated 4G network construction in 2H2014, driving faster revenue growth across three business lines

- TIS revenue up by 6.6% yoy
(1H2014: -4.1% yoy)
- BPO revenue up by 12.4% yoy
(1H2014: +9.9% yoy)
- ACO revenue up by 8.5% yoy
(1H2014: -7.6% yoy)

 Enhance communication with domestic operators and the Tower Company to facilitate strategic cooperation and service provision

Market Opportunities

- Accelerating CAPEX investment with the construction of 4G, optic fiber & broadband, cloud center, data center, etc
- Rising demand for OPEX-driven businesses driven by network optimization, maintenance centralization and enlarged outsourcing scale by domestic operators
- Growing demand for integrated construction and maintenance services from the Tower Company
- Increasing opportunities to cooperate with pan-operators and virtual operators in areas of data center construction, value-added content services, etc

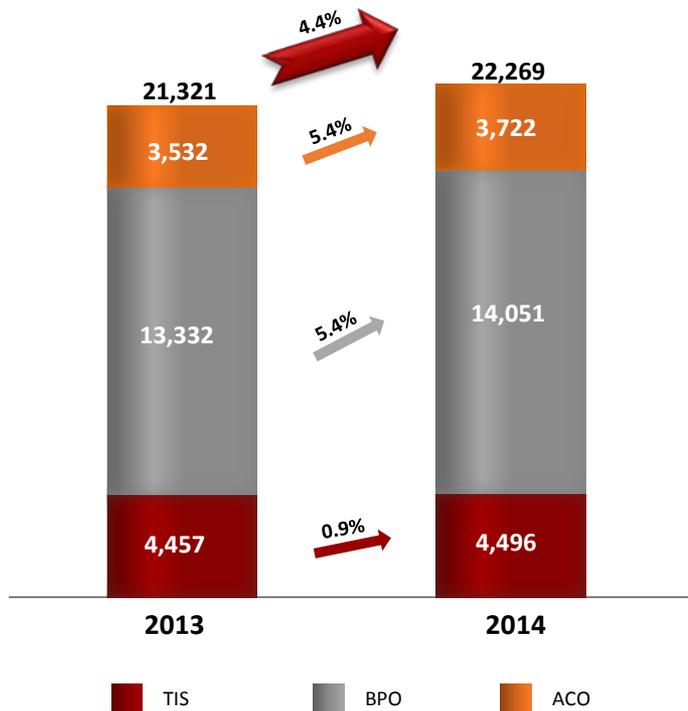


Tactics

- Grasp the opportunities from accelerating CAPEX investment, strive to expand our market share, and support the scale development of domestic operator
- Speed up the expansion in the market of OPEX-driven services and endeavor to increase contribution from high-end maintenance business, so as to enlarge our source of revenue
- Integrate internal resources and strengthen operational synergy to enhance operating efficiency
- Capitalise on the preferential arrangements with the Tower Company and undertake businesses proactively
- Leverage on existing experience and capability to explore the business opportunities from pan-operators and virtual operators proactively

Revenue from Domestic Non-operator Market

(RMB'M)



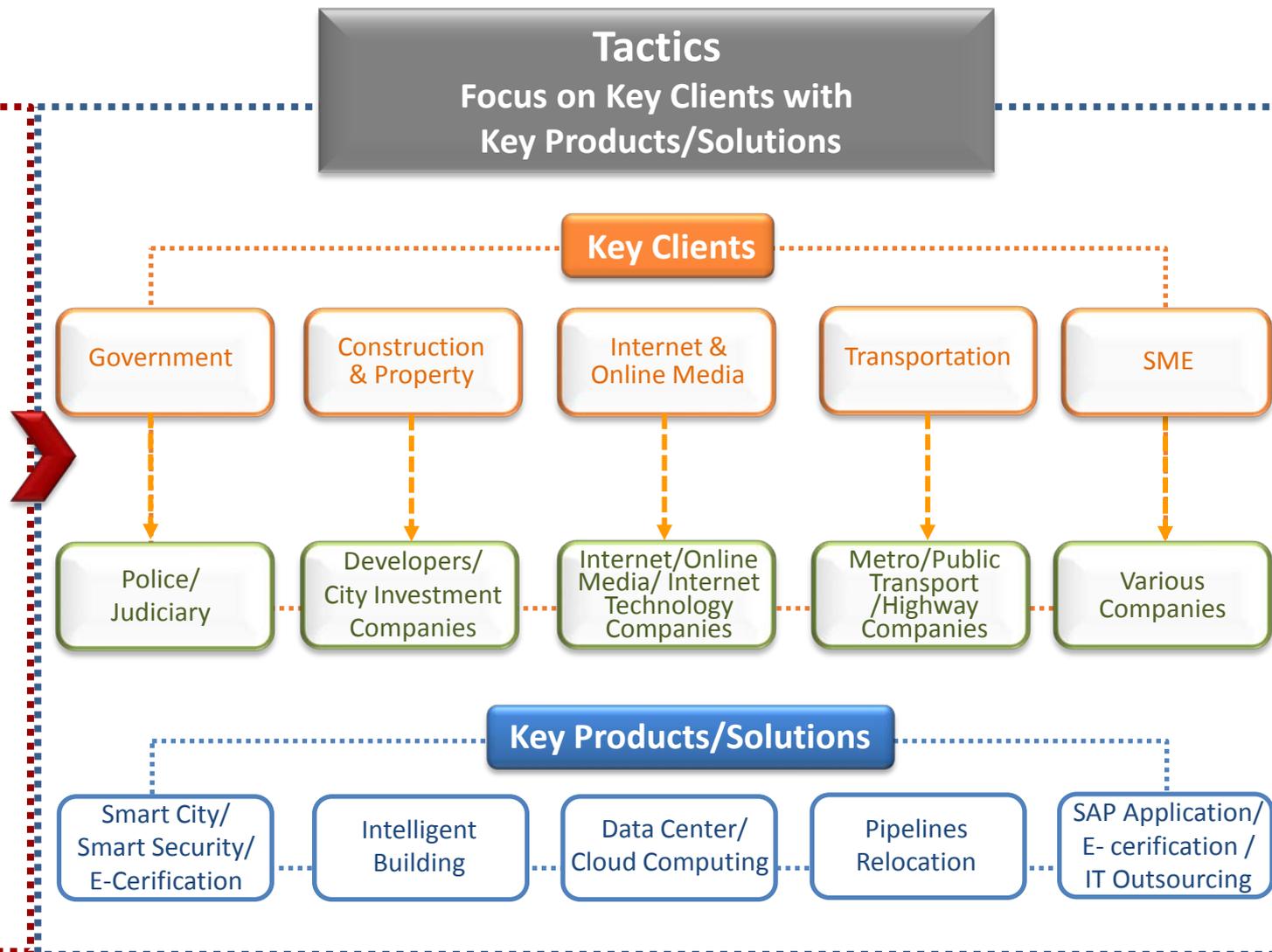
- Achieved breakthroughs in the development of key businesses and large-scale turnkey projects
 - Remarkable business development in Intelligent Building, Smart City, Smart Security, Cloud Computing/Data Center, Pipelines Relocation
- Entered into strategic cooperation agreements and centralized procurement contracts with domestic operators and equipment vendors to jointly develop typical ICT turnkey projects such as “Smart City” and “Safe City”
- Promote innovative products and establish sales and marketing mechanism

Domestic Non-operator Market: Opportunities & Tactics

Market Opportunities

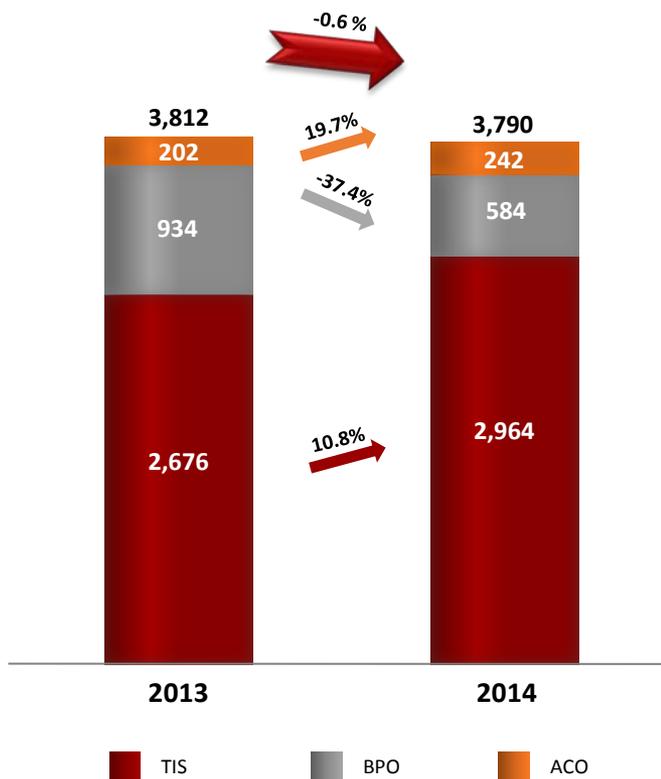
National policies in urbanization and information consumption facilitate ICT service demand from domestic non-operators

- Government Customers: Strong demand for Smart City solution from 400 cities nationwide
- Industrial Customers: Vast opportunities in informatization from key industries
- SME Customers: Booming demand in ICT market arisen from tens of millions corporate customers



Revenue from Overseas Market

(RMB'M)



- Development in overseas market tilting towards large-scale turnkey projects, revenue structure kept optimizing
 - Revenue from turnkey projects accounted for almost 51% of revenue from overseas market, a relatively high increase compared to 2013
 - Overseas TIS revenue up by 10.8%
 - Proactively managed the growth of businesses with lower operating efficiency

- Broadened financing channels and introduced strategic investor to offer valuable resources for overseas market expansion

- Speed up cash cycle and manage overseas risk through account receivables factoring and various financial instruments

Market Opportunities

- National policy “One Belt One Road” initiative boosted overseas business opportunities
- International organizations such as the Asian Infrastructure Investment Bank & World Bank, enhanced resources allocation to support the development of emerging countries
- Rising demand for telecommunication infrastructure construction and informatization from the Middle East and African countries
- National policy banks fully support “Going Abroad” of Chinese corporations



Tactics

- Target at key large-scale turnkey projects and optimize business mix
- Focus on booming demand from “Broadband Countries, Smart Cities and Regional Hubs”
- Innovate business model and execute integrated service solutions to create additional value of projects
- Actively cooperate with Chinese enterprises in exploring overseas business opportunities
- Optimize internal mechanisms, strengthen project performance evaluation and overseas risk management



Financial Results



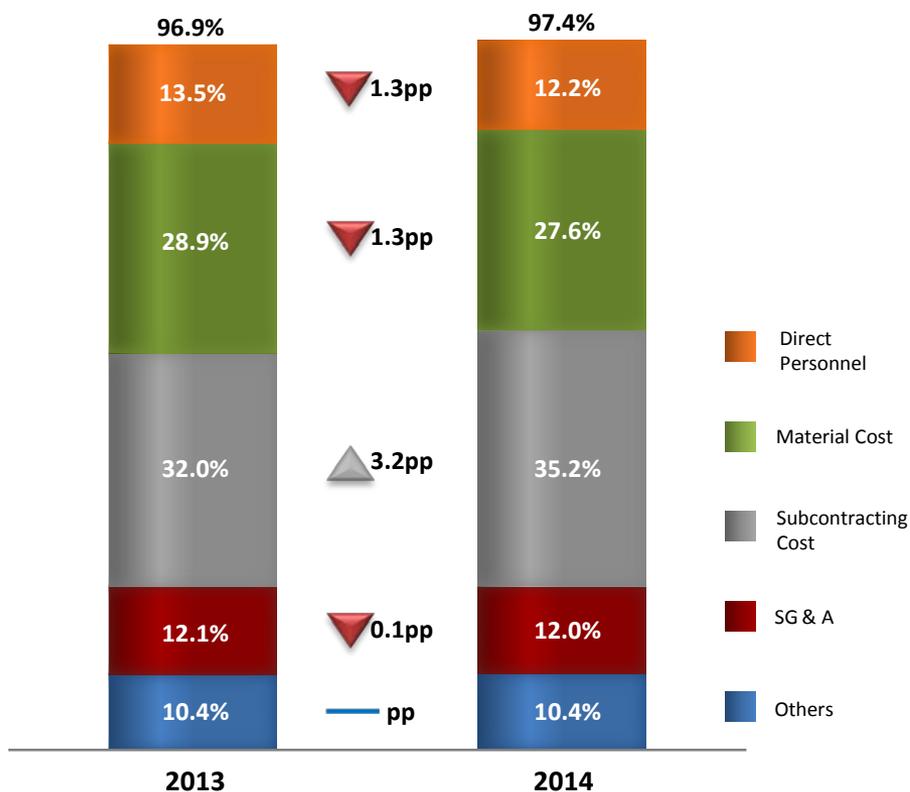
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| (RMB'M) | 2013 | 2014 | Change | % of Revenue |
|--------------------------|---------------|---------------|--------------|---------------|
| Revenue | 68,459 | 73,176 | 6.9% | 100.0% |
| Cost of Revenue | 58,081 | 62,494 | 7.6% | 85.4% |
| Direct personnel | 9,252 | 8,893 | -3.9% | 12.2% |
| Materials ⁽¹⁾ | 19,804 | 20,191 | 2.0% | 27.6% |
| Subcontracting | 21,874 | 25,763 | 17.8% | 35.2% |
| D & A | 462 | 451 | -2.5% | 0.6% |
| Others | 6,689 | 7,196 | 7.6% | 9.8% |
| Gross Profit | 10,378 | 10,682 | 2.9% | 14.6% |
| SG&A | 8,288 | 8,777 | 5.9% | 12.0% |
| Net Profit | 2,238 | 2,150 | -3.9% | 2.9% |
| EPS (RMB) | 0.323 | 0.310 | -4.0% | - |

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

Cost as a % of Total Revenues

(%)



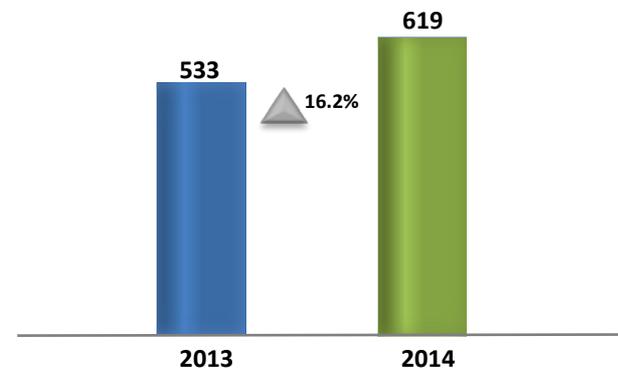
Strengthened cost control and most of the costs as a % of total revenues decreased generally

Subcontracting cost grew relatively fast because:

- Persistently promoting transformation and outsourcing low-end tasks
- The amended PRC Labour Contract Law and wage inflation

Labour Productivity ⁽¹⁾

(RMB'000/ staff)



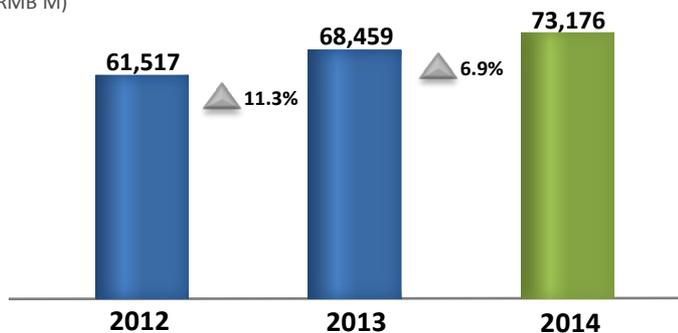
⁽¹⁾ Labour productivity = revenue over average staff number

 Slowdown in revenue growth, decrease in service charges and increase in costs imposed pressure on profit growth

 Cash flow from operating activities increased significantly

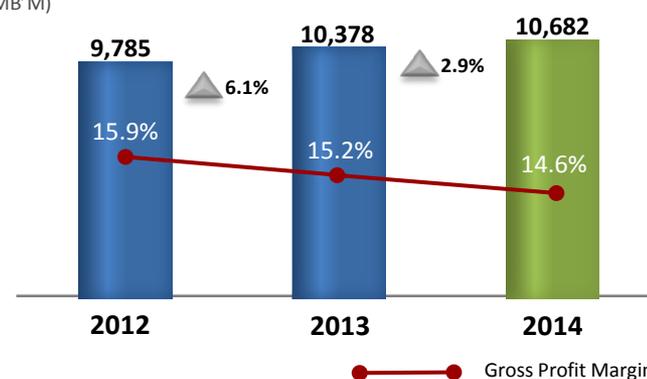
Revenue

(RMB'M)



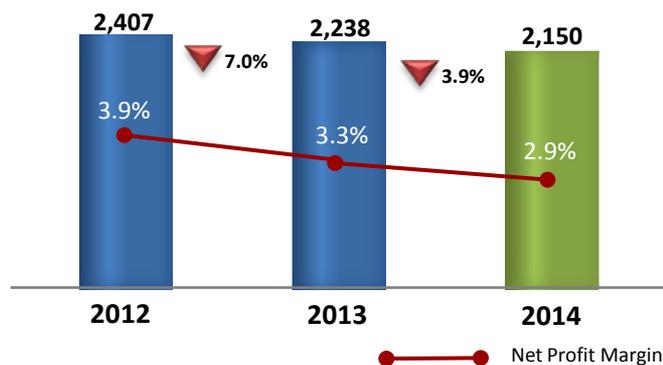
Gross Profit

(RMB'M)



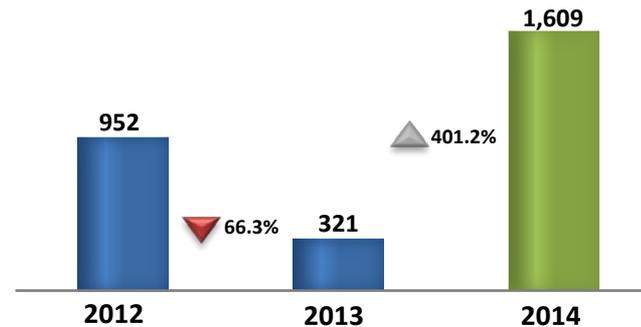
Net Profit

(RMB'M)



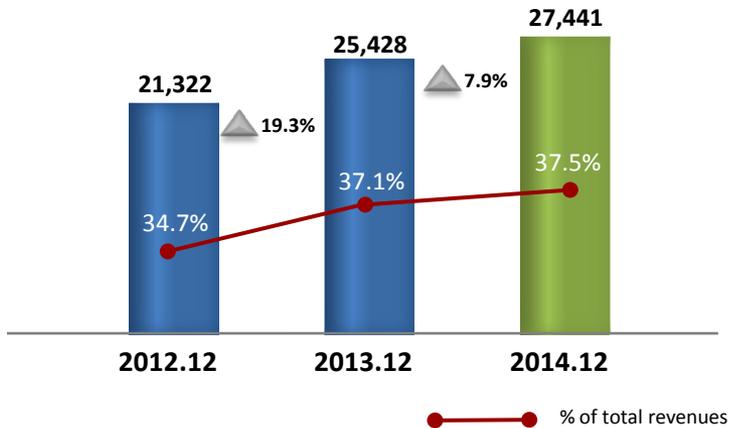
Operating Cash Flow

(RMB'M)



Account Receivables

(RMB'M)

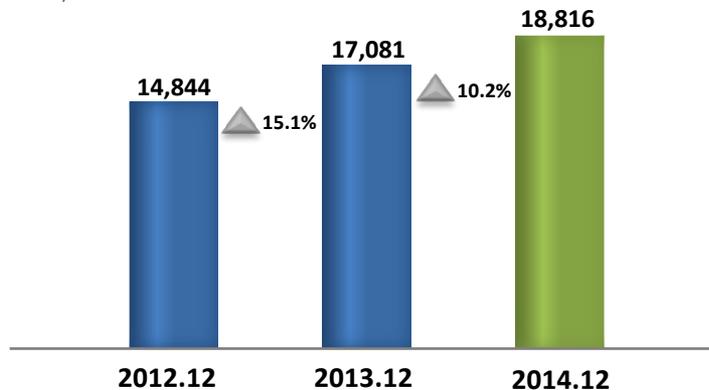


Proactively implemented effective measures on account receivables management and strengthened management on account payables and prepayments

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

Account Payables

(RMB'M)



(Day)

| | 2012 | 2013 | 2014 |
|-----------------------------------|------|------|------|
| Account Receivables Turnover Days | 115 | 125 | 132 |
| Change | N/A | 10 | 7 |
| Account Payables Turnover Days | 140 | 140 | 143 |
| Change | N/A | - | 3 |

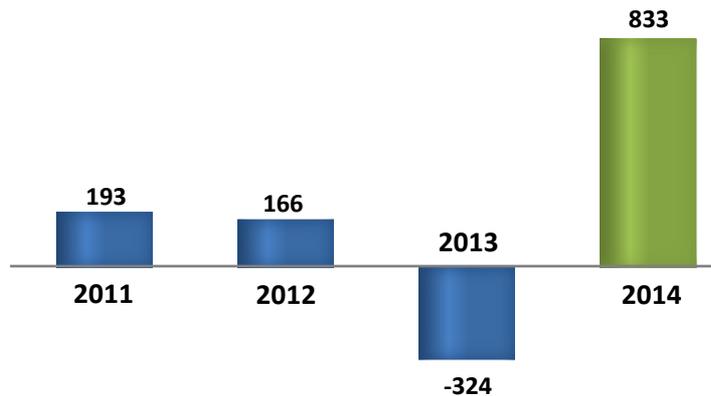
Proposed dividend has taken into consideration factors including, working capital position, funding needs for long-term development and sustainability of a relatively stable dividend payment

The Board recommended 2014 final dividend of RMB0.0931 per share

Free Cash Flow

(RMB'M)

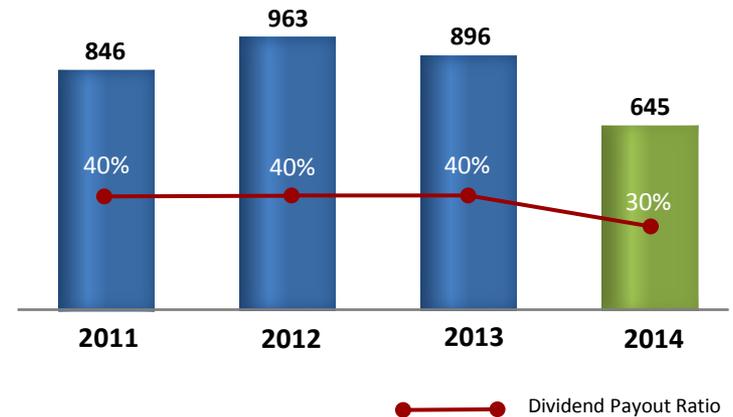
■ Aggregate free cash flow was RMB0.87 billion over the past 4 years



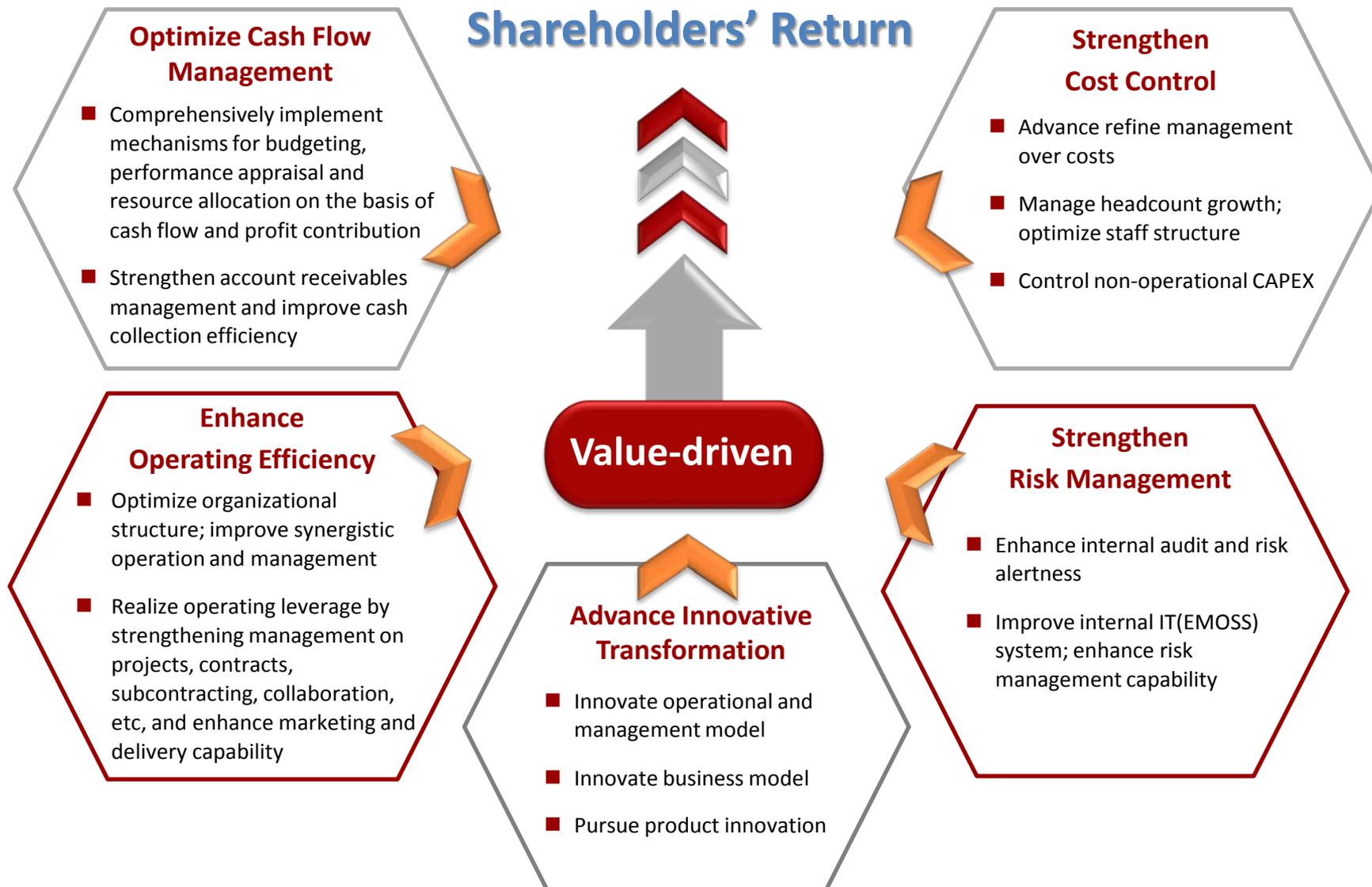
Dividend

(RMB'M)

■ Aggregate dividend was RMB3.35 billion over the past 4 years



| (RMB'M) | 31.12.2013 | 31.12.2014 |
|---|---------------|---------------|
| Total Assets | 48,251 | 52,761 |
| Cash and cash equivalents | 6,760 | 7,314 |
| Account receivables | 25,428 | 27,441 |
| Fixed assets (NBV) | 4,687 | 4,539 |
| Total Liabilities | 25,963 | 29,218 |
| Interest-bearing liabilities | 105 | 897 |
| Account payables | 17,081 | 18,816 |
| Equity Attributable to Equity Shareholders | 21,773 | 23,030 |
| Total Liabilities / Total Assets (%) | 53.8% | 55.4% |
| Debt-to-Capitalization Ratio (%) | 0.5% | 3.8% |





Thank You !



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