



中国通信服务  
CHINA COMSERVICE

CHINA COMMUNICATIONS SERVICES CORPORATION LIMITED

Stock Code : 552



A Leading Service Provider  
in the Informatization Sector



2017 INTERIM RESULTS

30 Aug 2017

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

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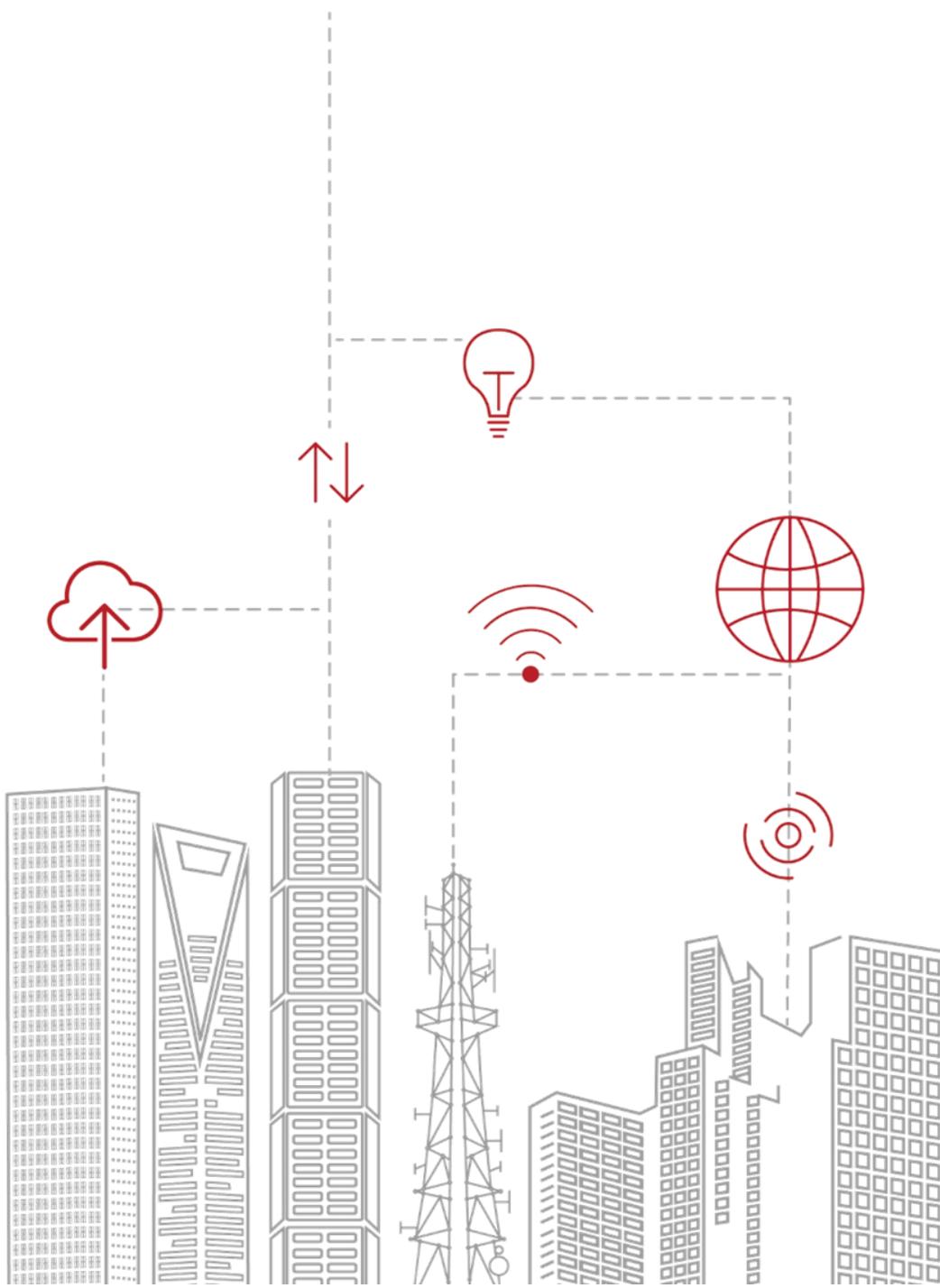
*Overview*



*Business Review*



*Financial Results*



# Overview

## Favourable Market Development

Revenue from:

Domestic Operator Customer<sup>(1)</sup>: **+9.2%**

Domestic Non-operator  
Core Businesses<sup>(2)</sup> : **+20.3%**

## Stable Profit Margins

Gross Profit Margin: **12.7%**

Net Profit Margin: **3.3%**

“ **Innovation and Transformation** Supporting Steady Growth ”  
**Value-driven Principle** Leading Sustained Quality Enhancement

Revenue: **+6.4%** Net Profit: **+5.9%**

(Core Businesses<sup>(2)</sup> Revenue: **+12.0%**)

## Rapid Business Growth

TIS Business: **+11.0%**

Core BPO Businesses<sup>(3)</sup>: **+13.2%**

ACO Business: **+14.0%**

## Healthy Cash Flow

Free Cash Flow: **RMB 2.0 billion**

Operating Cash Flow: **RMB 2.1 billion**

<sup>(1)</sup> Other than three telecommunications operators, domestic operator market also includes China Tower

<sup>(2)</sup> Core businesses include TIS, Core BPO and ACO Businesses. Please refer to the business revenue breakdown on p.10 for details

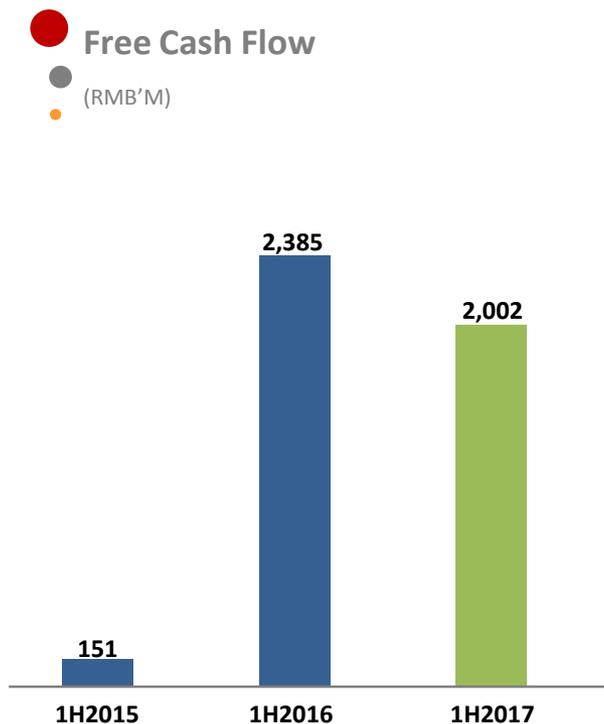
<sup>(3)</sup> Core BPO businesses include Maintenance, Facilities Management and Supply Chain businesses. Please refer to the business revenue breakdown on p.10 for details

# Solid Operating Results

- ◆ Gross profit margin and net profit margin maintained largely stable
- ◆ Free cash flow sustained at a healthy level

(RMB'M, except EPS & % figures)

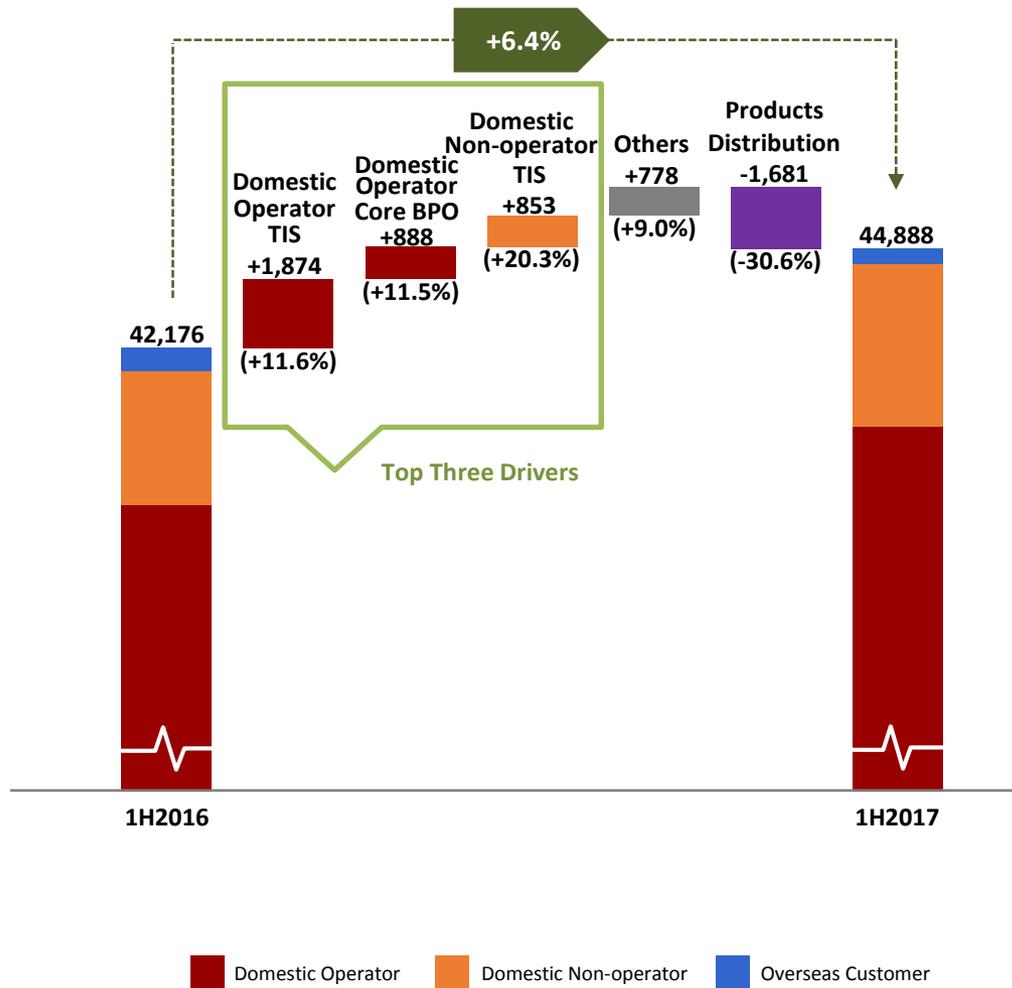
	1H2016	1H2017	Change
Revenue	42,176	44,888	6.4%
Net Profit	1,386	1,469	5.9%
Free Cash Flow <sup>(1)</sup>	2,385	2,002	-16.0%
Gross Profit Margin (%)	12.8%	12.7%	-0.1pp
Net Profit Margin (%)	3.3%	3.3%	-
EPS (RMB)	0.200	0.212	5.9%



# Diversification in Business and Customer Development Supported Continuous Revenue Growth

## Revenue Growth Drivers

(RMB'M)



- Capturing the window of opportunity for construction, domestic operator TIS business continued to be the largest contributor of revenue growth
- Focusing on OPEX opportunities, core BPO businesses from domestic operators maintained a rapid growth
- Sustaining a rapid growth, domestic non-operator TIS business contributed significantly to the overall revenue growth
- Continued to control low efficiency businesses proactively to enhance development quality

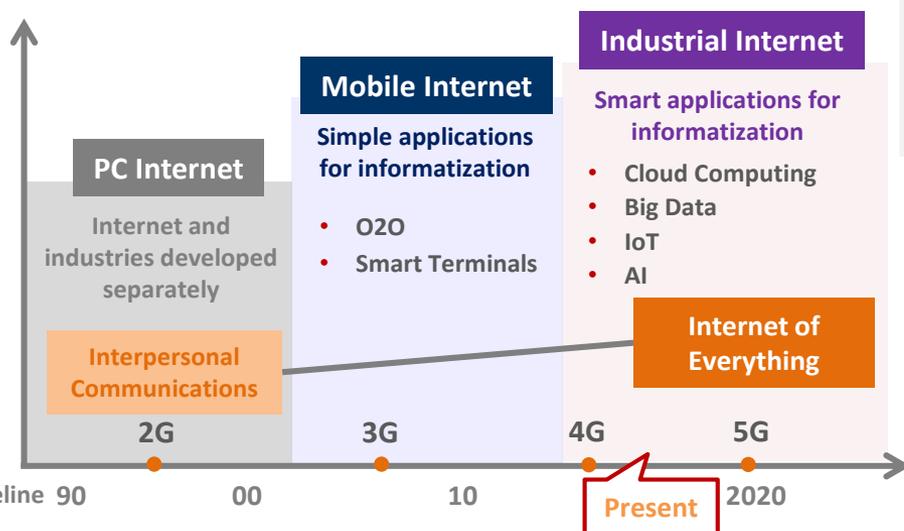
Economic Transformation driven by national policies brings

Massive Opportunities

- ◆ Supply-Side Structural Reform
- ◆ Innovation-Driven Development
- ◆ Network and Information Country
- ◆ Digital Economy
- ◆ Cyberpower

New ICT development and intelligentization progress driving new demand

- ◆ Promote deep integration of Internet and Industries



## A Leading Service Provider in the Informatization Sector

Strengthen "Capability, Execution, Vitality"

Strengthen our foundation and embrace new opportunities from intelligentization era

**Business Optimization**

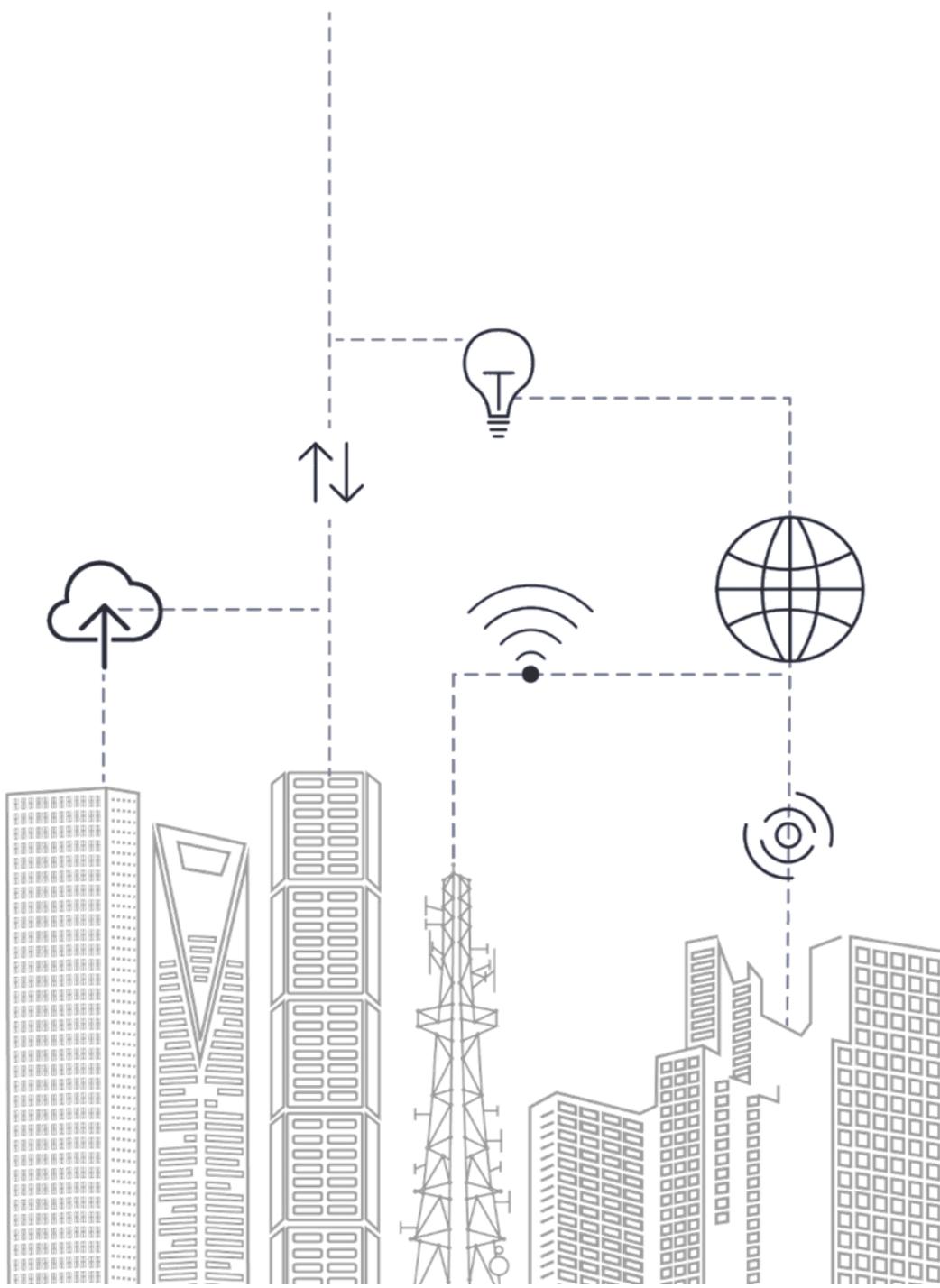
- ✓ Change our impetus of growth towards more diversified businesses and customers
- ✓ Promote synergistic integration of different businesses

**Operation Optimization**

- ✓ Explore innovative business and operational models
- ✓ Strengthen cross-sector external cooperation

**Management Optimization**

- ✓ Focus on centralized management to reduce cost while enhancing efficiency
- ✓ Innovate remuneration mechanism



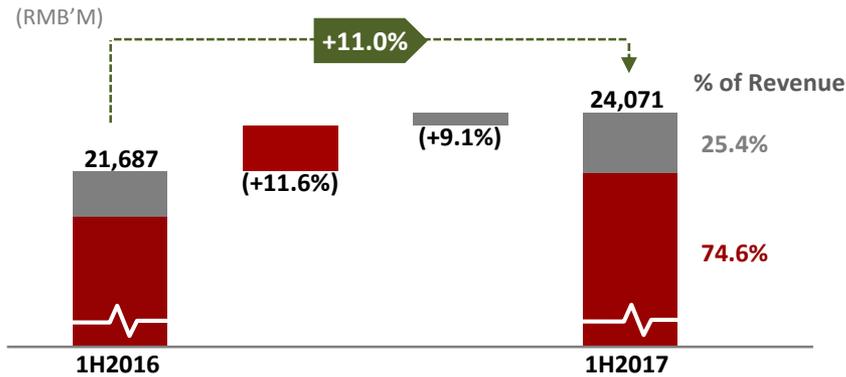
# Business Review

# Business Revenue Breakdown

(RMB'M)	1H2016	1H2017	Change	% of Revenue
<b>TIS (Telecommunications Infrastructure Services)</b>				
Design	4,123	5,089	23.4%	11.3%
Construction	16,042	17,235	7.4%	38.4%
Supervision	1,522	1,747	14.8%	3.9%
<b>Subtotal</b>	<b>21,687</b>	<b>24,071</b>	<b>11.0%</b>	<b>53.6%</b>
<b>BPO (Business Process Outsourcing Services)</b>				
Maintenance	4,958	5,802	17.0%	12.9%
Facilities Management	1,920	2,094	9.0%	4.7%
Supply Chain	3,770	4,153	10.2%	9.3%
<b>Subtotal</b>	<b>10,648</b>	<b>12,049</b>	<b>13.2%</b>	<b>26.9%</b>
Products Distribution	5,496	3,815	-30.6%	8.5%
<b>Subtotal</b>	<b>16,144</b>	<b>15,864</b>	<b>-1.7%</b>	<b>35.4%</b>
<b>ACO (Applications, Content and Other Services)</b>				
System Integration	2,062	2,595	25.8%	5.8%
Software Development & System Support	575	742	29.2%	1.6%
Value-added Services	754	751	-0.5%	1.7%
Others	954	865	-9.3%	1.9%
<b>Subtotal</b>	<b>4,345</b>	<b>4,953</b>	<b>14.0%</b>	<b>11.0%</b>
<b>Total</b>	<b>42,176</b>	<b>44,888</b>	<b>6.4%</b>	<b>100%</b>

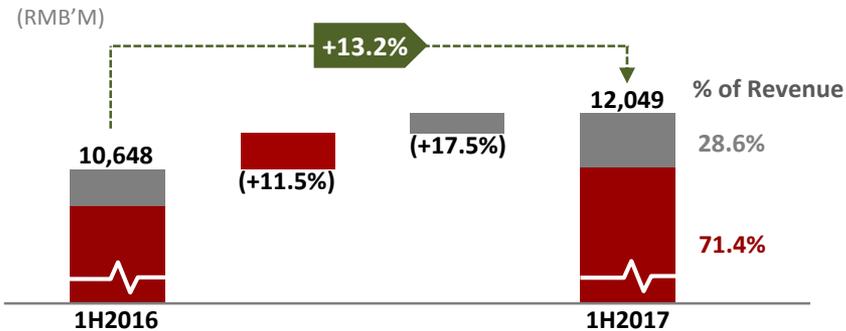
Core BPO  
Businesses

# Business Revenue Growth Drivers



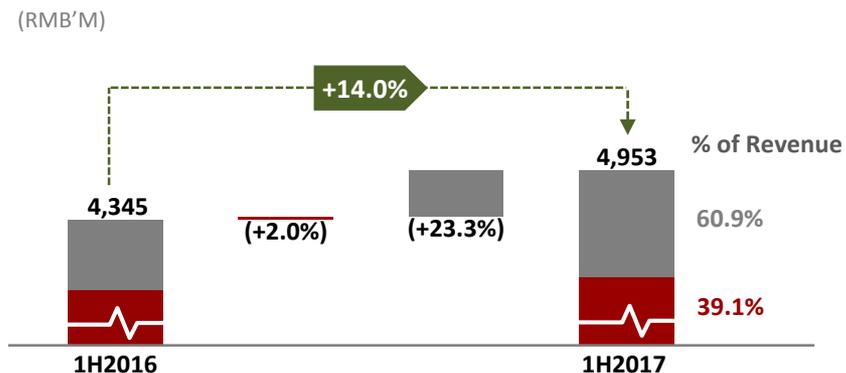
## TIS

- Overall business sustained encouraging growth mainly by developing TIS business of China Telecom (+16.9% yoy) and domestic non-operator (+20.3% yoy), while the latter has provided new impetus to TIS business growth



## Core BPO

- Focused on OPEX businesses, core BPO businesses achieved approximately double-digit growth in past 2 years, and contributed a sustainable and stable source of revenue



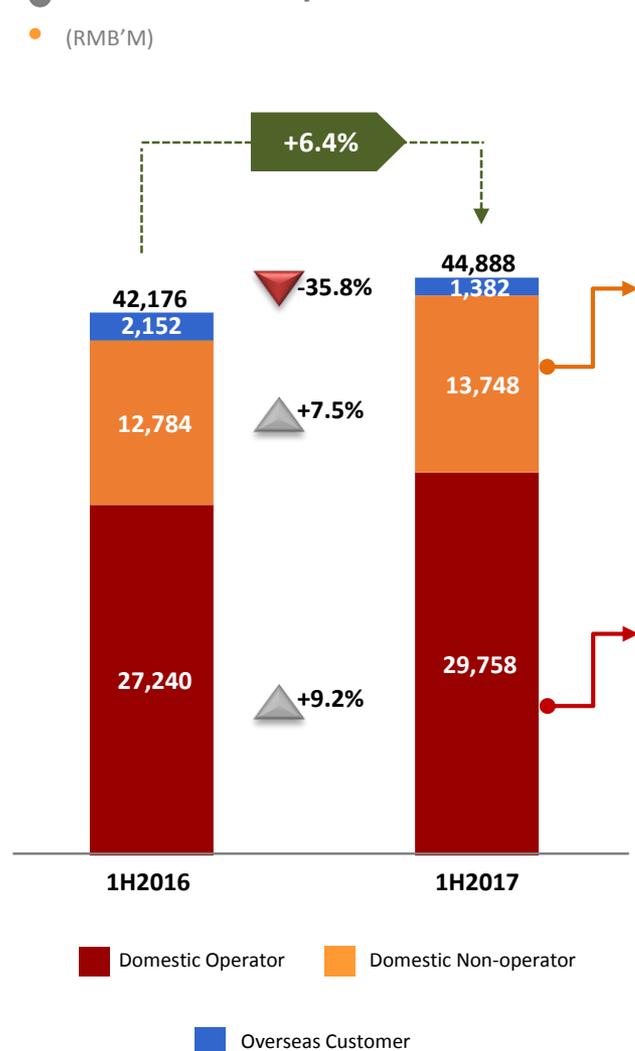
## ACO

- Captured the opportunities from intelligentization and informatization, ACO business experienced robust growth in which the system integration business of domestic operator and domestic non-operator markets both recorded more than 20% growth

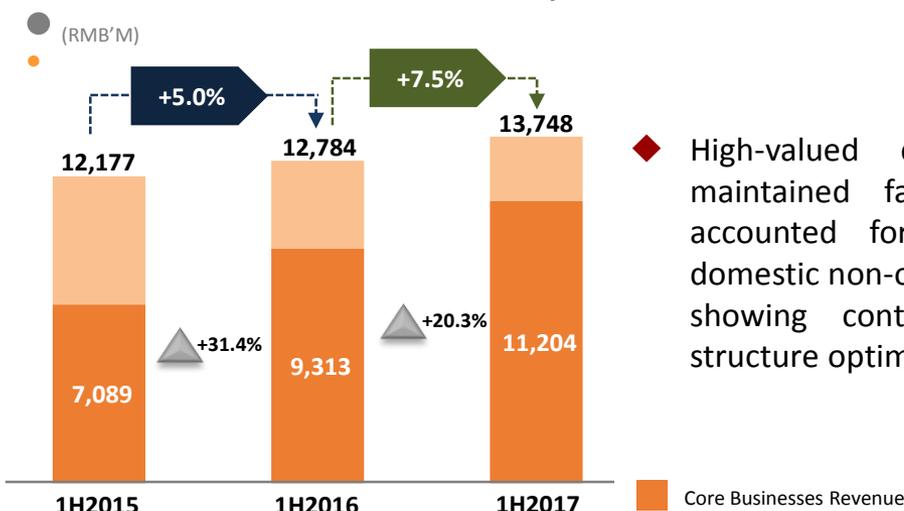
■ Domestic Operator   
 ■ Two New Markets: -Domestic Non-operator  
 -Overseas Customer

# Customer Revenue Breakdown

## Revenue Growth of Three Customer Groups

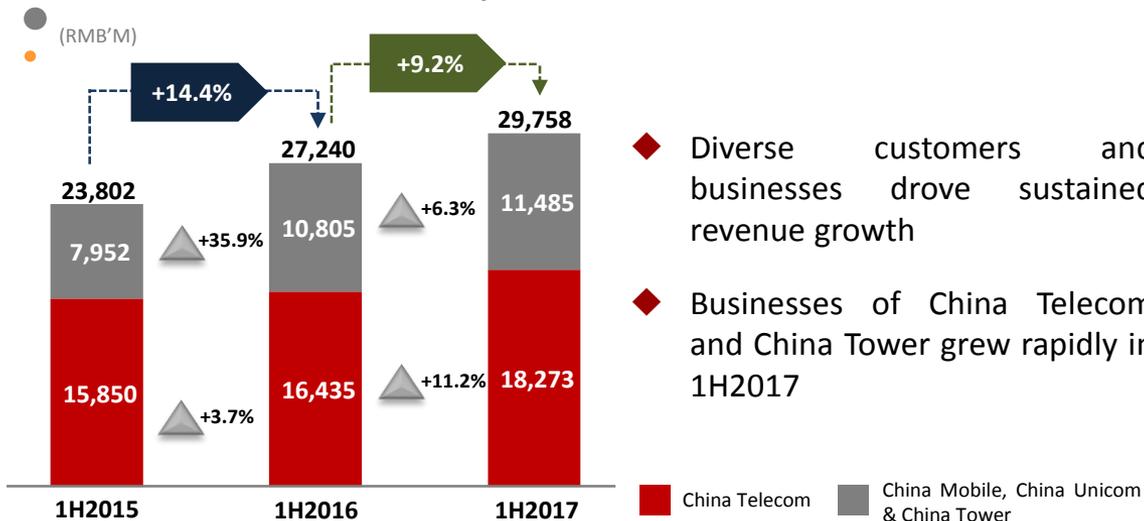


## Revenue Growth of Domestic Non-Operator



◆ High-valued core businesses maintained fast growth and accounted for over 80% of domestic non-operator business, showing continuous business structure optimization

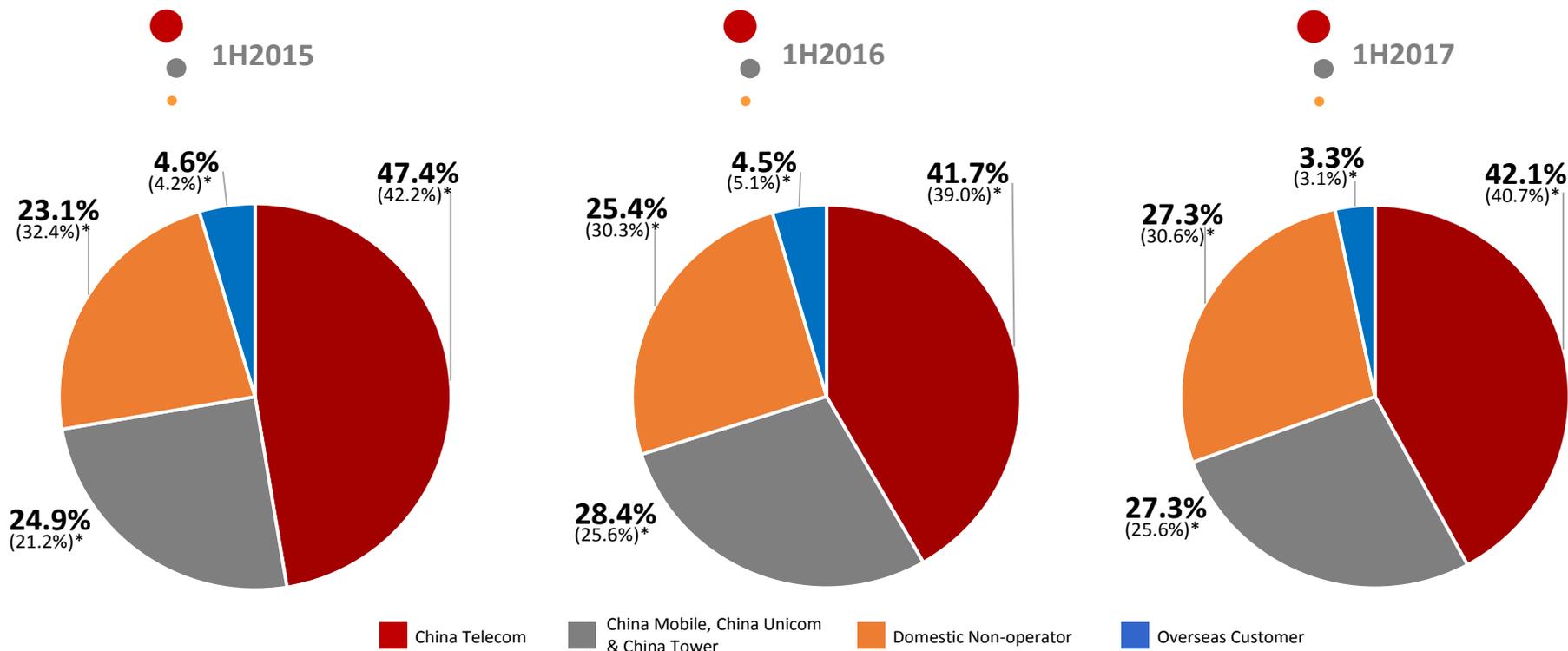
## Revenue Growth of Domestic Operator



◆ Diverse customers and businesses drove sustained revenue growth

◆ Businesses of China Telecom and China Tower grew rapidly in 1H2017

# Customer Revenue Composition (By Core Businesses)

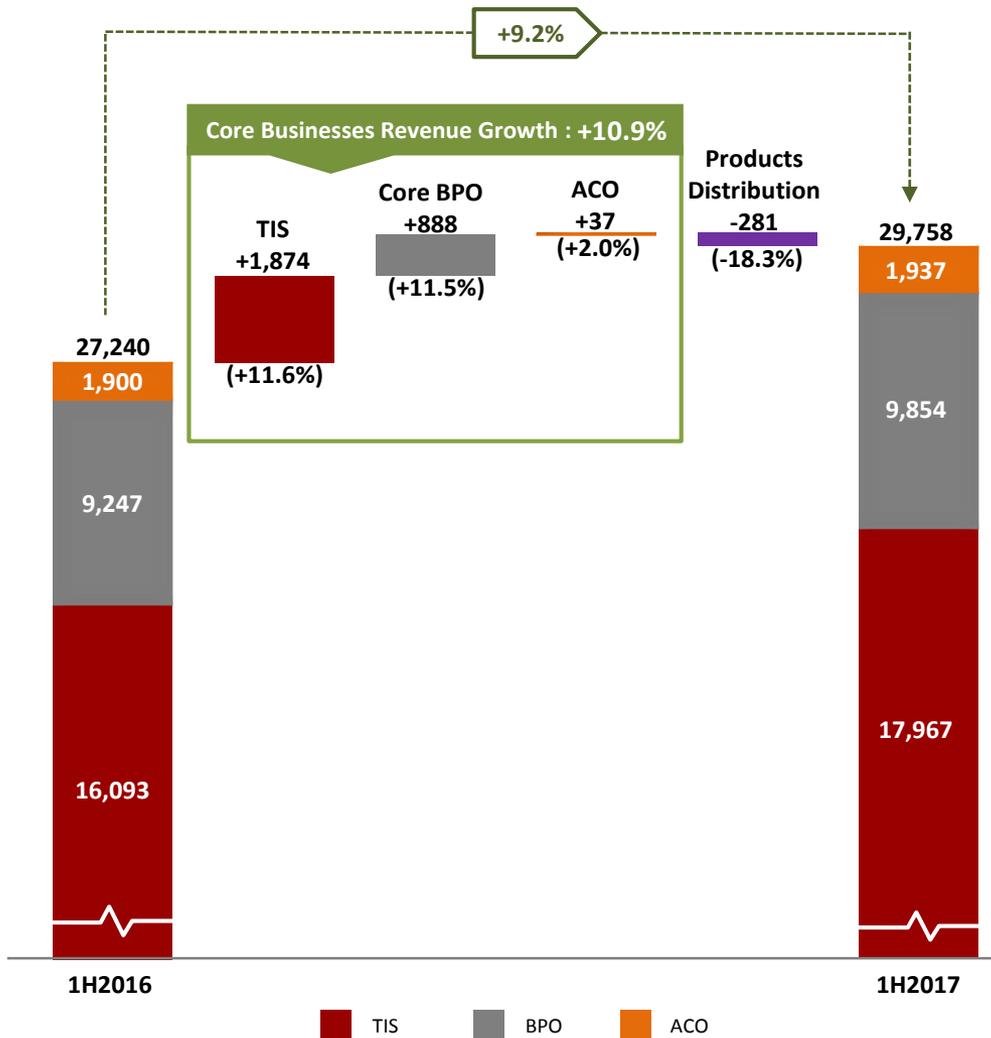


◆ Customer revenue composition further optimized and revenue source became more diversified

- The proportion of domestic non-operator core businesses escalated from 23.1% in 1H2015 to 27.3% in 1H2017, and reached similar scale as to the proportion of domestic operators other than China Telecom
- The proportion from China Mobile, China Unicom and China Tower presented an upward trend, in which the contribution from China Tower becoming more significant

## Revenue Growth Drivers

(RMB'M)

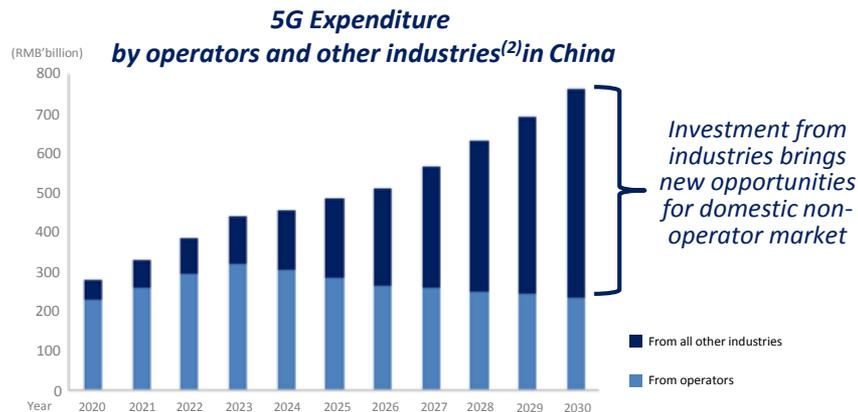


- ◆ Grasped the window of opportunity of 4G and fiber optic broadband investment and consolidated market leading position, TIS business maintained a favourable growth
- ◆ Expanded OPEX-related businesses proactively and core BPO businesses sustained robust development; mapped out plans to capture OPEX opportunities in 4 perspectives, i.e. maintenance, logistics, distribution and facilities management
- ◆ Intelligitization transformation of telecom operators leads to a continuous demand for informatization services; system integration and software development & system support businesses among the ACO business recorded a rapid growth of 21.9% and 19.3% respectively

## Penetrate further into CAPEX-driven Market

### Strive for Steady Rise in Market Share

- ◆ RMB1.2 trillion<sup>(1)</sup> investment planned from 2016 to 2018 for infrastructure construction to upgrade infrastructure standard and network supporting capabilities
- ◆ Further investment needed for 4G, fiber optic and rural broadband market, etc.
- ◆ New demand on emerging areas, such as NB-IoT, cloud computing, etc. brought by the transformation of telecom operators
- ◆ Commercial launch of 5G is expected to be in 2020 and will drive new investments



## Tilt Resources towards OPEX-driven Market

### Maintenance

- ◆ Promote smart operation platform for advancement in standardization of service and quality improvement
- ◆ Synergize operation and explore high-end businesses such as integrated maintenance services

### Distribution

- ◆ Expand proprietary stores in scale with unified brand name
- ◆ Standardize IT retail system for terminals nationwide

### Operation Optimization, Efficiency Enhancement and Capabilities Improvement

### Logistics

- ◆ Promote synergistic operation and one point contact for full range services
- ◆ Expand business nationally and extend services to customers other than operators

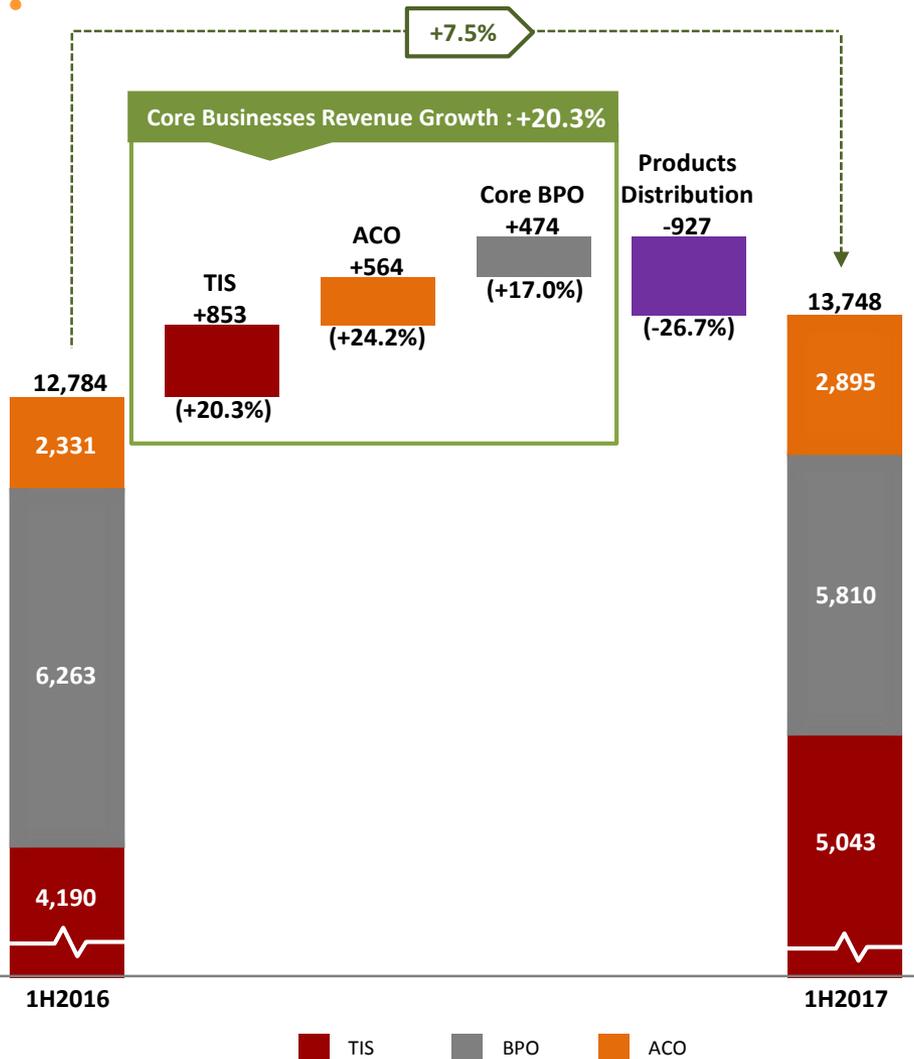
### Facilities Management

- ◆ Unify brand name and push forward synergistic operation
- ◆ Optimize the construction of facilities management platform by strengthening the unification of working standard and procedures

<sup>(1)</sup> Sources: Related government documents

## Revenue Growth Drivers

(RMB'M)



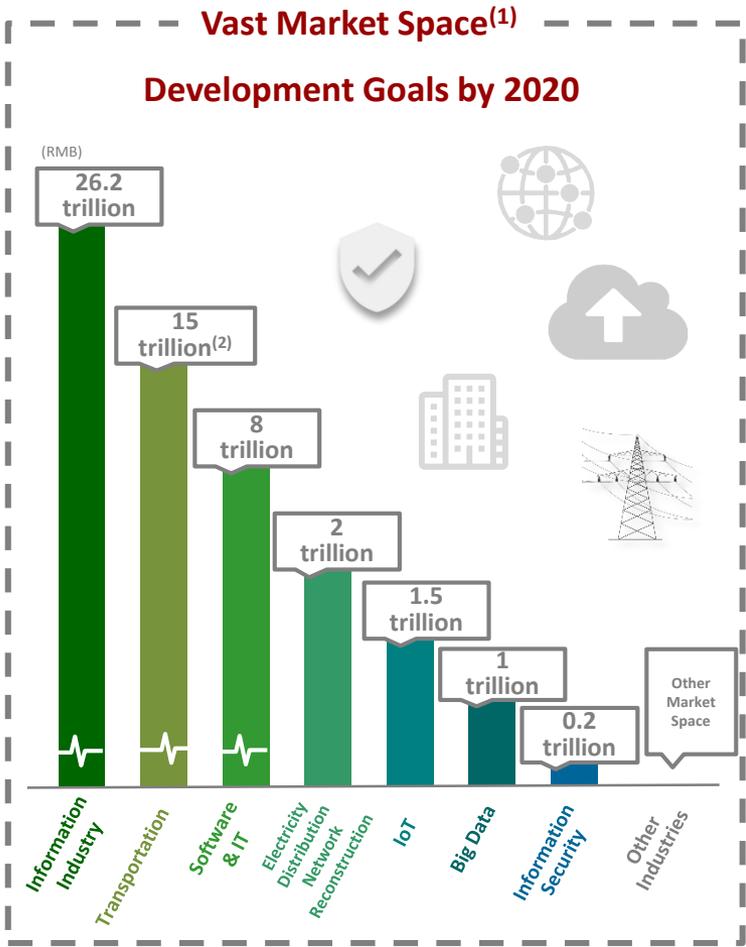
- ◆ Revenue from high-valued core businesses continued a rapid growth (+20.3% yoy) and became the new impetus for overall development
- ◆ Domestic non-operator market increased its contribution to the Group's overall profitability by optimizing its revenue structure and the continued control on low efficiency business proactively
- ◆ Firmly captured the opportunities and created demand arising from informatization of society with focus on key industries and products

### Project Examples

<b>Government</b>	<ul style="list-style-type: none"> <li>Surveillance System Upgrade and Construction Project for Xinjiang Police Force</li> <li>Smart Security Project in Zunyi, Guizhou</li> </ul>
<b>Transportation</b>	<ul style="list-style-type: none"> <li>Changsha Metro Group Informatization Management System Design Project</li> <li>Shenzhen Subway Communications Pipeline Relocation Project</li> </ul>
<b>Internet &amp; IT</b>	<ul style="list-style-type: none"> <li>IDC Project of China Internet Company in Shanghai</li> <li>Data Centre Turnkey Project in Internet Industrial Park in Shenzhen</li> </ul>
<b>Electricity</b>	<ul style="list-style-type: none"> <li>Smart Meters Project for Power Supply Bureau in Foshan and Shunde</li> <li>Solar Equipment Installation &amp; Commissioning for a Solar Company in Zhejiang</li> </ul>
<b>Construction &amp; Property</b>	<ul style="list-style-type: none"> <li>Intelligent Building Project for a hospital in Nanjing</li> <li>Low Voltage Engineering Project in Beijing for a Construction Company</li> </ul>
<b>Small-Medium Enterprises</b>	<ul style="list-style-type: none"> <li>Smart Industrial Park Project in Guiyang</li> <li>Informatization Construction for a Logistics Park in Guizhou</li> </ul>

**Focus on Key Industries and Products**

**Strive for Scale Development**



**Allocating Resources Adaptively**

**Focus Key Industries**

**Strengthen System Construction**

**Continue Product Innovation**

**Enhance Synergistic Development**

**Push Forward Integration of Finance with Industrial Development**

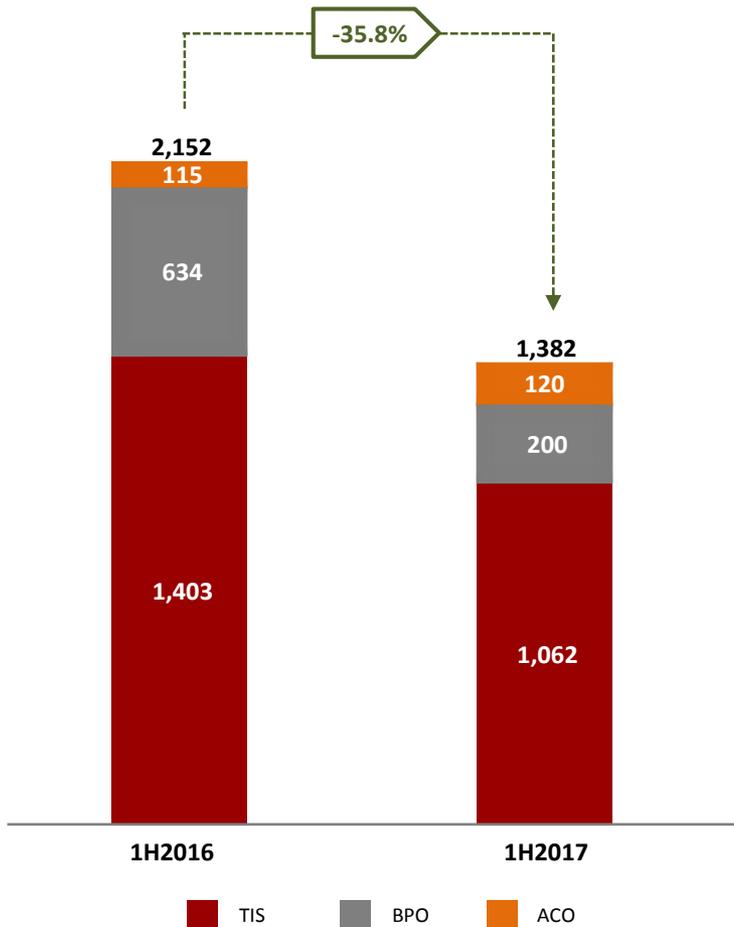
**Key Industries and Businesses**

- Government** Smart City, Smart Security, Information Security...
- Transportation** Smart Highway, Pipeline Relocation...
- Internet & IT** IDC & Cloud Computing...
- Electricity** Smart Grid, High / Low Voltage Construction and Maintenance Project...
- Construction & Property** Smart Industrial Park, Intelligent Building, System Integration...

<sup>(1)</sup> Sources: Related government documents

<sup>(2)</sup> Investment in transportation includes highways, railways, aviation, marine transport, etc.. Currently, we mainly focus on electrical / mechanical work, informatization and pipeline relocation projects.

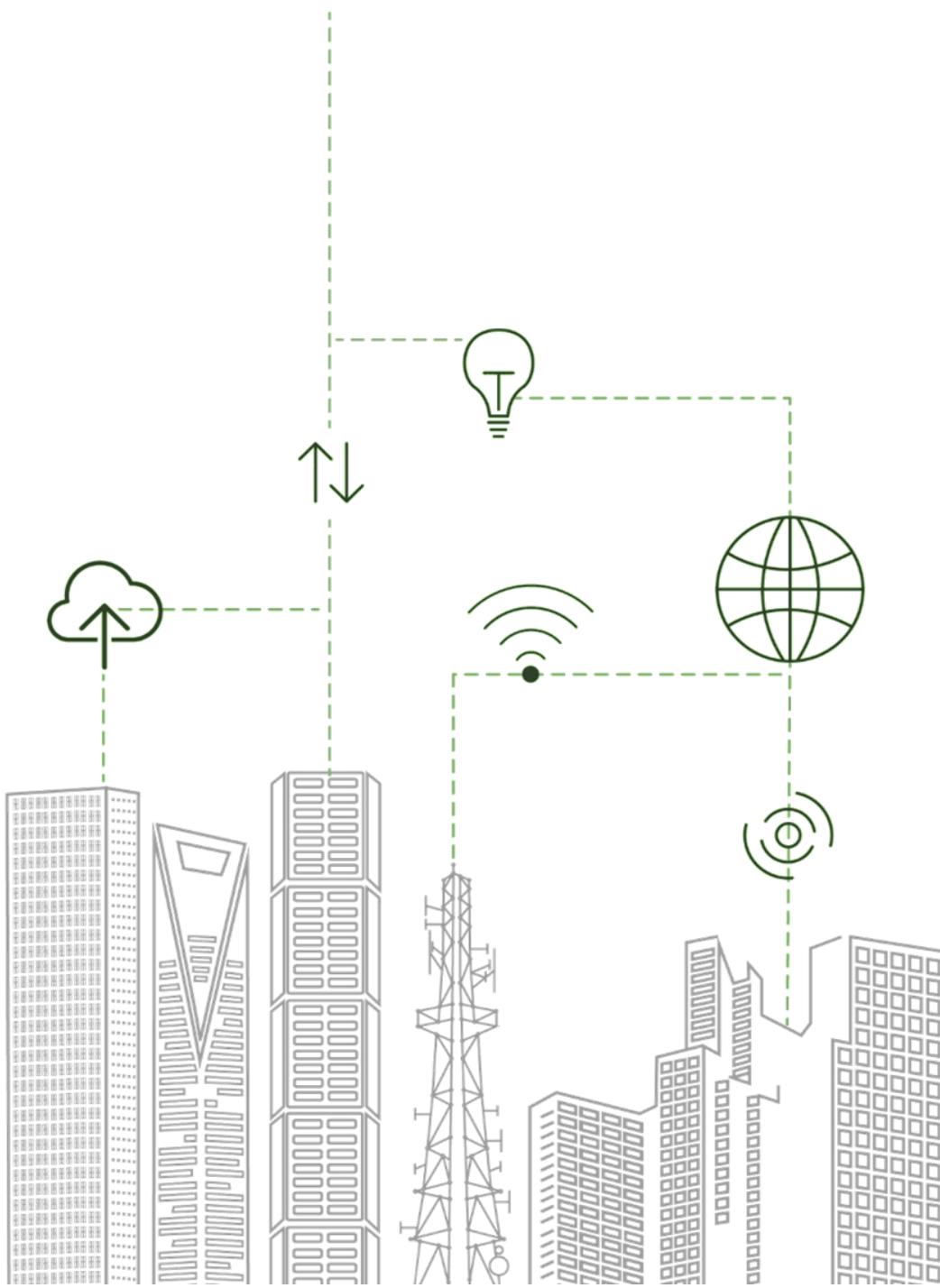
**Revenue from Overseas Market**  
(RMB'M)



- ◆ Overseas business declined mainly due to the following factors:
  - Proactively controlled and monitored projects in consideration of efficiency and risk exposures
  - Cyclical fluctuation impact from overseas projects
- ◆ New projects achieved breakthrough and are now ready for implementation
- ◆ Kept pushing forward “China-Africa Partnership Program in Trans Africa Information Superhighway” Project (“China-Africa Project”), and completed technical solutions and cooperation negotiation with the four East African countries

### Overseas Market Prospects

- ◆ “Belt and Road” Initiative, related national policies and overseas informatization demand provide valuable opportunities
- ◆ Consolidate resources on the development of key projects
- ◆ Push forward the China-Africa Project and continue the negotiation of project fund financing solutions and related works

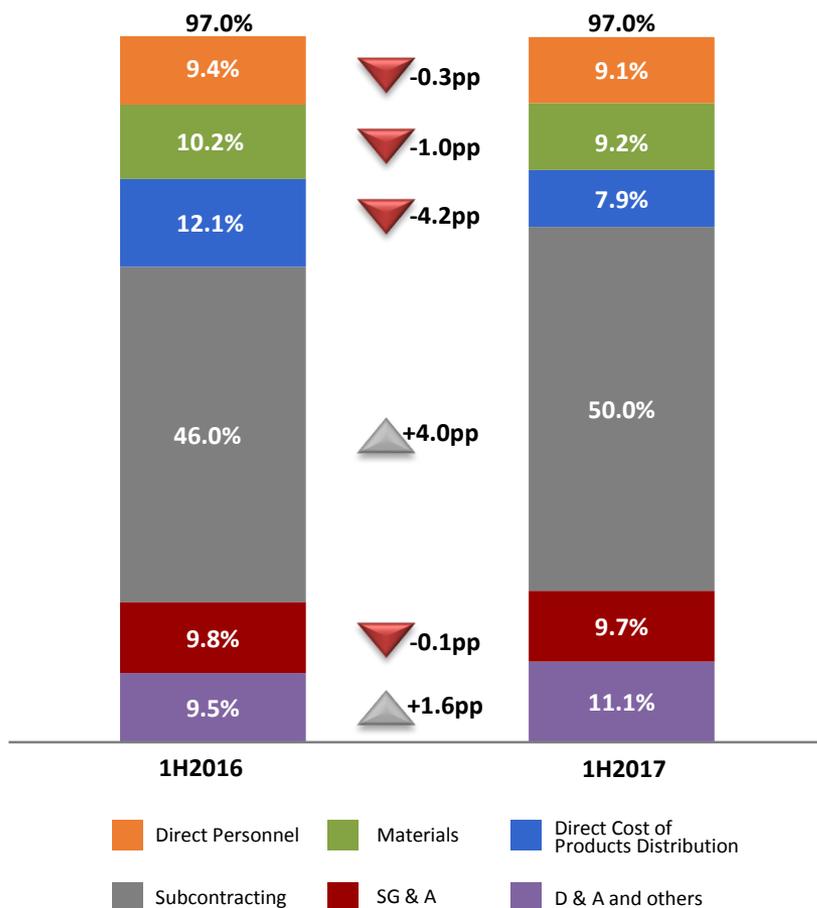


# Financial Results

(RMB'M)	1H2016	1H2017	Change	% of Revenue
<b>Revenue</b>	<b>42,176</b>	<b>44,888</b>	<b>6.4%</b>	<b>100%</b>
<b>Cost of Revenue</b>	<b>36,784</b>	<b>39,179</b>	<b>6.5%</b>	<b>87.3%</b>
Direct Personnel	3,952	4,101	3.8%	9.1%
Materials	4,279	4,124	-3.6%	9.2%
Direct Cost of Products Distribution	5,114	3,520	-31.2%	7.9%
Subcontracting	19,413	22,424	15.5%	50.0%
D & A	223	238	6.9%	0.5%
Others	3,803	4,772	25.5%	10.6%
<b>Gross Profit</b>	<b>5,392</b>	<b>5,709</b>	<b>5.9%</b>	<b>12.7%</b>
<b>SG &amp; A</b>	<b>4,137</b>	<b>4,347</b>	<b>5.1%</b>	<b>9.7%</b>
<b>Net Profit</b>	<b>1,386</b>	<b>1,469</b>	<b>5.9%</b>	<b>3.3%</b>
<b>EPS (RMB)</b>	<b>0.200</b>	<b>0.212</b>	<b>5.9%</b>	<b>-</b>

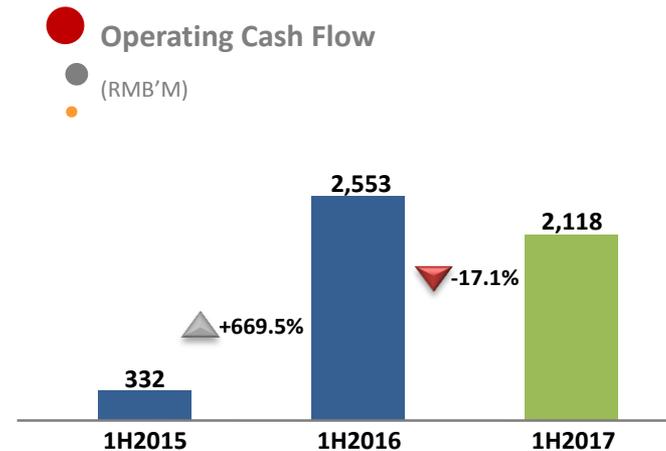
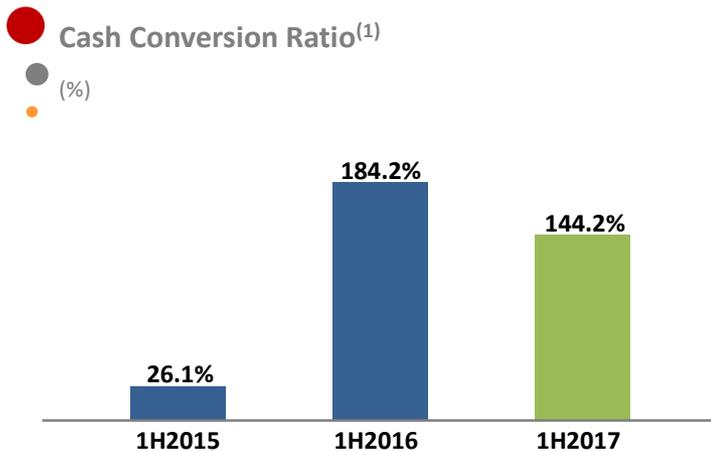
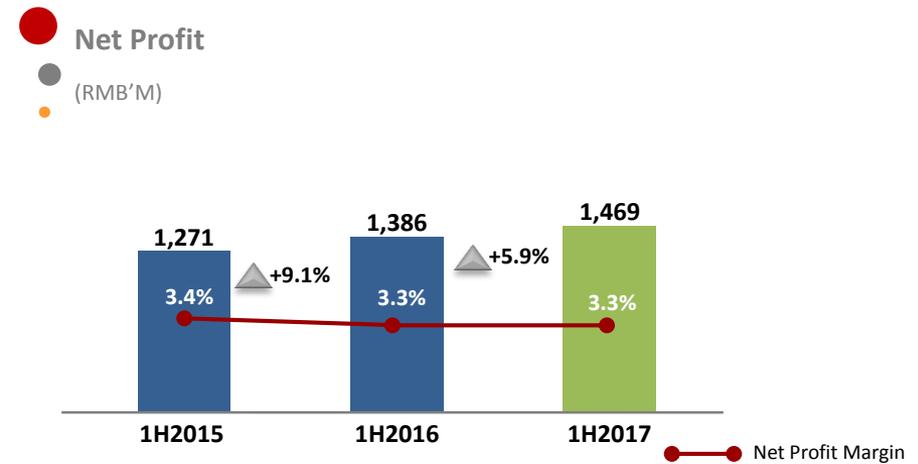
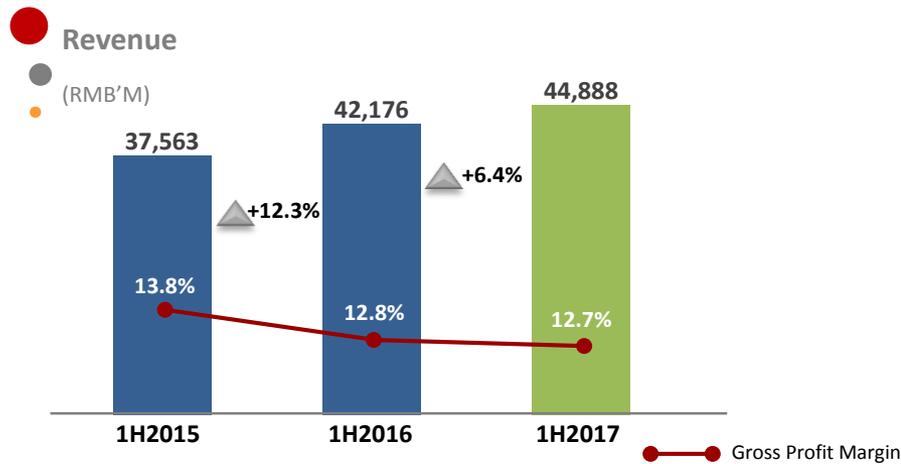
## Cost as a % of Revenue

(%)



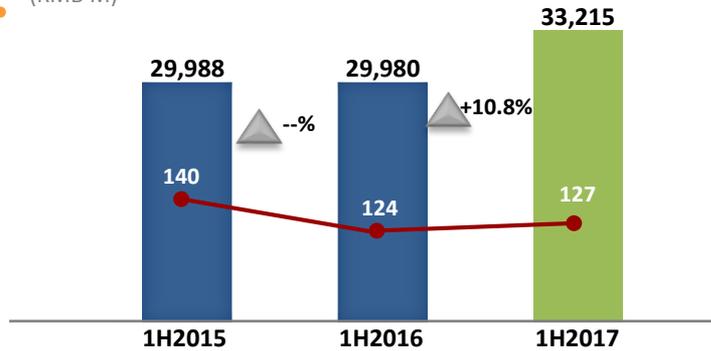
- ◆ By utilizing subcontracting resources adaptively, direct personnel cost as a % of revenue kept declining
- ◆ Implementation of VAT reform drove down the materials cost
- ◆ By proactively controlling the products distribution business, direct cost of products distribution as a % of revenue decreased significantly by 4.2 pp
- ◆ With enhanced subcontracting management, the rise of subcontracting cost as a % of revenue slowed down from 7.7 pp in 1H2016 to 4.0 pp in 1H2017
- ◆ Realized the benefit from economies of scale and stringent cost control, SG&A as a % of revenue further decreased

- ◆ Revenue and net profit achieved steady growth, decline of gross profit margin moderated and net profit margin remained stable
- ◆ Cash conversion ratio and operating cash flow maintained at a relatively high level



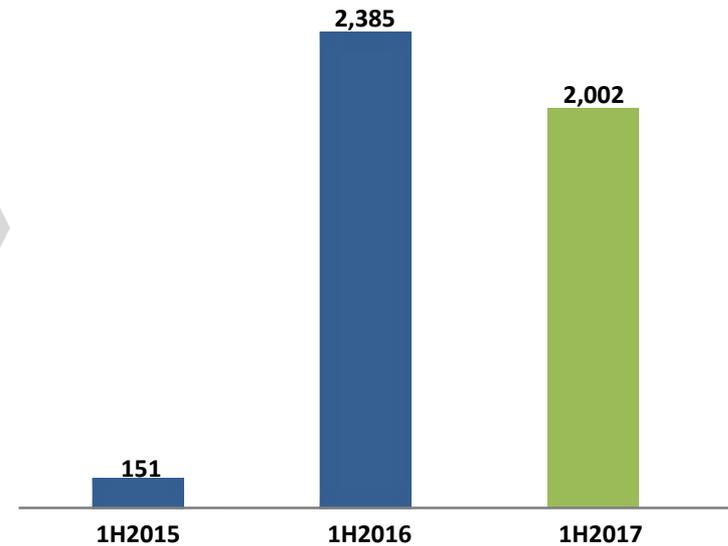
## Account Receivables

(RMB'M)



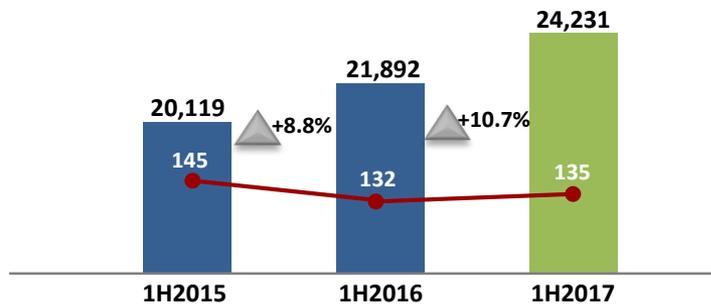
## Free Cash Flow

(RMB'M)



## Account Payables

(RMB'M)



Account Payables Turnover Days

- ◆ Maintained at low debt level and net cash position
- ◆ Established Comservice Capital Holding Company Limited to enhance cash utilization efficiency and facilitate business development through the integration of finance with industrial development

(RMB'M)

	31.12.2016	30.06.2017
<b>Total Assets</b>	<b>62,594</b>	<b>67,998</b>
Cash and cash equivalents	13,324	14,773
Account receivables	29,363	33,215
Fixed assets (NBV)	4,216	3,957
<b>Total Liabilities</b>	<b>35,546</b>	<b>40,409</b>
Interest-bearing liabilities	758	755
Account payables	20,399	24,231
<b>Equity Attributable to Equity Shareholders</b>	<b>26,573</b>	<b>27,108</b>
<b>Total Liabilities / Total Assets (%)</b>	<b>56.8%</b>	<b>59.4%</b>
<b>Debt-to-Capitalization Ratio (%)</b>	<b>2.8%</b>	<b>2.7%</b>



**Thank you!**



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