



中国通信服务
CHINA COMSERVICE

China Comservice Announces 2016 Annual Results

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Strive for Innovation and Transformation in Development during the Past Decade
Persist in Value-driven Principle to Enhance Efficiency
Distribute Special Dividend to Increase Shareholders' Return

HIGHLIGHTS:

- Innovation and transformation supporting continued steady growth, and “value-driven principle” leading further enhancement in the quality of development.
 - Total revenues were RMB88,449 million, up by 9.3%.
 - Profit attributable to equity shareholders of the Company was RMB2,536 million, up by 8.6%.
 - Free cash flow was RMB4,361 million, up by 22.1%.
 - Gross profit margin and net profit margin were 13.2% and 2.9%, respectively.
- The Board has proposed to pay a final dividend of RMB0.1098 per share and a special dividend of RMB0.0220 per share to appropriately increase shareholders' return. Total dividend for 2016 is RMB0.1318 per share, up by 18.5%.

Financial Highlights (audited)

For the year ended 31 December	2015	2016	Change
Revenues (RMB million)	80,960	88,449	+9.3%
Profit Attributable to Shareholders (RMB million)	2,334	2,536	+8.6%
Free Cash Flow (RMB million)	3,573	4,361	+22.1%
Gross Profit Margin (%)	14.1%	13.2%	-0.9pp
Net Profit Margin (%)	2.9%	2.9%	-
Basic Earnings per Share (RMB)	0.337	0.366	+8.6%
Final Dividend per Share (RMB)	0.1011	0.1098	+8.6%
Special Dividend per Share (RMB)	0.0101	0.0220	+117.8%
Total Dividend per Share (RMB)	0.1112	0.1318	+18.5%

(Hong Kong, 30 March 2017) — China Communications Services Corporation Limited (“China Comservice” or the “Company”), and its subsidiaries (the “Group”) (HKSE code: 552), today announced its audited annual results for the year ended 31 December 2016.

Enhancement in Operating Performance

In 2016, facing the slow recovery of global economy and the “New Normal” in the economic development of China, the Group stayed vigilant and made innovative breakthroughs, and achieved satisfactory operating results through further market expansion and reinforcement of the “value-driven principle”. Total revenues of the year amounted to RMB88,449 million, representing a year-on-year growth of 9.3%. Affected by the decrease in service charges in certain businesses and increase in labour-related costs, the overall gross profit margin was 13.2%, representing a year-on-year decrease of 0.9 percentage point. Benefited from the economies of scale and effective enhancement of internal management, selling, general and administrative expenses for the year accounted for 10.7% of the total revenues, representing a year-on-year decrease of 0.8 percentage point. Profit attributable to equity shareholders of the Company for the year amounted to RMB2,536 million, representing a year-on-year increase of 8.6%. Net profit margin was 2.9%, which remained the same as that of last year. In 2016, the basic earnings per share of the Group was RMB0.366. Attributable to the Company’s stringent management of accounts receivable, the accounts receivable turnover days were 117 days, representing a year-on-year decrease of 7 days. Free cash flow¹ was RMB4,361 million, representing a year-on-year increase of 22.1%.

Special Dividend

The Board has proposed to distribute a final dividend of RMB0.1098 per share for the financial year ended 31 December 2016, representing a dividend payout ratio of 30%. Moreover, in view of the Group’s outstanding operating results and free cash flow for the year, the Board has proposed to distribute a special dividend of RMB0.0220 per share for 2016. Taking into consideration of the above factors, the Company’s total dividend for 2016 is RMB0.1318 per share, representing a year-on-year growth of 18.5% and a total dividend payout ratio of 36%.

Mr. Sun Kangmin, Chairman of China Comservice commented: “The year 2016 marks the tenth anniversary of the Group’s listing. During the past decade, and especially in recent years, the Group has upheld the principle of ‘facilitating changes in development, and promoting development through changes’. We have strengthened our innovation and transformation and focused on value-driven development, and thereby realizing a sustainable and steady growth in revenue and profit, as well as a remarkable increase in the total market value of the Group. In return to the support by our shareholders, the Group has distributed dividends to our shareholders no matter in favourable or adverse operating conditions. In 2016, the Group upheld

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

the management philosophy of ‘value-driven, seeking steady yet progressive growth and efficient development’, appropriately allocated our resources and further expanded our markets, thereby recording favourable results. In view of this, the Board continued to propose a special dividend for 2016 to enhance shareholders’ return.”

Telecommunications Infrastructure (“TIS”) Services

Revenue from TIS services amounted to RMB45,887 million, representing a year-on-year growth of 17.0%, which presented the fastest growth among the three major businesses, and accounted for 51.9% of the total revenues. Revenue of TIS services from China Telecom recorded a year-on-year growth of 1.9%. During the year, the Company further developed its traditional businesses and expanded into new and cross-sector businesses, and continued to leverage its service capabilities to further develop the “Two New Markets”², thereby achieving vigorous revenue growth of 35.3% and 46.8% from the TIS services in the domestic telecommunications operator customers other than China Telecom and domestic non-operator customers, respectively. The favourable revenue growth of TIS services from domestic non-operator customers effectively reduced the reliance of the Group’s TIS services on operators’ investment.

Business Process Outsourcing (“BPO”) Services

Revenue from BPO services amounted to RMB32,533 million, representing a year-on-year decrease of 1.5% and accounting for 36.8% of the total revenues. The decrease was mainly due to the Group’s proactive control on the development of products distribution business with lower efficiency, and its increasing focus on transforming towards high-end businesses. Revenue of products distribution business for the year recorded a year-on-year decrease of 20.0%. Excluding the revenue from products distribution business, revenue from the Core BPO Services³ recorded satisfactory growth of 10.7%. Among that, revenue from network maintenance business recorded a year-on-year growth of 9.5%. After integration and the implementation of synergistic operation, the supply chain business recorded a year-on-year growth of 12.7%.

Applications, Content and Other (“ACO”) Services

The Group captured business opportunities arising from the intelligentization transformation of domestic telecommunications operators and the demand for informatization construction from industry customers, and revenue from ACO services amounted to RMB10,029 million, representing a year-on-year growth of 14.8%, noticeably higher than that of last year⁴, and accounting for 11.3% of the total revenues. To strengthen the development momentum of the Group’s high value businesses, the Group set up an innovation fund to facilitate the

² Two New Markets refer to domestic non-operator market and overseas market.

³ Core BPO Services include management of infrastructure for information technology (network maintenance), general facilities management and supply chain.

⁴ In 2015, revenue from ACO services recorded a year-on-year growth of 9.9%.

commercialization of its products. The Group closely monitored the development of industry sectors and set up expert committees to formulate a product ecosphere through in-house research and development and co-operation with external parties.

Continuous Growth Supported by Three Customer Groups

In 2016, the Group assisted domestic telecommunications operators to establish high quality 4G and fiber optic broadband networks and supported their transformation and upgrade. Meanwhile, the Group also leveraged on both “CAPEX and OPEX-driven”⁵ businesses to comprehensively enhance its market expansion. In addition to China Telecom, the Group also strived to expand its businesses with other operator customers (in particular China Tower) and enhanced its service quality and market share, which effectively mitigated the impacts of operators’ CAPEX change to the Group. Revenue from domestic telecommunications operator market for the year amounted to RMB60,889 million, representing a year-on-year growth of 11.1%, and accounted for 68.8% of the total revenues, representing a year-on-year increase of 1.1 percentage points. By devoting more efforts in gaining market share, the revenue from operator customers other than China Telecom realized a fast growth and recorded a year-on-year growth of 29.6%.

In 2016, the Group focused on the breakthrough of key businesses, speeded up the development of the Two New Markets, and demonstrated new energy and new look on its corporate development. With an increasing understanding and confidence among the Group to devote more effort to expanding into the domestic non-operator market, the Group further refined its marketing system and gradually formulated a business expansion mechanism with appropriate separation over the functions of marketing and project delivery. The commercialization of the Group’s projects, including smart industrial park, smart security and smart transportation, were accelerated, and significant breakthroughs were achieved by the Group in various sectors, including government, transportation, internet, IT and power. With proactive control of the products distribution business with low efficiency during the year, revenue from domestic non-operator market for the year amounted to RMB23,714 million, representing a year-on-year growth of 3.4%, and accounted for 26.8% of the total revenues. Excluding products distribution business in such market, revenue from the core businesses⁶ recorded a year-on-year growth of 28.7% and accounted for more than 70% of the revenue in such market. The revenue structure of domestic non-operator market was further optimized and the gross profit margin recorded a moderate increase. The favourable growth of revenue from the Core Businesses of domestic non-operator market contributed significantly to the overall increase in the total revenues of the Group, demonstrating the sound results of innovation and transformation of the Company.

⁵ CAPEX and OPEX refer to the capital expenditure and operating expenditure of domestic telecommunications operators, respectively.

⁶ Core businesses of domestic non-operator market include telecommunications infrastructure services, business process outsourcing services (excluding products distribution), and applications, content and other services.

The Group promoted the development of new businesses in regional market, including Africa, the Middle East and South East Asia, and shifted its focus from project hunting to project initiation. The Group also focused on major turnkey projects, further promoted the “China-Africa Partnership Program in Trans Africa Information Superhighway” Project and made further progress. The Group proactively studied the feasibility to set up an industry investment fund with potential partners to promote the scale development of the overseas business. In 2016, the overseas business of the Group resumed steady development, revenue from such market amounted to RMB3,846 million, representing a year-on-year growth of 19.3%, and accounting for 4.4% of the total revenues.

Prospects

Mr. Sun Kangmin, Chairman of China Comservice said: “In 2016, the Group recorded sound operating results and achieved many new highlights and new changes in its development, which laid a solid foundation for its future development since the commencement of the ‘13th Five-year Plan’. Currently, despite of the uncertainties of the macroeconomic circumstances under the ‘New Normal’, the PRC economy has developed steadily and positively in general and opportunities will outweigh challenges in the future. As the government has promoted the supply-side structural reform and further implemented various strategies including ‘Network and Information Country’, ‘Cyberpower’ and ‘Innovation-driven Development’, a favourable operating environment has been established for the growth of the Group. Enormous business opportunities will be brought from the booming of cloud computing, big data and internet of things with substantial investments in the new form of ICT and strong demand in industry informatization. The acceleration of transformation and upgrading of domestic telecommunications operators will stimulate the increasing demand in technologies, software, network maintenance and information security, which will create a favourable condition for the reinforcement of the fundamental business performance of the Company. Along with the implementation of the “Belt and Road” Initiative and the Company’s major projects such as the ‘China-Africa Partnership Program in Trans Africa Information Superhighway’ Project, the prospects of the expansion of the overseas business of the Group will be promising.

By persisting in the management philosophy of ‘value-driven, seeking steady yet progressive growth and efficient development’ and the concept of ‘market-oriented, creating value for customers’, the Group will strive for market penetration and expansion so as to increase its market share and further maintain its leading position in domestic telecommunications operators market. Targeting at the informatization demands from the society and industries, the Group will accelerate the industrial breakthroughs in targeted markets and expand the domestic non-operator market. By leveraging the opportunities arising from our “China-Africa Partnership Program in Trans Africa Information Superhighway” Project, the Group will focus on the implementation of key projects and speed up the expansion in

overseas market. The Group will explore the utilization of various financial instruments and facilitate the development of the Group in the future through integration of industries and finance. In addition, the Group will enhance its own capabilities, refine its marketing system and strengthen its capability in project delivery. Leveraging on its own technological competitive edges and investing more resources in innovation, the Group will enhance its capability in research and development and marketing for its products. In order to increase its operation efficiency, the Group will strengthen its synergistic management and cost control. The Group will continue its sound trajectory of steady growth with quality improvement and create greater values for its shareholders and customers through better development.”

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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 management of infrastructure for information technologies (network management), general facilities management, supply chain and products distribution; 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 (including the three domestic telecommunications operators and China Tower), 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 Group Company Limited and China National Postal and Telecommunications Appliances Corporation are also shareholders of the Company.

In 2016, the Group ranked 71st in the "2016 FORTUNE China 500" released by FORTUNE China. The Company awarded "The Best of Asia – Icon on Corporate Governance" once again in the "12th Corporate Governance Asia Recognition Awards" in 2016 held by Corporate Governance Asia, a famous corporate governance magazine in Asia, "Platinum Award – Excellence in Governance, CSR & Investor Relations" in "The Asset Corporate Awards 2016" held by The Asset, and "The Best Investment Value Listed Company in the 13th Five-Year Plan" award in the 6th China Securities "Golden Bauhinia Awards" organized by Hong Kong Ta Kung Wen Wei Media Group Limited.

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.