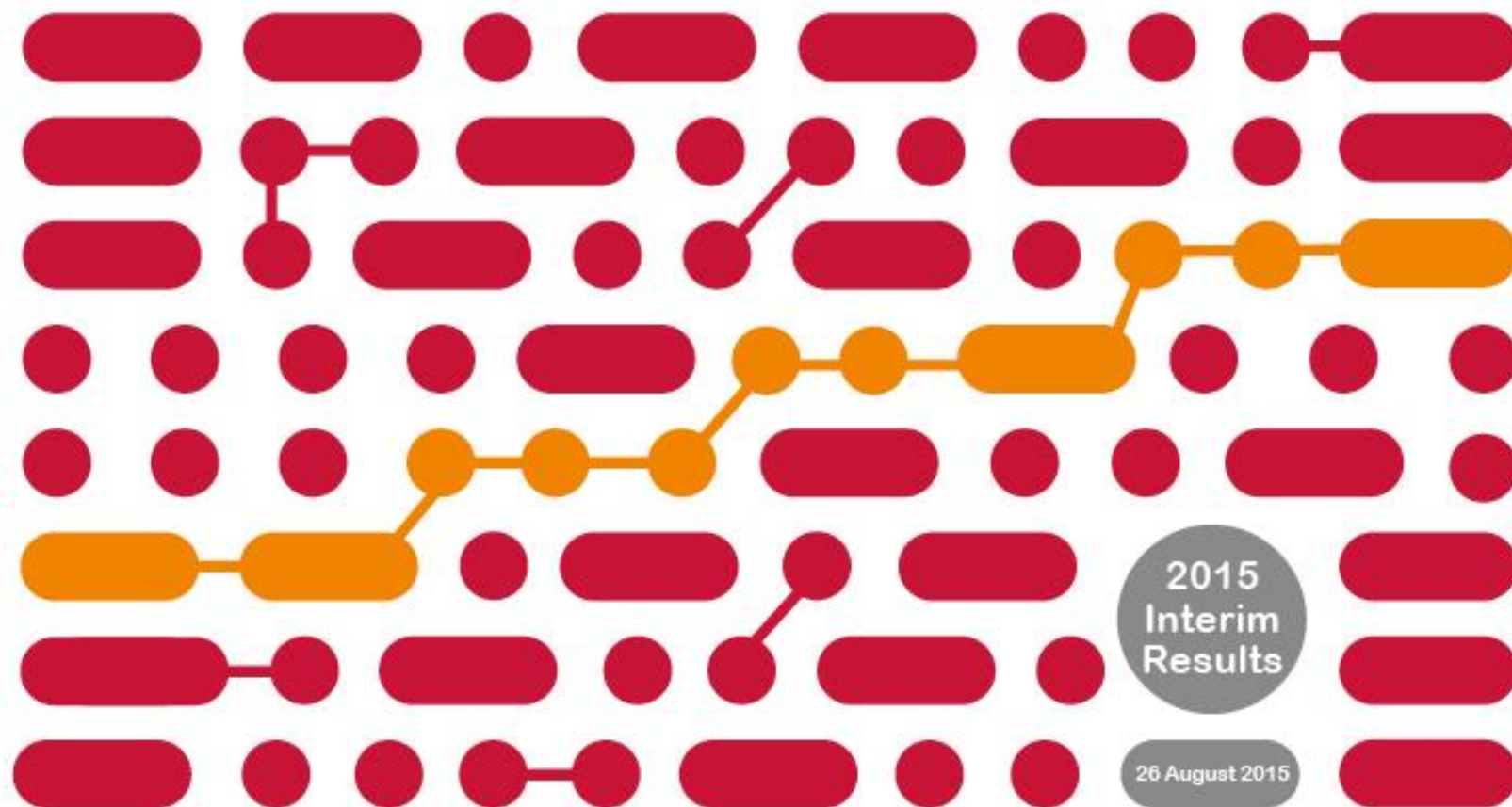




CHINA COMMUNICATIONS SERVICES CORPORATION LIMITED

STOCK CODE: 552



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PRESIDENT

MS. HOU RUI

EXECUTIVE VICE PRESIDENT & CFO

MR. LIANG SHIPING

EXECUTIVE VICE PRESIDENT

1

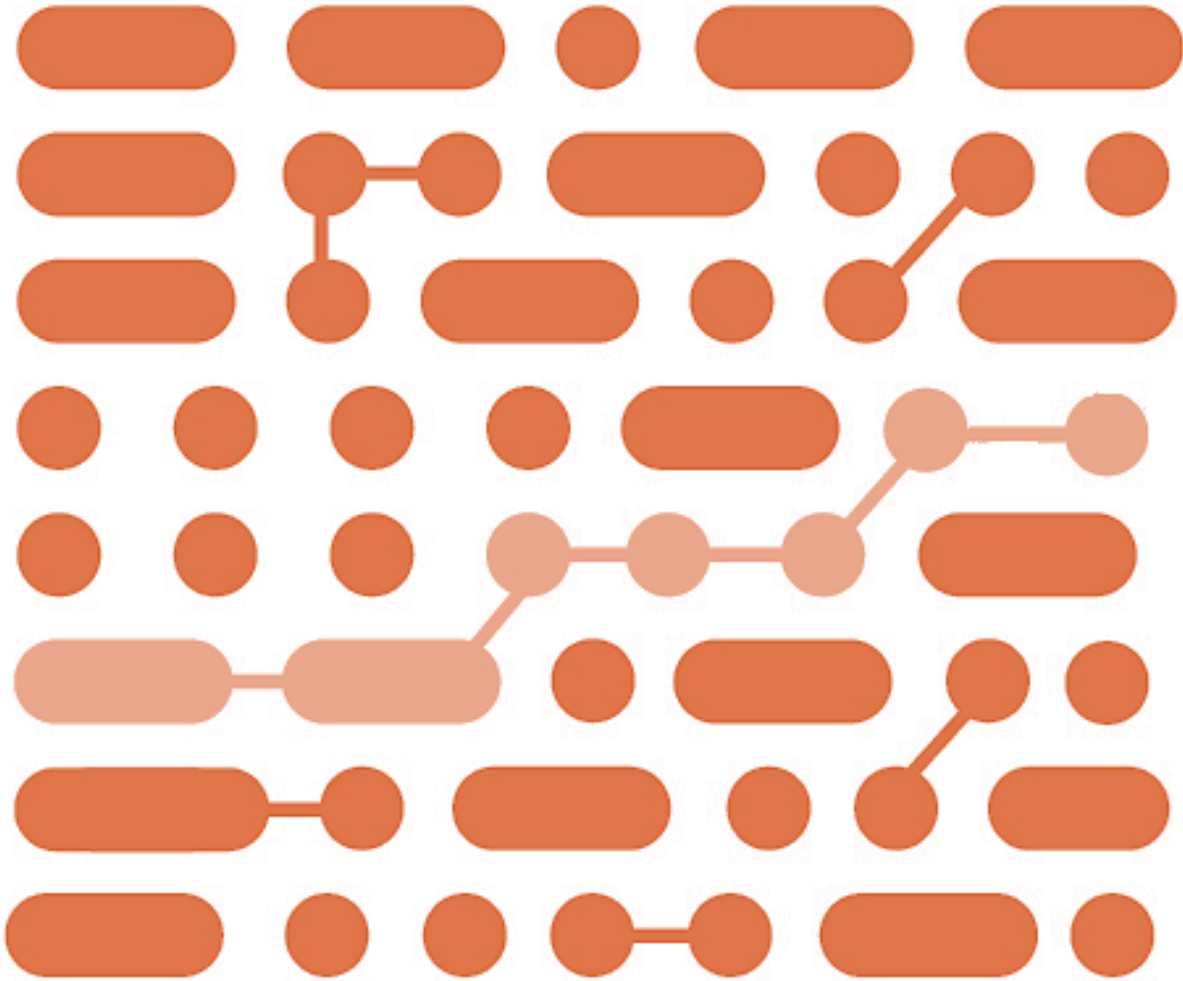
Overview

2

Business Review

3

Financial Results



Overview

4G and Broadband Construction Drove the Growth of Domestic Operator Market

CAPEX investment boosted TIS business growth to reach 25.6% for the domestic operator market while OPEX spending generated a stable source of recurrent income

Diversification in Customer and Business Supported Continuous Revenue Growth

Apart from domestic operator market and TIS business, domestic non-operator & overseas markets, and BPO and ACO businesses among our integrated business model, are important drivers for sustainable growth

Remarkable Overall Results Performance Achieved


Revenue growth accelerated and reached double-digit growth, while net profit resumed growth momentum. Free cash flow improved significantly and turned positive for the first time during the first-half period


Management Enhanced Operation Efficiency

Positive free cash flow recorded in the first half for the first time, and account receivables turnover days reversed the growth trend in recent years and dropped YoY. SG&A expenses as a percentage of total revenues continued to decrease

New National Policies Brought Ample Market Opportunities

Policies such as the “Construction of Faster Broadband Networks”, “One Belt, One Road”, “Internet +”, “Made in China 2025” boosted the demand for telecommunications infrastructural facilities and informatization construction

 Revenue growth accelerated and realized a double-digit growth of 11.3%; net profit resumed steady growth

 Free cash flow was RMB151 million, and improved substantially by RMB1,228 million

(RMB'M, except EPS & % figures)

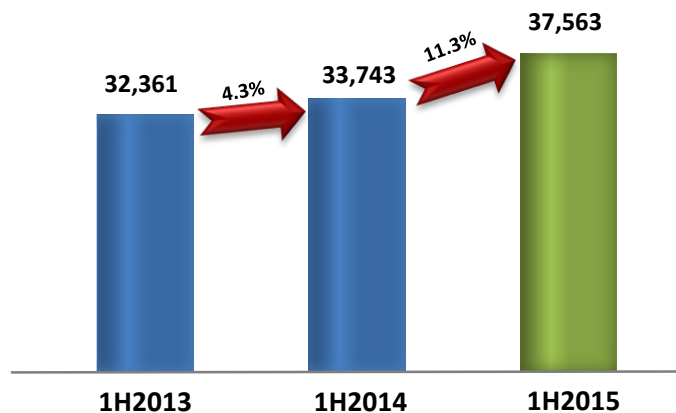
	1H2014	1H2015	Change
Revenue	33,743	37,563	11.3%
Gross Profit	4,823	5,176	7.3%
Gross Profit Margin (%)	14.3%	13.8%	-0.5pp
Net Profit	1,238	1,271	2.7%
Net Profit Margin (%)	3.7%	3.4%	-0.3pp
Free Cash Flow ⁽¹⁾	-1,077	151	--
EPS (RMB)	0.179	0.184	2.7%

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

Expedited Development in Domestic Operator Market Boosted Overall Revenue Growth

Revenue

(RMB'M)

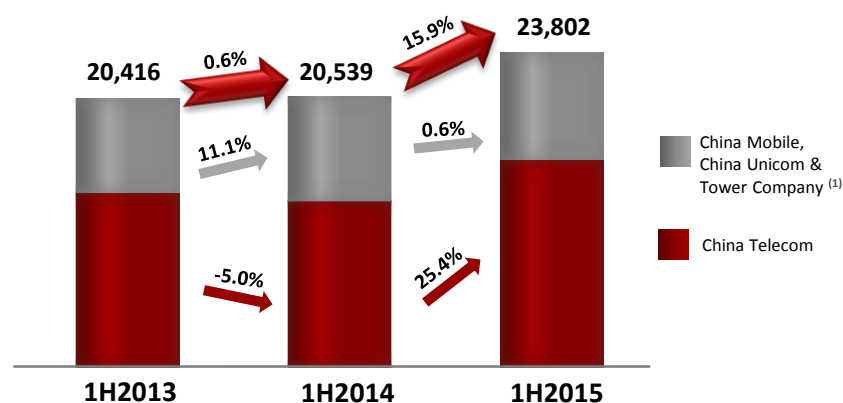


Revenue up by 11.3% for 1H15 (1H14:+4.3%); growth expedited obviously

In 1H15, revenue from domestic operators up by 15.9%, growth accelerated significantly

Revenue from Domestic Operator Market ⁽¹⁾

(RMB'M)



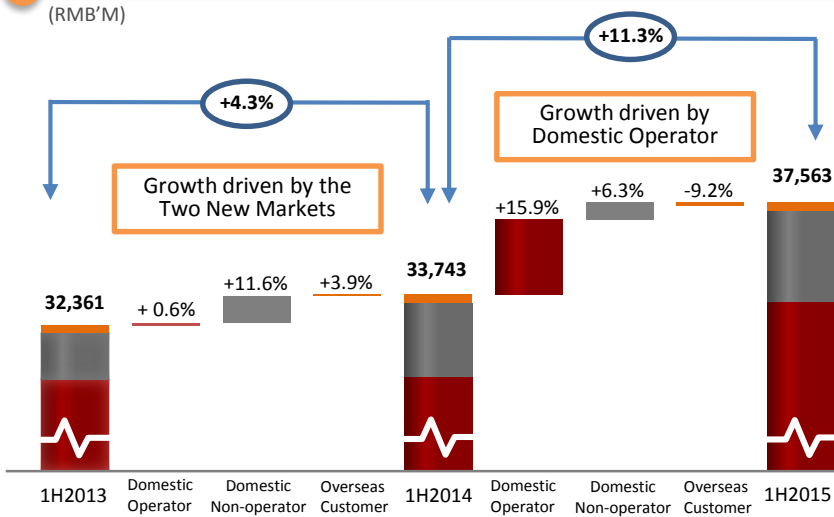
Grasped construction opportunities from the LTE FDD license issuance in February this year and the broadband construction, revenue growth from China Telecom reached 25.4%

Focused on the continuous OPEX spending by domestic operators, revenue from China Mobile remained stable amid decreased CAPEX

⁽¹⁾ Tower Company was jointly established by the three domestic operators in July 2014. Since 2015, the revenue from the Tower Company is temporarily classified under the domestic operator market.

Diversification in Customer and Business Supported Continuous Revenue Growth

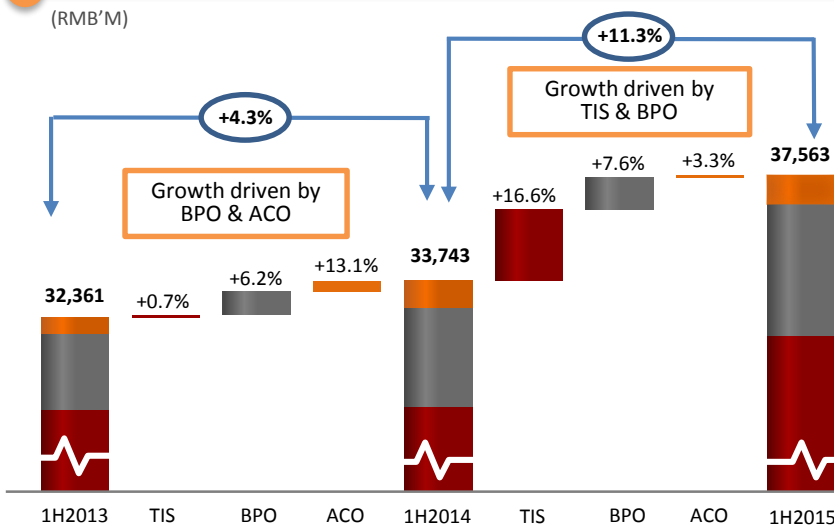
Revenue Growth Driver - Customer



In 1H14, development in the domestic operator market and TIS business moderated as affected by the 4G licensing progress

- The Two New Markets (domestic non-operator and overseas markets) became the growth engines
- Integrated business model supported stable development, BPO & ACO businesses drove revenue growth

Revenue Growth Driver - Business

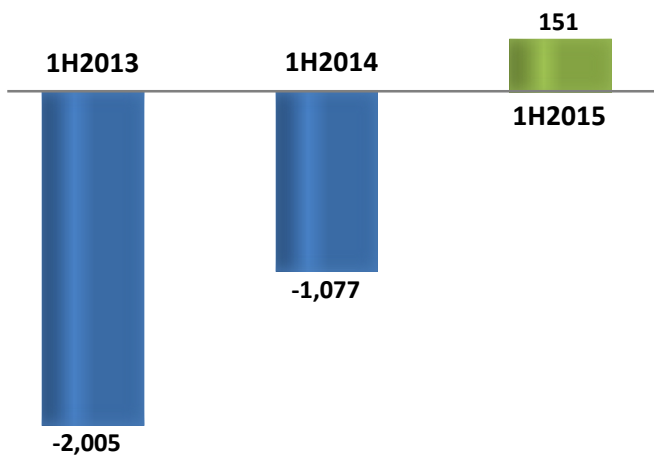


In 1H15, timely captured the opportunities from 4G and broadband construction

- Revenue from domestic operators grew remarkably and boosted overall revenue growth
- Penetrated further into OPEX-driven market, both TIS and BPO businesses grew rapidly

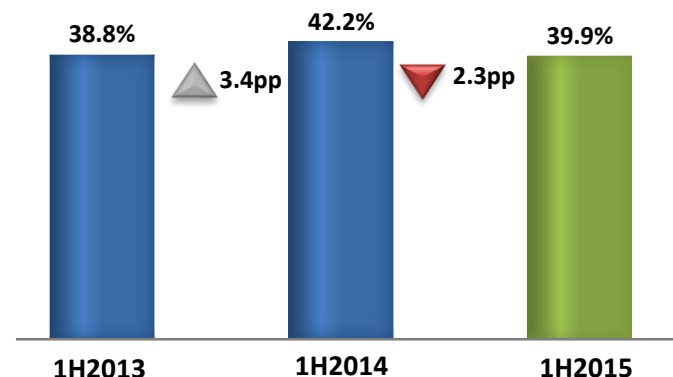
Free Cash Flow

(RMB'M)



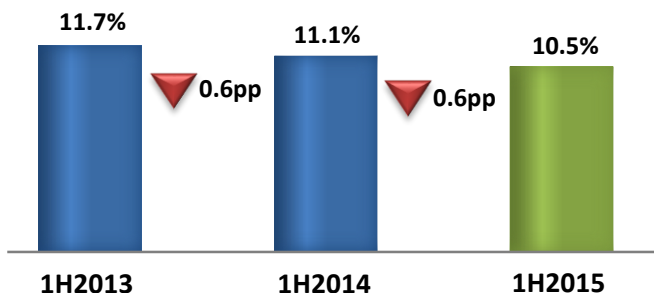
Account Receivables as a % of Total Revenues

(%)



SG&A Expenses as a % of Total Revenues

(%)



Free cash flow turned positive in the first half for the first time, demonstrating remarkable results in cash management

Account receivables as a % of total revenues dropped amid continuous revenue growth, showing effective account receivables management

SG&A expenses as a % of total revenues decreased persistently, indicating control measures on selling and administrative expenses took effect



Major Challenges

Economy

- ◆ Deceleration of macro-economic growth under the “New Normal” era and slowdown of development in telecommunications sector

Customers

- ◆ Steady decline of CAPEX investment from domestic operators, changes in investment structure and decrease in service charges

Policies

- ◆ VAT reform in construction industry and further implementation of the amended PRC Labour Contract Law and new tender regulations

Internal Mechanism

- ◆ Changing demand and higher requirements from customers on the Company’s technological standard, capability and quality of the staff

Deepened Reform Innovation & Transformation

Structure Optimization

- ◆ Optimize business structure and explore high-value businesses
- ◆ Refine customer structure by reinforcing presence in domestic operator market, and expanding into non-operator and overseas markets

Operation Optimization

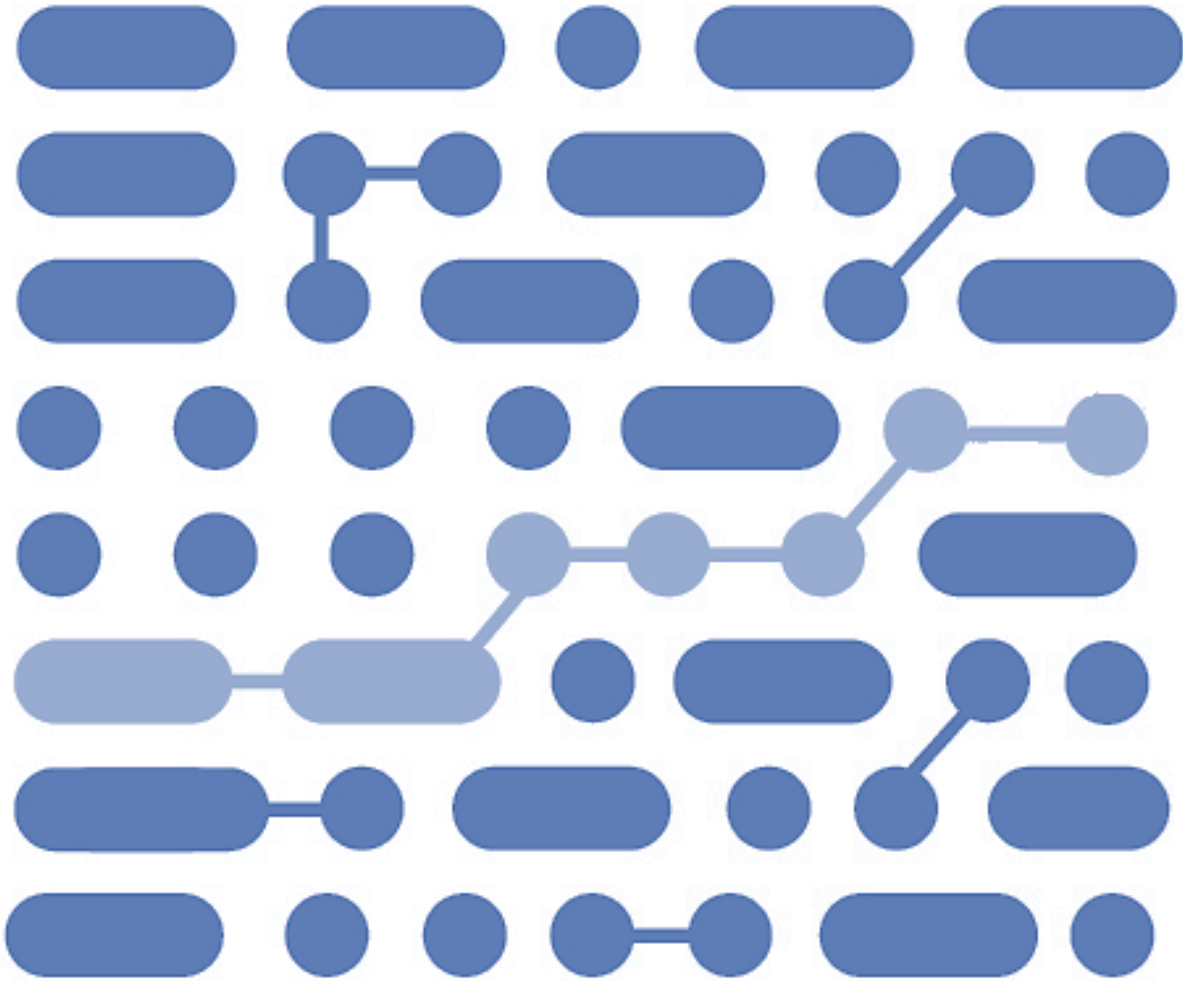
- ◆ Innovate business model and explore BT/BOT model of large-scale turnkey projects
- ◆ Explore mixed-ownership scheme, project-based JV companies, core staff shareholding scheme and virtual shareholding system

Management Optimization

- ◆ Optimize organizational structure, enhance synergistic operation among internal units, subdivide evaluation units, modify value-driven performance appraisal mechanism
- ◆ Strengthen cost control and enhance efficiency by minimizing administrative expenses and maintaining negative headcount growth



**Adhering to Value-driven Principle
Realizing Sustainable and Efficient Development**



Business Review

Revenue Breakdown

(RMB'M)	1H2014	1H2015	Change	% of Revenue
TIS (1)	15,453	18,022	16.6%	48.0%
Design	2,903	3,551	22.3%	9.5%
Construction	11,460	13,152	14.8%	35.0%
Supervision	1,090	1,319	21.0%	3.5%
BPO (2)	14,911	16,050	7.6%	42.7%
Network Maintenance	3,789	4,341	14.6%	11.6%
Distribution	9,493	9,930	4.6%	26.4%
General Facilities Management	1,629	1,779	9.2%	4.7%
ACO (3)	3,379	3,491	3.3%	9.3%
System Integration	1,597	1,640	2.7%	4.4%
Software Development & System Support	451	481	6.6%	1.3%
VAS	587	660	12.5%	1.7%
Others	744	710	-4.6%	1.9%
Total	33,743	37,563	11.3%	100.0%

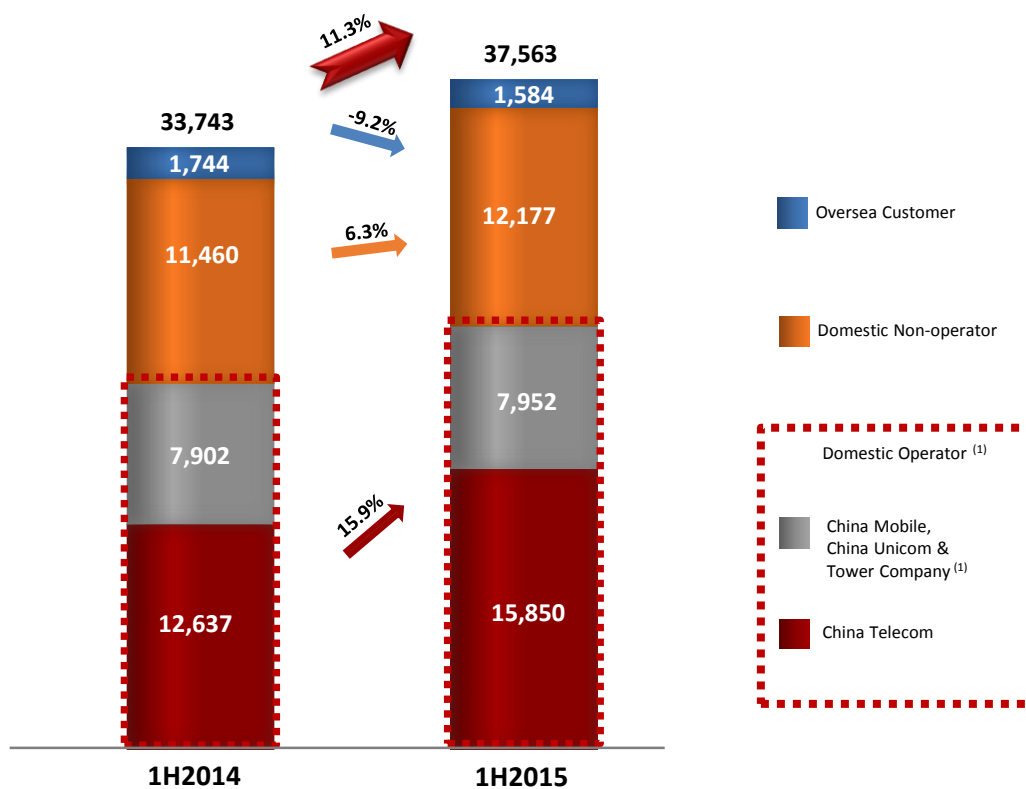
(1) TIS refers to Telecommunications Infrastructure Services

(2) BPO refers to Business Process Outsourcing Services

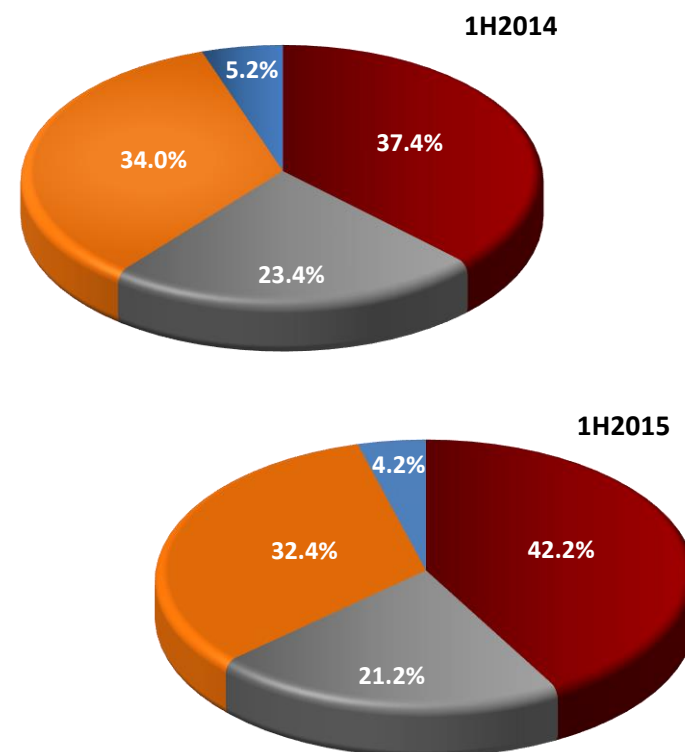
(3) ACO refers to Applications, Content and Other Services

Revenue Growth by Customer

(RMB'M)



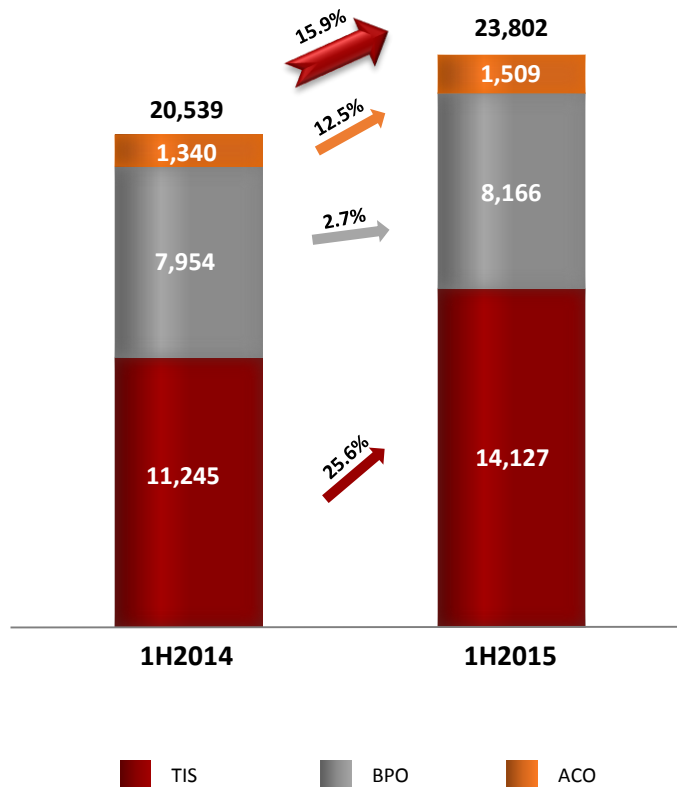
Revenue Mix by Customer




⁽¹⁾ Tower Company was jointly established by the three domestic operators in July 2014. Since 2015, the revenue from the Tower Company is temporarily classified under the domestic operator market.

Revenue from Domestic Operator Market

(RMB'M)

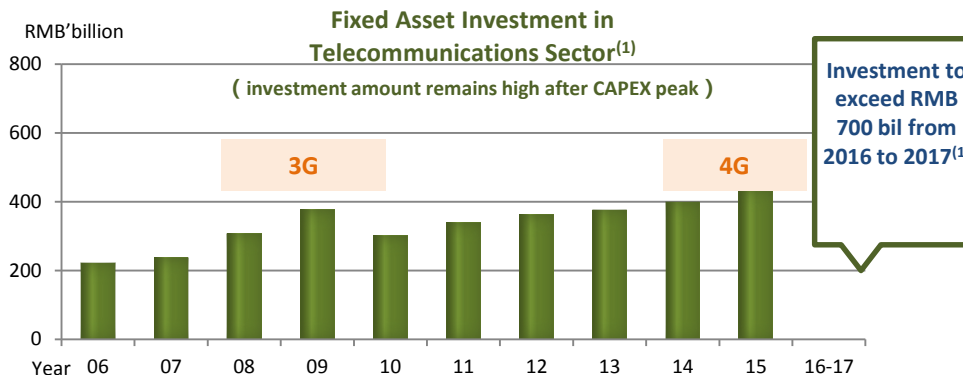


-  Certain domestic operators accelerated 4G network construction and the rising CAPEX investment drove the TIS business to record rapid revenue growth of 25.6% in 1H15
-  Continuous expansion into OPEX-driven business leading to a 11% revenue growth in network maintenance business of domestic operator market under the BPO business segment, maintaining double-digit growth momentum
-  Being the only company in the telecommunications sector in China with “5A” qualification certificate as a logistics enterprise and further integrated resources to establish China Comservice Supply Chain Management Limited to actively explore professional logistic business
-  Captured business opportunities arising from national policy “Internet +” and collaborated with domestic operators in developing government and industrial clients for provision of enterprise communications solutions
-  Signed cooperation agreements with a number of provincial tower companies and provided integrated and professional services in construction and maintenance service proactively

Reinforce Presence in CAPEX-driven Market and Penetrate Further into OPEX-driven Market

CAPEX Business

- ◆ Grasp business opportunities from 4G investment and expand further into the market
- ◆ Construction of Faster Broadband Networks drives steady and continuous CAPEX investment



- ◆ Seize the increasing demand on cloud computing centers and data centers arisen from internet-oriented transformation of domestic operators
- ◆ Explore business opportunities in the northern provinces

OPEX Business

- ◆ Speed up the development of BPO business including network maintenance, logistic and general facilities management, enhance business value by innovation
- ◆ Target for the development of high-end network maintenance services
- ◆ Minimize maintenance cost and enhance profitability through innovation, intensive management and economies of scale
- ◆ Utilize the “5A” qualification certificate as a logistics enterprise to conduct intensive logistic operation

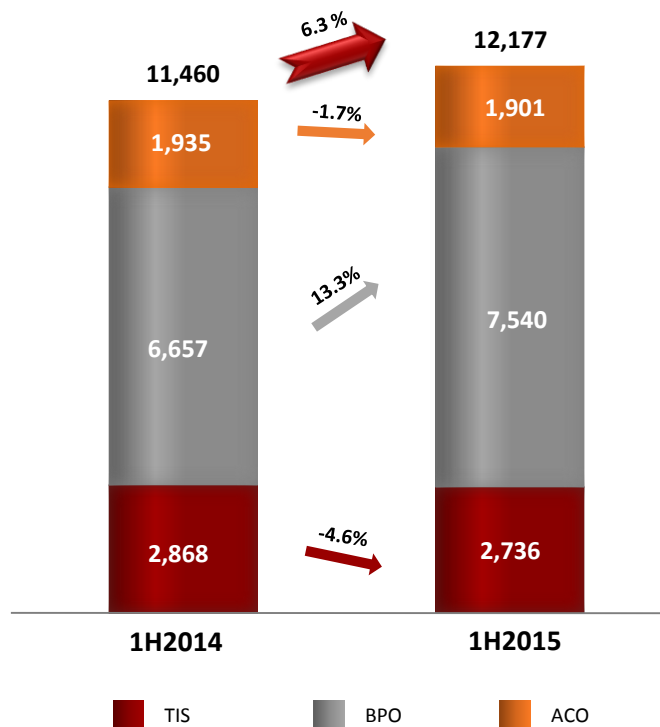
Tower Company

- ◆ Capitalize on the preferential arrangements with the Tower Company and sign cooperative agreements with provincial tower companies
- ◆ Closely monitor the demand for integrated and professional services in construction, maintenance and network optimization

⁽¹⁾ Sources: MIIT and related Government documents

Revenue from Domestic Non-operator Market

(RMB'M)



- 

Achieved stable development in domestic non-operator market and revenue was up by 6.3% in 1H15

- 

Intensified effort in establishing sales and marketing mechanism and product system, and launched six group-level key products for nationwide promotion, while allocating resources adaptively to grasp the 4G network construction opportunities in domestic operator market

- 

Strengthened external strategic cooperation and partnered with leading enterprises to explore business opportunities in the areas of intelligent building, Smart Security, energy conservation and emission reduction, etc

- 

Achieved breakthroughs in the development of new industrial clients and successfully won large-scale turnkey projects related to intelligent information system for electricity and transportation sector

Focus on Key Clients and Industries to Offer Key Products and Solutions for Business Value Enhancement

New Market Opportunities Brought by National Policies

◆ Internet +

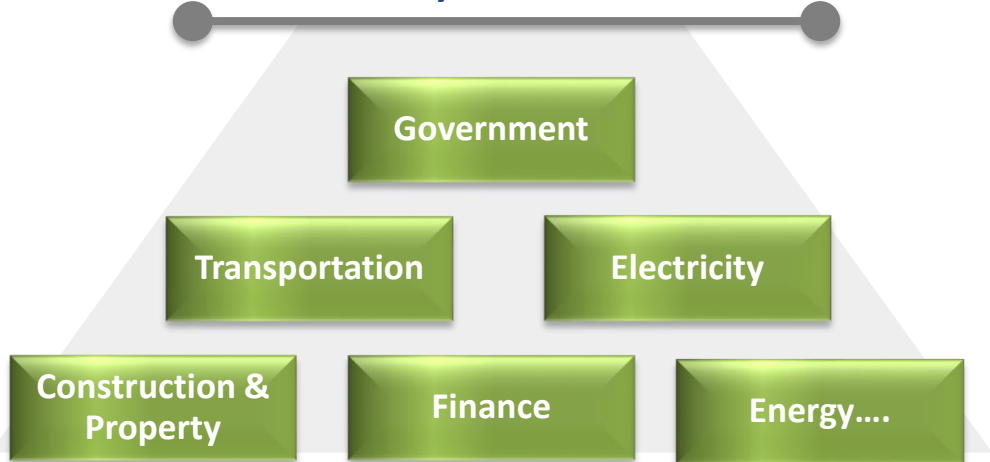
◆ National New-style Urbanization

◆ Made in China 2025

◆ Utility Tunnel System

- ◆ Promote the application of internet into different production areas and in-depth convergence with different industries
- ◆ Encourage in-depth convergence of informatization and industrialization, and identify new-generation information technology industry as the key area of focus
- ◆ Drive the demand for telecommunications facilities construction and facilitate information consumption
- ◆

Focus on Key Clients & Industries

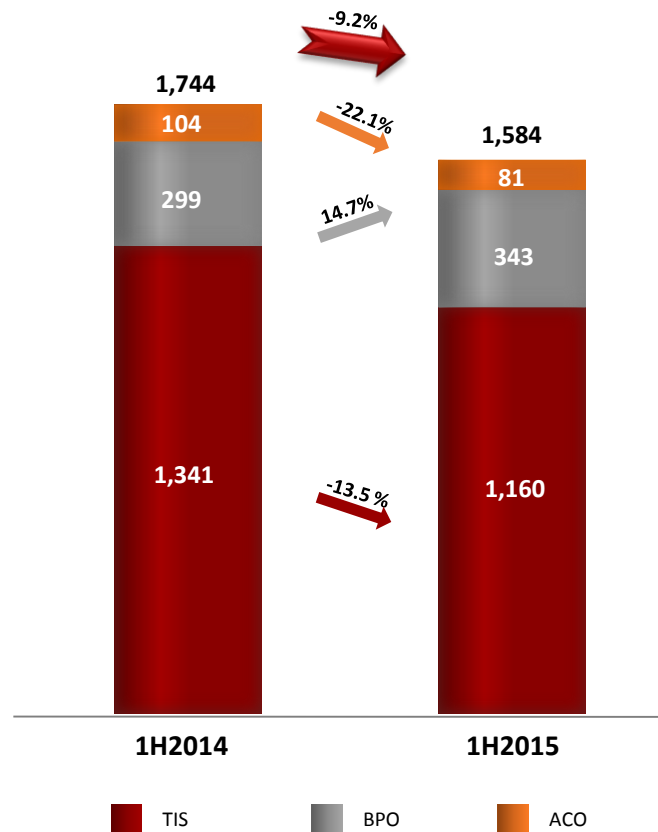


Key Products & Solutions

- ◆ Smart City
- ◆ Smart Security
- ◆ E-certification
- ◆ Information Security
- ◆ Intelligent Building
- ◆ Smart Industrial Park
- ◆ Cloud Computing
- ◆ Municipal Infrastructure

Revenue from Overseas Market

(RMB'M)



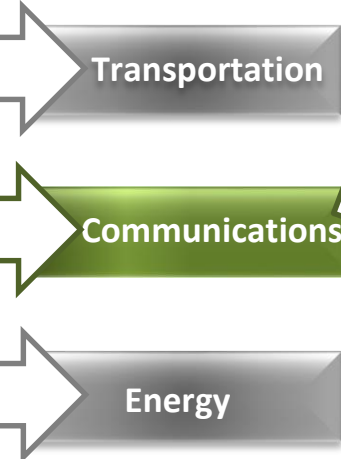
Proactively controlled the development of projects with lower efficiency and deployed resources towards large-scale turnkey projects, resulting in further optimized revenue structure. Revenue of turnkey projects from overseas market accounted for 69% of revenue from overseas market (Y14: 51%)

Revenue declined in 1H15 due to cyclical volatility and delay in implementation of certain turnkey projects

Seize the golden opportunities arising from national “One Belt, One Road” Initiative and optimize presence in key focus regions



Seize Opportunities from “One Belt , One Road” Initiative and Strive for Winning Policy-Supported Projects



Key Points of the OBOR Initiative:

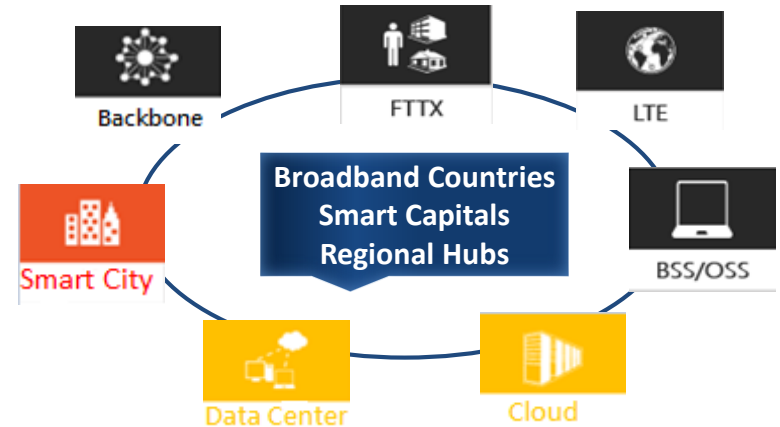
1. To build bilateral cross-border optical cable networks at a quicker pace and plan for the construction of transcontinental submarine optical cable projects
2. To improve spatial (satellite) information passageways
3. To advance the construction of cross-border optical cables and other communications trunk line networks

New Opportunities

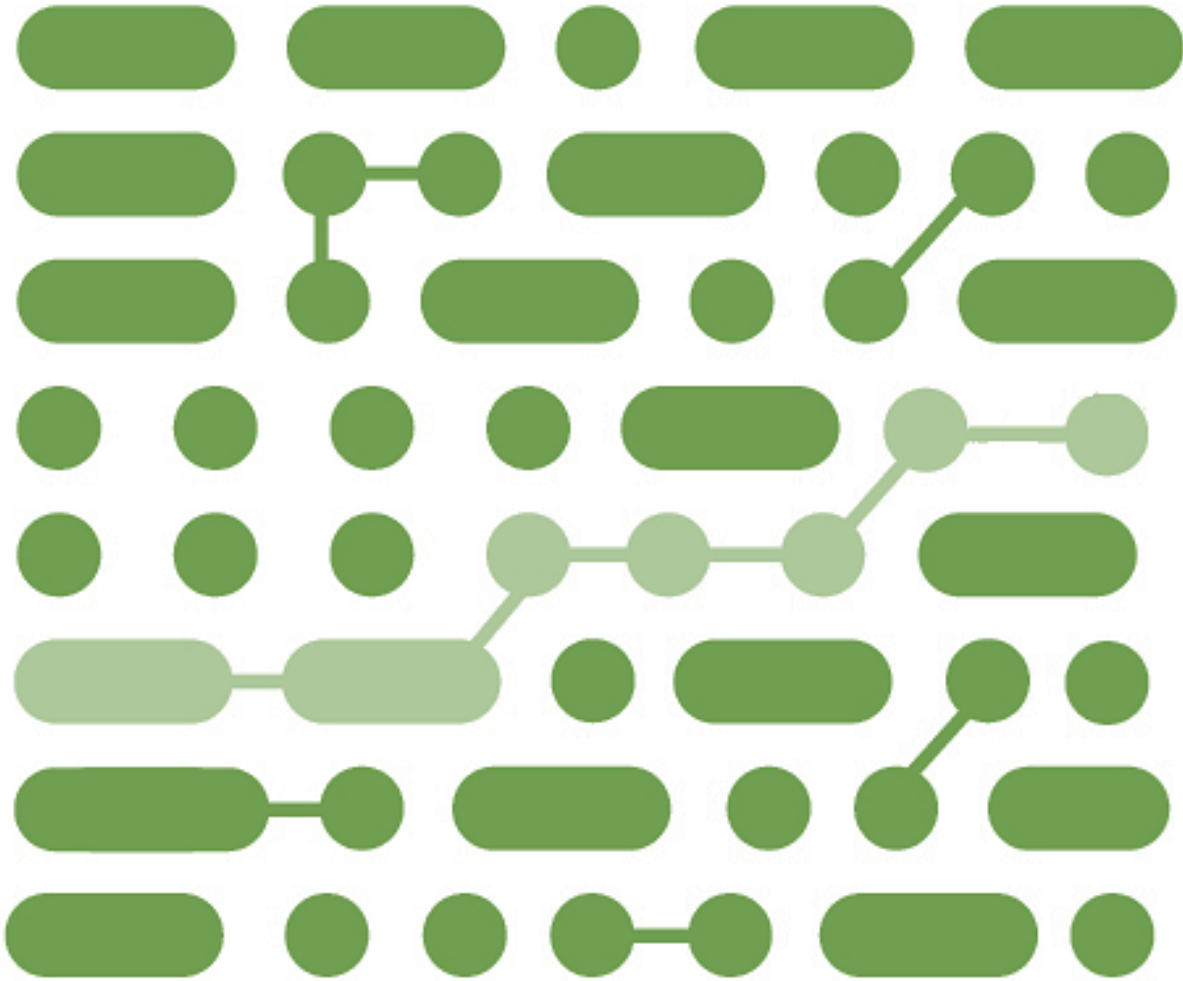
- ◆ **Broader Market Space:** Integration of Europe, Asia and Africa drives the demand of infrastructure facilities construction for TMT sector
- ◆ **Better Political and Economical Landscapes:** various diplomatic channels guarantee higher security and minimize overseas risk
- ◆ **Stronger Financial Support:** Silk Road Fund, Asia Infrastructure Investment Bank, national policy banks provide reliable sources of financing support

Tactics

- ◆ **Focus on turnkey projects with national support:** offer integrated services, with cash return guaranteed



- ◆ **Establish dedicated team:** closely monitor project progress and policy changes
- ◆ **Strengthen strategic collaboration:** cooperate with China Telecom and Chinese enterprises which “Going Abroad” to accelerate market expansion
- ◆ **Innovate business model and products:** speed up the establishment of sales & marketing, planning and technical support centers to enhance business expansion capability
- ◆ **Reinforce overseas risk management:** optimize internal mechanism, enhance project evaluation and improve system and procedures



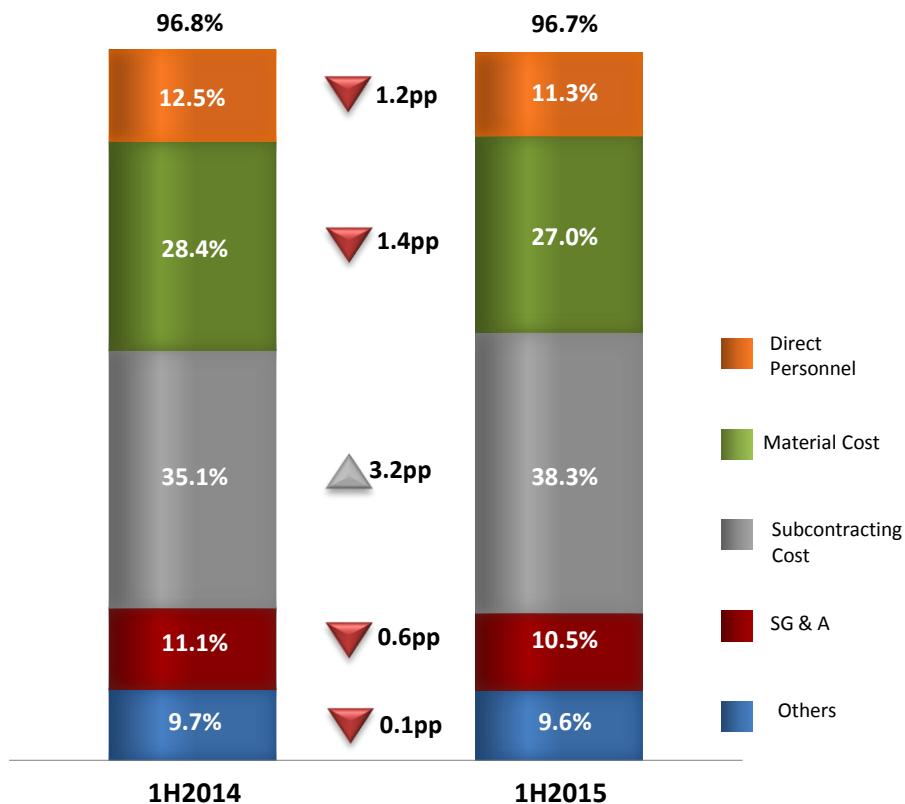
Financial Results

(RMB'M)	1H2014	1H2015	Change	% of Revenue
Revenue	33,743	37,563	11.3%	100.0%
Cost of Revenue	28,920	32,387	12.0%	86.2%
Direct Personnel	4,221	4,237	0.4%	11.3%
Materials ⁽¹⁾	9,586	10,135	5.7%	27.0%
Subcontracting	11,841	14,377	21.4%	38.3%
Depreciation & Amortization	223	222	-0.4%	0.6%
Others	3,049	3,416	12.0%	9.0%
Gross Profit	4,823	5,176	7.3%	13.8%
SG&A	3,730	3,930	5.4%	10.5%
Net Profit	1,238	1,271	2.7%	3.4%
EPS (RMB)	0.179	0.184	2.7%	-

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

Cost as a % of Total Revenues

(%)



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

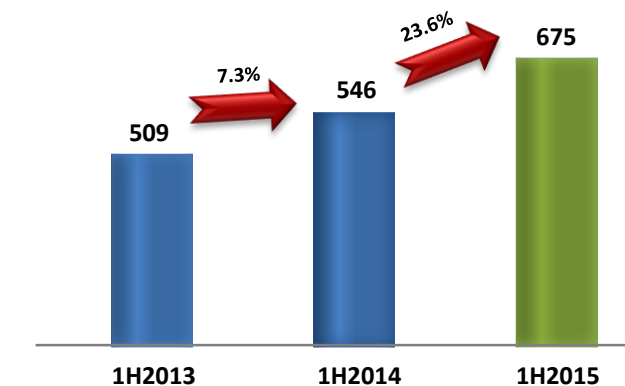
Subcontracting cost grew relatively fast because:

- Persistently promoting transformation and outsourcing low-end tasks
- Increasing subcontracting demand due to expansion of OPEX business

By utilizing external subcontractors, headcount was under control amid continuous business development and labour productivity continued to increase

Labour Productivity⁽¹⁾

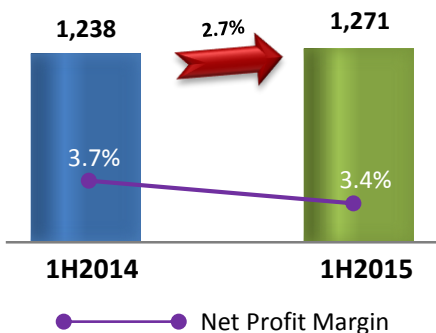
(RMB'000/staff)



- Net profit resumed steady growth, reversing the downward trend from last year
- Decrease in service charges and increase in costs posed pressure on gross profit margin, and thereby profit growth
- Continue to optimize business and revenue structure, strengthen cost control and gradually transform its business model, with a view to slowing down the downward trend of gross profit margin
- Strengthen financial management while pursuing profit growth, operating cash flow improved significantly and turned positive in 1H15

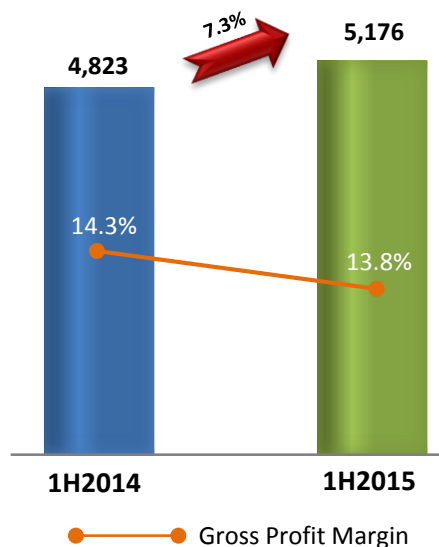
Net Profit

(RMB'M)



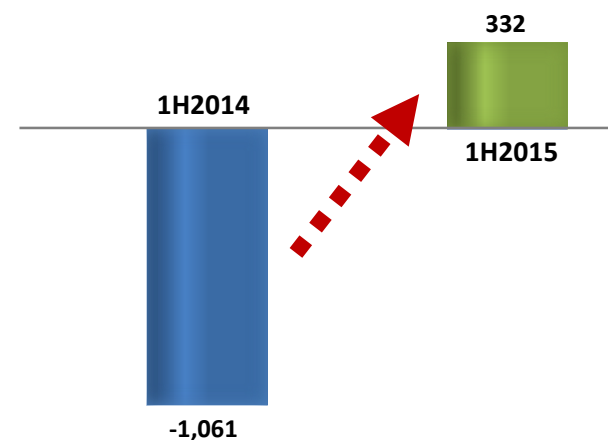
Gross Profit

(RMB'M)

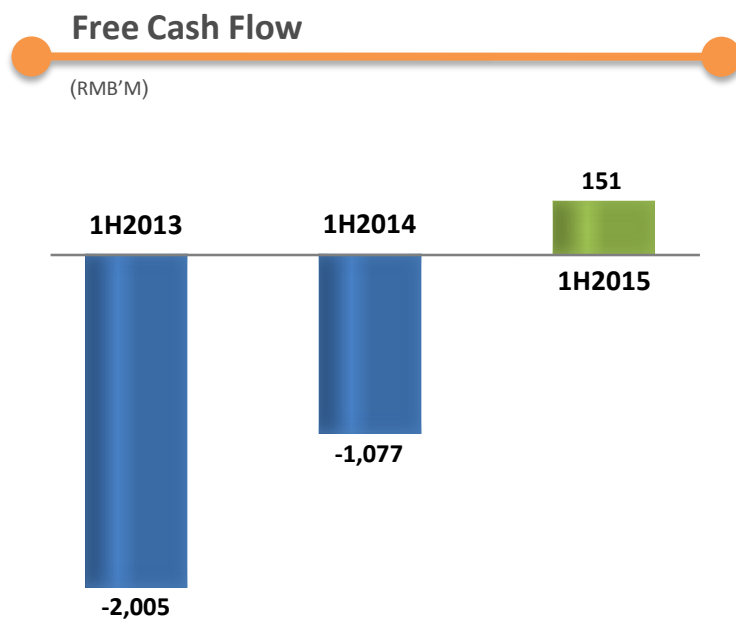


Operating Cash Flow

(RMB'M)



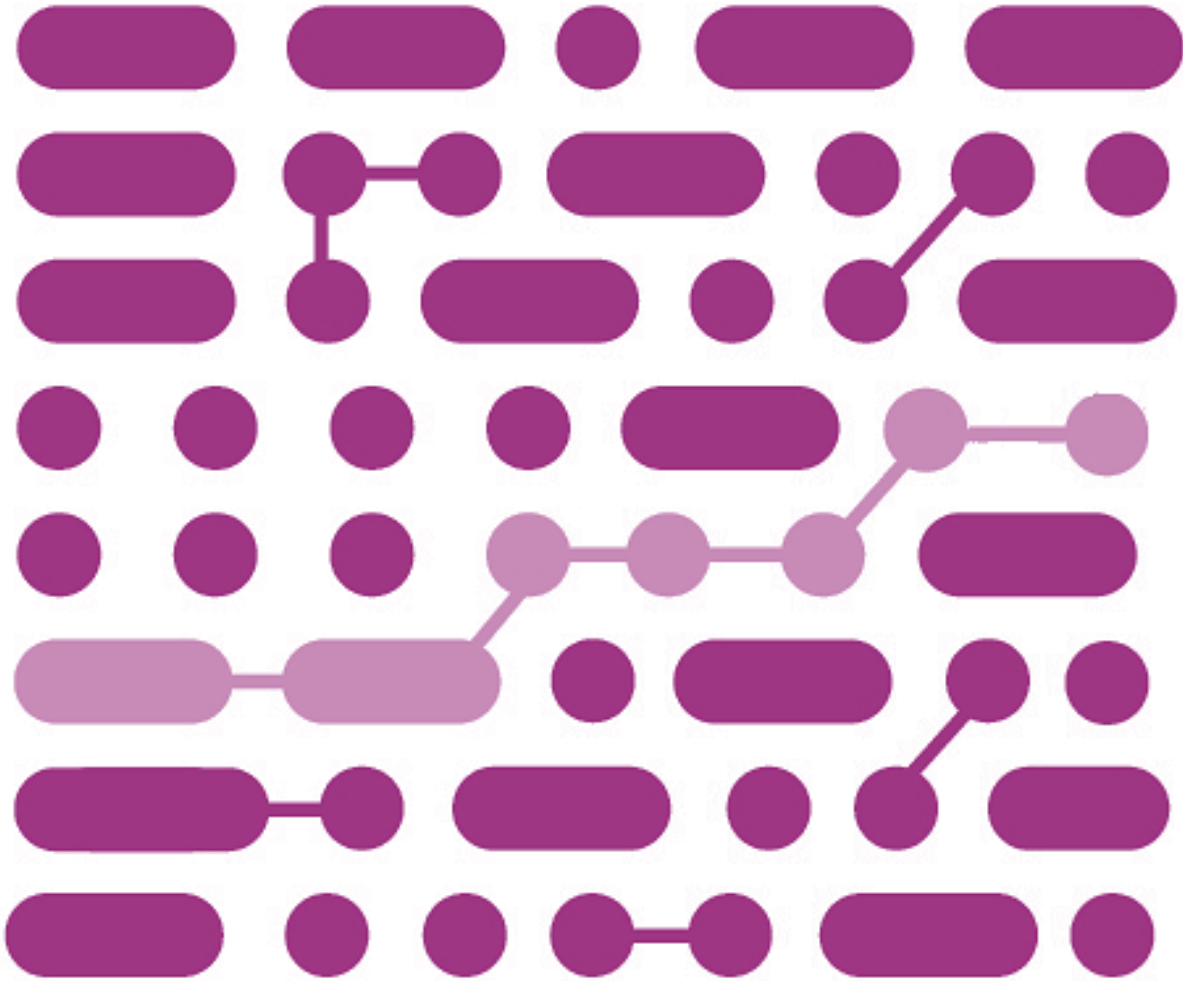
- Remarkable results achieved in working capital management, with free cash flow turned positive for the first time during the first half and improved significantly
- Effectively alleviated working capital pressures brought by the prolonged payments from customers through implementing value-driven performance assessment and resources allocation system, strengthening account receivables management, reinforcing centralized fund management and steadily progressing supply chain financing



(Day)

	1H2013	1H2014	1H2015
Account Receivables Turnover Days	131	146	140
Change	12	15	-6
Account Payables Turnover Days	142	150	145
Change	4	8	-5

(RMB'M)	31.12.2014	30.06.2015
Total Assets	52,761	55,812
Cash and cash equivalents	7,314	6,251
Account receivables	27,441	29,988
Fixed assets (NBV)	4,539	4,297
Total Liabilities	29,218	31,639
Interest-bearing liabilities	897	840
Account payables	18,816	20,119
Equity Attributable to Equity Shareholders	23,030	23,675
Total Liabilities / Total Assets (%)	55.4%	56.7%
Debt-to-Capitalization Ratio (%)	3.8%	3.4%



Thank you!

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