中国通信服务
CHINA COMSERVICE

# 中國通信服務股份有限公司
# CHINA COMMUNICATIONS SERVICES CORPORATION LIMITED

*(A joint stock limited company incorporated in the People's Republic of China with limited liability)*

**(Stock Code: 552)**

## ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2015

### HIGHLIGHTS

- Overall operating results achieved remarkable enhancement, with accelerated growth in total revenues and profit, and significant increase in free cash flow.
  - Total revenues were RMB80,960 million, up by 10.6%.
  - Profit attributable to equity shareholders of the Company was RMB2,334 million, up by 8.6%.
  - Free cash flow was RMB3,573 million, up by 328.8% and reached a historical high.
- Gross profit margin and net profit margin were 14.1% and 2.9%, respectively.
- The Board has proposed to pay a final dividend of RMB0.1011 per share and a special dividend of RMB0.0101 per share for the financial year ended 31 December 2015. Total dividend for 2015 is RMB0.1112 per share, up by 19.4%.

## CHAIRMAN'S STATEMENT

Dear Shareholders,

In 2015, facing the complicated and ever-changing economic landscape, the Group upheld the management philosophy of "value-driven, seeking steady yet progressive growth and efficient development". We firmly captured the opportunities such as 4G network construction and optimization of the quality and speed of broadband in the domestic telecommunications operator market, continued to focus on the development of the two new markets — domestic non-operator market and overseas market, and achieved synchronous growth in revenue and profit with free cash flow increased substantially to a historical high, which shows a gradual enhancement in corporate value. In consideration of the outstanding performance of the Group, the Board has proposed to distribute a special dividend for 2015 to enhance shareholders' return.

### Enhancement in Operating Performance

In 2015, the Group recorded total revenues of RMB80,960 million, representing a year-on-year growth of 10.6%. Profit attributable to equity shareholders of the Company amounted to RMB2,334 million, representing a year-on-year growth of 8.6%. The gap between growth in revenue and profit was narrowed down. The cash conversion ratio[1] was 2.0, representing an increase of 1.7 times compared to the corresponding period last year and showing a substantial improvement in the quality of profit. Free cash flow[2] was RMB3,573 million, reaching a historical high. The overall improvement in operating efficiency and sufficient funding resources provided strong endogenous power for the subsequent development of the Group.

### Increase in Dividend Distribution

The Board has proposed to distribute a final dividend of RMB0.1011 per share for the financial year ended 31 December 2015, representing a dividend payout ratio of 30%. Moreover, in view of the Group's outstanding operating results and free cash flow for the year and its confidence in future development, the Board has proposed to distribute a special dividend of RMB0.0101 per share for 2015. Taking into consideration the above factors, the Company's total dividend for 2015 is RMB0.1112 per share, representing a year-on-year growth of 19.4%.

### Innovative Development

In 2015, the Group adhered to its diversification strategy in customer base, business scope and regional presence, continued to expand into new areas, optimize its business structure and enhance its quality of development.

[1] Cash conversion ratio = net cash generated from operating activities/profit attributable to equity shareholders of the Company

[2] Free cash flow = Profit for the year + Depreciation and amortization – Changes in working capital – Capital expenditure

The Group has leveraged on both "CAPEX and OPEX-driven" businesses[3] as the dual growth drivers to accelerate the development of domestic telecommunications operator market. The Group captured the vital opportunities of LTE FDD license issuance, upgrade and capacity expansion of telecommunications backbone network, broadband end-to-end speed upgrade and realized a year-on-year revenue growth of 16.3% from domestic telecommunications operator customers[4], accounted for 67.7% of total revenues and represented an increase of 3.3 percentage points compared to the corresponding period of last year. Meanwhile, the Group reinforced its efforts in expanding the OPEX-driven business, and its network maintenance revenue from domestic telecommunications operator customers increased by 17.9% year-on-year, which maintained a favourable growth trend and optimized the overall revenue structure. The Group fully capitalized on the preferential treatment and non-competition arrangements with China Tower Corporation Limited (the "Tower Company") and proactively undertook businesses from the Tower Company. The Tower Company was the second largest contributor to the Group's revenue increase among the overall incremental revenue from all customers (the largest contributor was China Telecom).

The Group has expanded into the two new markets in a steady yet optimized manner. Revenue from domestic non-operator market for the year recorded a year-on-year growth of 3.0%, and accounted for 28.3% of total revenues. Among that, revenue from key businesses[5] exceeded RMB10 billion, representing a double-digit growth and accounted for more than 50% of the revenue from domestic non-operator market. Meanwhile, the Group took the initiative to reallocate its resources in overseas market and continued to optimize business structure, in pursuit of steady development in overseas market. Revenue from overseas market accounted for 4.0% of total revenues. The Group also utilized various financial instruments, such as accounts receivable factoring and forward foreign exchange rate lock-in to hedge against overseas funding and exchange rate risk. The Group closely monitored opportunities from national "One Belt, One Road" Initiative, proactively mapped out a plan for overseas development, initiated and promoted its "China-Africa Partnership Program in Trans Africa Information Superhighway" Project, which has become a key Sino-foreign cooperative project supported by the PRC government.

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

[4] From 2015 onwards, the revenue from China Tower Corporation Limited is classified under the aggregate revenues of domestic telecommunications operator customers.

[5] Key businesses of domestic non-operator market are Telecommunications Infrastructure Services, key businesses within the Business Process Outsourcing Services (including network maintenance, general facilities management and supply chain services of distribution business), and Applications, Content and Other Services.

**Deepening Reform**

In 2015, the Group kept making new attempts in organizational optimization, professional integration and mixed ownership scheme reform to enhance vitality and capability, so as to adapt to the changing demands of markets and customers. The Group set up Inner Mongolia Autonomous Region Communications Services Company Limited to further enhance its marketing and delivery capability in the domestic telecommunications operator market in northern China. The Group established the sales and marketing mechanism for domestic non-operator market which further enhanced its capability in market expansion. In 2015, the Group received the "5A" logistics qualification certificate, being the only enterprise in the domestic telecommunications industry which has obtained such certificate, and set up and operated China Comservice Supply Chain Management Company Ltd., which represented a promising start for the synergistic operation of high value business. The Group has fostered internal mixed ownership scheme reform and proactively explored the practicability of the establishment of joint ventures as a non-controlling shareholder, project-based operation and start-up businesses by way of team work. Meanwhile, the Group incentivized and retained core employees by setting up a remuneration allocation system with reference to prevailing market rates.

**Fulfilling Social Responsibilities**

In 2015, the Group attached much importance to fulfilling its social responsibilities. After the natural disasters occurred in Tibet, Zhejiang, Fujian and other places, the Group proactively assisted local telecommunications operator customers and promptly repaired and restored communications lines to ensure a smooth communications network. Further to our own reduction of integrated energy consumption, we strengthened our energy consumption control, continuously promoted energy saving products and services, and assisted the domestic telecommunications operator customers to dispose redundant and obsolete assets for cost saving. The Group cares about its employees and procured additional production equipment and daily necessities for front-line employees, with a view to effectively resolve practical problems encountered by the employees and improve the work environment of front-line production.

**Strengthening Corporate Governance**

The Group has placed great emphasis on maintaining sound corporate governance standard, attached much importance to risk management and continuously enhanced its transparency. We continue to improve our systems and procedures, strengthen internal review so as to enhance fundamental management, and upgrade the IT system to enhance operation efficiency. At the same time, we make use of the regular communication mechanism of the Board to proactively listen to and adopt the advice and recommendations from the independent non-executive directors, so as to enhance the management of the Group.

Mr. Si Furong, our President, was honoured the "Leadership 100 Awards in 2015" by *International Finance Magazine*, a British financial magazine. Ms. Hou Rui, our Chief Financial Officer, received the "Best CFO" award in the 5th Asian Excellence Recognition Awards 2015 by *Corporate Governance Asia*, an authoritative journal on corporate governance in Asia.

The Group was also honoured "The Best Listed Company in Corporate Governance" in the 5th China Securities "Golden Bauhinia Awards" hosted by *Tai Kung Pao,* "The Best of Asia — Icon on Corporate Governance" once again in the 11th "Corporate Governance Asia Recognition Awards in 2015" held by the *Corporate Governance Asia*, and was recognized as "The Best Risk Management Company" by *FORTUNE China* in their first list of Best Listed Companies. The Group ranked 78th in the "2015 FORTUNE China 500" list released by *FORTUNE China* (ranked 82nd in 2014).

**Prospects**

Although we are facing challenges arising from the slow down in macro-economic growth, slow growth in the communications sector, decrease in service charges for certain services and changes in regulatory policies, our future development is still promising. The PRC government is accelerating the supply-side structural reform which is going to unleash the benefits of reform gradually and bring new momentum for corporate development. The PRC government's initiatives of Cyberpower, Broadband China, Internet+, "One Belt, One Road" and Infrastructure Construction in New Form are offering enormous space for business development. The domestic telecommunications operators' 4G network optimization and construction, broadband network upgrade in quality and speed, continuous growth in OPEX and ongoing demands in maintenance outsourcing, acquisition of tower asset of domestic telecommunications operators by the Tower Company, as well as new cooperation relationship among operators, will all provide new opportunities for our market expansion.

The Group will adhere to its existing strategies and build on the continuous success it has achieved in the diversification of its customer base, business scope and regional presence, and continue to explore new market space and cultivate new growth momentum. The Group will focus on the development of high value businesses and pursue scale development of the two new markets — domestic non-operator market and overseas market with the support of product and services innovation, and professional integration. We will focus on the development of both "CAPEX and OPEX-driven" businesses and accelerate the expansion of OPEX-driven business to make it our fundamental business, with a view to strengthening our leading position in the domestic telecommunications operator market. The Group will apply new technology to traditional services for cross-sector service provision and strive to strengthen integrated service delivery capabilities for the entire industrial chain. The Group will optimize its operation and management system to achieve further innovation in establishing mechanisms adaptable to corporate development. With the continuous efforts in cultivating new growth momentum, the Group will achieve continuous and stable development, and create greater value for its shareholders and customers.

Finally, on behalf of the Board, I would like to take this opportunity to express my sincere gratitude to the shareholders and customers of the Group and all sectors of society for their longstanding care and support to the Group, and sincerely thank all the employees for their dedication over the years. And I would like to express my sincere gratefulness to Mr. Wei Leping, a former Independent Non-executive Director, as well as Ms. Xia Jianghua, the former Chairperson of the Supervisory Committee, for their contribution to the development of the Group during their tenure. I would also like to express my sincere welcome to Mr. Lv Tingjie and Mr. Wu Taishi for joining the Board and Ms. Han Fang for joining the Supervisory Committee.

**Sun Kangmin**
*Chairman*

Beijing, PRC
31 March 2016

## PRESIDENT'S STATEMENT

Dear Shareholders,

I am very pleased to present the operating results of the Group in 2015.

### Financial Performance

In 2015, the Group pursued development with full confidence and achieved scale development through value enhancement. Total revenues exceeded RMB80 billion and reached RMB80,960 million, representing a year-on-year growth of 10.6%. The Group leveraged on its edge of integrated service capability, kept enhancing service quality and customer satisfaction, and effectively preserved value in its business. The overall gross profit margin in 2015 was 14.1%, indicating a moderate slow down of the decrease in gross profit margin[6]. Benefited from the economies of scale in business development and effective cost control, the selling, general and administrative expenses for the year accounted for 11.5% of total revenues, representing a year-on-year decrease of 0.5 percentage point. Profit attributable to equity shareholders of the Company amounted to RMB2,334 million, representing a year-on-year increase of 8.6%. Net profit margin was 2.9% which remained stable compared to the corresponding period of last year. In 2015, the basic earnings per share of the Group was RMB0.337. We emphasized the "value-driven" appraisal principle and continued to enhance our effective management of accounts receivable, and the accounts receivable turnover days was 124 days, representing a year-on-year decrease of 8 days. Our free cash flow increased substantially to RMB3,573 million, representing a year-on-year increase of 328.8% and reached a historical high.

### Business Development

In 2015, the overall business structure of the Group was further optimized. Telecommunications infrastructure ("TIS") services, our traditional service with sound competitive edge, achieved satisfactory development and recorded a year-on-year increase of 15.3%. The network maintenance business under the business process outsourcing ("BPO") services achieved rapid development and grew by 19.8%, which accounted for 20.7% of the Group's incremental revenues and continued to be the second largest contributor to the Group's overall incremental revenues for two consecutive years. Revenue from applications, content and other ("ACO") services also maintained favourable growth with a year-on-year increase of 9.9%.

[6] For 2013, 2014 and 2015, the decrease in gross profit margin compared to the corresponding period of previous year was 0.7 percentage point, 0.6 percentage point and 0.5 percentage point, respectively.

Revenue from TIS services amounted to RMB39,209 million, representing a year-on-year growth of 15.3% and accounted for 48.4% of the total revenues. Among that, the revenue of TIS services from China Telecom recorded a rapid year-on-year growth of 33.7%. Besides, revenue of TIS services from domestic telecommunications operator customers other than China Telecom remained relatively stable as the Group innovated its traditional sales and marketing model, fully captured the new business opportunities from the Tower Company and the new cooperation relationship and tender model of domestic telecommunications operator customers and increased its market share. The Group also continued to expand the domestic non-operator market, and TIS revenue from such customers recorded a year-on-year increase of 12.9%.

Revenue from BPO services amounted to RMB33,014 million, representing a year-on-year growth of 5.8% and accounted for 40.8% of the total revenues. The Group continued to optimize business structure and identified new drivers for future development while controlling the growth of businesses with low efficiency. The Group intensified its efforts in expanding network maintenance business and the revenue of such business grew by over 18% for two consecutive years. We leveraged on the opportunity of the establishment of China Comservice Supply Chain Management Ltd. to capitalize on the potential sub-business within the distribution business, and revenue from supply chain services[7] recorded a year-on-year growth of 10.9%.

Revenue from ACO services amounted to RMB8,737 million, representing a year-on-year growth of 9.9% and accounted for 10.8% of the total revenues. The Group focused on customers' demand in informatization services and dedicated in the promotion of six major group-level products[8], and revenue from the key businesses under ACO services[9] achieved a year-on-year growth of 9.5%. We took initiatives for innovation in the ACO segment and achieved breakthroughs in projects such as information security, e-commerce, big data and cloud computing, etc.

**Customer Development**

In 2015, revenue from the domestic telecommunications operator customers amounted to RMB54,793 million, representing a year-on-year growth of 16.3% and accounted for 67.7% of the total revenues. Among that, the revenue from China Telecom was RMB39,130 million, representing a year-on-year growth of 22.5% and accounted for 48.3% of the total revenues. The Group's enlarged market share, its active expansion into the OPEX-driven business of domestic telecommunications operators and the revenue contribution from the Tower Company alleviated the impact of the decline in the network construction investment by certain operator customer. The revenue from operator customers other than China Telecom amounted to RMB15,663 million, representing a year-on-year growth of 3.3% and accounted for 19.4% of the total revenues.

7 Revenue from supply chain service was included in the revenue from distribution business of the Group.

8 Six major group-level products include smart city, smart security, smart industrial park, intelligent building, cloud computing services and e-certification.

9 Key businesses under ACO services include system integration, software development and system support, and value added services.

In 2015, the revenue from the Group's domestic non-operator customers amounted to RMB22,942 million, representing a year-on-year growth of 3.0% and accounted for 28.3% of the total revenues. With a focus on key sectors such as government, transportation, internet and information technology, construction and property as well as electricity, the Group intensified its efforts in promoting the six major group-level products, such as the construction of data centres for a renowned PRC insurance company and other organizations, as well as turnkey projects on the informatization solution for Tangshan World Horticultural Exposition and other events. The Group cooperated with a top-tier domestic smart surveillance equipment provider and undertook 56 "smart security" projects with a total amount of RMB0.56 billion. We captured the business opportunities arising from the pioneer businesses and won the tender of a quantum communication demonstrative project with an amount of RMB50 million. We successfully provided overall network planning, restructuring, system commissioning and communications security for the communications network of the "Second World Internet Conference" held in Wuzhen, and received high recognition from the PRC government and operator customers.

In 2015, the revenue from the Group's overseas customers amounted to RMB3,225 million, representing a year-on-year decrease of 14.9% and accounted for 4.0% of the total revenues. We proactively reallocated our resources in overseas market, continued to optimize business structure of overseas market, and further increased the proportion of overseas revenue generated from turnkey projects. We closely monitored the national "One Belt, One Road" Initiative and the "10 Major Plans of Sino-African Cooperation", initiated and promoted the "China-Africa Partnership Program in Trans Africa Information Superhighway" Project to become a key Sino-foreign cooperative project supported by the PRC government, which offered a new opportunity for breakthrough in scale development in overseas business.

**Management Innovation**

In 2015, the Group continued to facilitate its development through effective management, and optimize resources allocation to enhance efficiency. We set up an innovation fund and a development fund for business expansion in the domestic non-operator market, with a view to allocate resources to businesses with high efficiency and cultivate new growth drivers for the Group. After the establishment of its supply chain management company, the Group actively explored professional integration among businesses including design, facilities management and proprietary distribution, and promoted synergistic operation of business and standardized services. We adopted various financial instruments in our conventional businesses, including accounts receivable factoring and supply chain financing, so as to accelerate the settlement of accounts receivable. We commenced our internal credit rating system, fully leveraged on our own funding pool for the allocation and utilization of funds, and promoted the efficiency of utilization of funds.

## Prospects

In 2016, the Group will adhere to the core principle of enhancing enterprise value, place stronger emphasis on "Optimizing Structure, Sustaining Growth and Enhancing Efficiency", achieve innovation in market development and strengthen cost control, with a view to creating greater value for shareholders and customers.

The Group will firmly leverage on the opportunities such as the construction and optimization of 4G network as well as the upgrade of broadband network, so as to lay a solid foundation for its operation. Meanwhile, we will focus on the operating expenditure of the domestic telecommunications operator customers and devote in the expansion in high value businesses such as integrated maintenance and logistics services, with a view to cultivate new growth momentum. We will leverage on the new cooperation relationship between the domestic telecommunications operator customers and capitalize on the preferential and non-competition arrangements with the Tower Company, strive to enhance our delivery capacity, service quality and service standard, so as to maintain existing competitive advantages and further enlarge our market share.

In respect of our domestic non-operator market, we will keep abreast of the pace of investment by the PRC government and focus on the informatization demand from customers in key sectors including government, transportation, electricity and construction. We will adhere to our "three-step"[10] strategy, focus on opportunities of mobile internet, cloud computing, big data, internet of things and industrial internet of things, promote our six major group-level products and continue to acquire high value large turnkey projects. We will intensify our efforts in strengthening our marketing and collaboration mechanism to enhance our capability in market expansion and project delivery, and also pursue innovation in group-level products and external cooperation to enhance our market competitiveness.

The Group will focus on the informatization demands in regions such as Africa, the Middle East and South East Asia, and strengthen its cooperation with domestic telecommunications operators, "Going Abroad" state-owned enterprises, local governments and equipment vendors to embark on large scale "EPC+" projects. We will closely monitor the implementation of the "One Belt, One Road" Initiative and capture the opportunity arising from our "China-Africa Partnership Program in Trans Africa Information Superhighway" Project and accelerate our market expansion, with a view to excel and strengthen our overseas operation.

[10] The three-step strategy covers business replication, capability extension and informatization innovation.

The Group will continue to promote reform and innovation, accelerate professional integration of logistics, facilities management and retail outlets, unify its brand and business model, so as to realize synergistic business operation. We will apply new technologies to our traditional businesses and continue to extend our service scope to enhance capability in integrated service provision. We will explore the utilization of government and social funds for market expansion. We will also explore mixed ownership and project-based joint ventures to achieve breakthroughs in the business segment such as ACO. At the same time, we will continue to promote sub-divided performance evaluation units and establish market-oriented employment and remuneration mechanism, with a view to incentivize organization vitality and employee initiatives.

The Group will always assume the responsibilities of enhancing corporate value and shareholders' return by leveraging on its advantages, capitalizing on opportunities and promoting innovative development, with a view to becoming a competitive and influential service provider in the global ICT sector.

**Si Furong**
*President*

Beijing, PRC
31 March 2016

## GROUP RESULTS

China Communications Services Corporation Limited (the "Company") is pleased to announce the consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2015, extracted from the audited consolidated financial statements of the Group as set out in its 2015 annual report.

**Consolidated Statement of Profit or Loss**
*For the year ended 31 December 2015*

| | *Notes* | **2015** **RMB'000** | 2014 *RMB'000* |
|---|---|---|---|
| Revenues | *4* | **80,959,946** | 73,176,252 |
| Cost of revenues | *5* | **(69,572,305)** | (62,494,549) |
| **Gross profit** | | **11,387,641** | 10,681,703 |
| Other operating income | *6* | **854,051** | 805,579 |
| Selling, general and administrative expenses | | **(9,306,152)** | (8,777,028) |
| Other operating expenses | | **(109,170)** | (84,638) |
| Finance costs | *7* | **(51,392)** | (20,430) |
| Share of profits of associates | | **49,985** | 25,700 |
| **Profit before tax** | *8* | **2,824,963** | 2,630,886 |
| Income tax | *9* | **(487,446)** | (463,088) |
| **Profit for the year** | | **2,337,517** | 2,167,798 |
| Attributable to: | | | |
| Equity shareholders of the Company | | **2,334,412** | 2,150,258 |
| Non-controlling interests | | **3,105** | 17,540 |
| **Profit for the year** | | **2,337,517** | 2,167,798 |
| **Basic earnings per share (RMB)** | *12* | **0.337** | 0.310 |

## Consolidated Statement of Profit or Loss and Other Comprehensive Income

*For the year ended 31 December 2015*

| | Notes | 2015 RMB'000 | 2014 RMB'000 |
|---|---|---|---|
| **Profit for the year** | | **2,337,517** | 2,167,798 |
| **Other comprehensive income (expense) for the year (after tax)** | | | |
| **Items that may be subsequently reclassified to profit or loss (after tax):** | | | |
| Exchange differences on translation of financial statements of subsidiaries outside Mainland China | | **27,511** | (7,755) |
| Available-for-sale securities: net movement in the fair value reserve | *10* | **13,865** | 8,698 |
| | | **41,376** | 943 |
| **Total comprehensive income for the year** | | **2,378,893** | 2,168,741 |
| Attributable to: | | | |
| Equity shareholders of the Company | | **2,375,752** | 2,151,087 |
| Non-controlling interests | | **3,141** | 17,654 |
| **Total comprehensive income for the year** | | **2,378,893** | 2,168,741 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*At 31 December 2015*

| | Notes | 31 December 2015 RMB'000 | 31 December 2014 RMB'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment, net | | **4,331,796** | 4,538,844 |
| Investment properties | | **658,186** | 682,289 |
| Construction in progress | | **360,977** | 234,890 |
| Lease prepayments | | **793,586** | 872,348 |
| Goodwill | | **103,005** | 103,005 |
| Other intangible assets | | **269,231** | 249,618 |
| Interests in associates | | **117,196** | 67,211 |
| Available-for-sale financial assets | | **865,072** | 838,778 |
| Deferred tax assets | | **408,869** | 331,854 |
| Other non-current assets | | **636,375** | 634,084 |
| **Total non-current assets** | | **8,544,293** | 8,552,921 |
| **Current assets** | | | |
| Inventories | | **2,883,989** | 2,420,898 |
| Accounts and bills receivable, net | *13* | **27,520,829** | 27,441,198 |
| Prepayments and other current assets | | **6,873,074** | 5,833,187 |
| Restricted deposits | | **2,555,290** | 1,199,411 |
| Cash and cash equivalents | | **9,535,851** | 7,313,515 |
| **Total current assets** | | **49,369,033** | 44,208,209 |
| **Total assets** | | **57,913,326** | 52,761,130 |
| **Current liabilities** | | | |
| Interest-bearing borrowings | | **177,005** | 246,818 |
| Accounts and bills payable | *14* | **19,699,385** | 18,815,568 |
| Receipts in advance for contract work | | **2,911,542** | 1,578,088 |
| Accrued expenses and other payables | | **8,691,602** | 7,424,966 |
| Income tax payable | | **309,261** | 312,796 |
| **Total current liabilities** | | **31,788,795** | 28,378,236 |
| **Net current assets** | | **17,580,238** | 15,829,973 |
| **Total assets less current liabilities** | | **26,124,531** | 24,382,894 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

*At 31 December 2015*

| | *Notes* | **31 December 2015 *RMB'000*** | 31 December 2014 *RMB'000* |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Interest-bearing borrowings | | **34,455** | 38,708 |
| Other non-current liabilities | | **865,780** | 787,642 |
| Deferred tax liabilities | | **14,687** | 13,357 |
| **Total non-current liabilities** | | **914,922** | 839,707 |
| **Total liabilities** | | **32,703,717** | 29,217,943 |
| **Equity** | | | |
| Share capital | *15* | **6,926,018** | 6,926,018 |
| Reserves | | **17,834,795** | 16,103,855 |
| **Equity attributable to equity shareholders of the Company** | | **24,760,813** | 23,029,873 |
| **Non-controlling interests** | | **448,796** | 513,314 |
| **Total equity** | | **25,209,609** | 23,543,187 |
| **Total liabilities and equity** | | **57,913,326** | 52,761,130 |

*Notes:*

## 1. STATEMENT OF COMPLIANCE

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB"). IFRSs include all applicable individual International Financial Reporting Standards, International Accounting Standards ("IASs") and related interpretations. The consolidated financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance ("CO") and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"). A summary of the significant accounting policies adopted by the Group is set out below.

The provisions of the new Hong Kong Companies Ordinance (Cap. 622) regarding preparation of accounts and directors' reports and audits became effective for the Company for the financial year ended 31 December 2015. Further, the disclosure requirements set out in the Listing Rules regarding annual accounts have been amended with reference to the new CO. Accordingly the presentation and disclosure of information in the consolidated financial statements for the financial year ended 31 December 2015 have been changed to comply with these new requirements. Comparative information in respect of the financial year ended 31 December 2014 are presented or disclosed in the consolidated financial statements based on the new requirements. Information previously required to be disclosed under the predecessor CO or Listing Rules but not under the new CO or amended Listing Rules are not disclosed in these consolidated financial statements.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current year of the Group. Note 2 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior years reflected in these financial statements.

## 2. CHANGES IN ACCOUNTING POLICIES

The IASB has issued several amendments to IFRSs that are first effective for the current year of the Group:

| | |
|---|---|
| Amendments to IAS 19 | Defined Benefit Plans: Employee Contributions |
| Amendments to IFRSs | Annual Improvements to IFRSs 2010–2012 Cycle |
| Amendments to IFRSs | Annual Improvements to IFRSs 2011–2013 Cycle |

The application of the amendments to IFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

## 3. SEGMENT REPORTING

The Group principally has one reportable segment, which is the provision of integrated telecommunications support services in the informatisation sector. Therefore, no additional segment information has been presented. Additional information about major customers and geographical areas of the Group has been disclosed in note 4.

## 4. REVENUES

Revenues are derived from the provision of integrated telecommunications support services, net of sales taxes, and after allowance for trade discounts. The Group's revenues by business nature can be summarised as follows:

| | **2015** | 2014 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Revenue from telecommunications infrastructure services | **39,209,267** | 34,008,077 |
| Revenue from business process outsourcing services | **33,014,030** | 31,215,423 |
| Revenue from applications, content and other services | **8,736,649** | 7,952,752 |
| | **80,959,946** | 73,176,252 |

The Group's major customers are telecommunications operators which include China Telecommunications Corporation and its subsidiaries (excluding the Group) ("CTC Group") and China Mobile Communications Corporation and its subsidiaries ("CM Group"), each contributing a revenue exceeding 10% of the Group's total revenues. Revenues from the provision of integrated telecommunications support services to CTC Group and CM Group for the year ended 31 December 2015 amount to RMB39,130 million and RMB12,659 million, respectively (2014: RMB31,948 million and RMB13,279 million, respectively), being 48.3% and 15.6% of the Group's total revenues, respectively (2014: 43.7% and 18.1%, respectively). In addition, the revenues derived from areas outside of Mainland China for the year ended 31 December 2015 amounts to RMB3,225 million (2014: RMB3,790 million).

## 5. COST OF REVENUES

| | **2015** | 2014 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Depreciation and amortisation | **447,031** | 450,741 |
| Direct personnel costs | **8,731,020** | 8,892,965 |
| Operating lease charges | **1,318,185** | 1,164,086 |
| Purchase of materials and telecommunications products | **20,452,798** | 20,190,921 |
| Subcontracting charges | **31,811,771** | 25,763,190 |
| Others | **6,811,500** | 6,032,646 |
| | **69,572,305** | 62,494,549 |

## 6. OTHER OPERATING INCOME

| | **2015** | 2014 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Interest income | **143,392** | 94,605 |
| Dividend income from listed securities | **824** | 822 |
| Dividend income from unlisted securities | **63,033** | 62,261 |
| Government grants | **244,759** | 210,126 |
| Gain on partial disposal of an associate and other investments | **—** | 69,411 |
| Gain on disposal of property, plant and equipment and other intangible assets | **38,153** | 6,421 |
| Penalty income | **1,652** | 1,909 |
| Management fee income | **297,177** | 286,403 |
| Write-back of non-payable liabilities | **34,443** | 23,889 |
| Others | **30,618** | 49,732 |
| | **854,051** | 805,579 |

## 7. FINANCE COSTS

| | **2015** | 2014 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Interest on bank and other borrowings | **24,005** | 10,096 |
| Interest for convertible preference shares and preference shares | **27,387** | 10,334 |
| | **51,392** | 20,430 |

For the years ended 31 December 2015 and 2014, no borrowing costs were capitalised in relation to construction in progress.

## 8. PROFIT BEFORE TAX

Profit before tax has been arrived at after charging (crediting) the following items:

| | | **2015** | 2014 |
|---|---|---|---|
| | | ***RMB'000*** | *RMB'000* |
| (a) | Staff costs: | | |
| | Salaries, wages and other benefits | **13,395,240** | 13,285,508 |
| | Contributions to defined contribution retirement schemes | **1,145,518** | 1,138,305 |
| | | **14,540,758** | 14,423,813 |
| (b) | Other items: | | |
| | Depreciation | | |
| | — Property, plant and equipment | **682,447** | 705,178 |
| | — Investment properties | **41,490** | 43,270 |
| | Amortisation | | |
| | — Lease prepayments | **27,912** | 27,525 |
| | — Other intangible assets | **93,669** | 64,769 |
| | Auditors' remuneration | **34,395** | 33,800 |
| | Cost of inventories | **20,452,798** | 20,190,921 |
| | Write-down of inventories | **64,712** | 18,666 |
| | Reversal of write-down of inventories | **(1,452)** | (1,057) |
| | Impairment losses on accounts and bills and other receivables | **700,776** | 371,645 |
| | Reversal of impairment losses on accounts and bills and other receivables | **(116,984)** | (42,076) |
| | Changes in fair value of financial derivatives | **(3,524)** | 1,969 |
| | Operating lease charges | **1,601,101** | 1,451,817 |
| | Research and development costs | **2,038,016** | 1,780,923 |

The selling expenses, general and administrative expenses and other expenses of the Group are RMB1,406 million, RMB7,264 million and RMB636 million (2014: RMB1,209 million, RMB7,260 million and RMB308 million) respectively for the year ended 31 December 2015. Research and development costs include RMB1,591 million (2014: RMB1,389 million) relating to staff costs, amount of which is also included in the staff cost disclosed in note 8(a).

## 9. INCOME TAX

(a) Income tax in the consolidated statement of profit or loss represents:

| | 2015 | 2014 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| **Current tax** | | |
| PRC enterprise income tax | **545,567** | 488,603 |
| Overseas enterprise income tax | **20,011** | 19,631 |
| **Deferred tax** | | |
| Origination and reversal of temporary differences | **(78,132)** | (45,146) |
| Total income tax | **487,446** | 463,088 |

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

| | 2015 | 2014 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Profit before tax | **2,824,963** | 2,630,886 |
| Expected income tax expense at a statutory tax rateof 25% (2014: 25%) *(note (i))* | **706,241** | 657,722 |
| Differential tax rates on subsidiaries' income *(note (i))* | **(220,867)** | (195,847) |
| Non-deductible expenses *(note (ii))* | **135,387** | 93,164 |
| Non-taxable income | **(53,723)** | (46,940) |
| Tax losses not recognised | **59,058** | 101,789 |
| Utilisation of previously unrecognised tax losses | **(8,354)** | (6,604) |
| Over provision in respect of prior years | **(29,094)** | (29,516) |
| Effect of tax exemptions | **(1,362)** | (8,132) |
| Others *(note (iii))* | **(99,840)** | (102,548) |
| Income tax | **487,446** | 463,088 |

*Notes:*

(i) The provision for income tax of the Group is calculated based on a statutory rate of 25% of the assessable profit of the Group as determined in accordance with the relevant PRC income tax rules and regulations for the years ended 31 December 2015 and 2014, except for certain domestic subsidiaries of the Group, which are taxed at preferential rates of 20%, 15% and 10%, where applicable; and for certain overseas subsidiaries of the Group, which are taxed at respective statutory rates.

(ii) The amount includes personnel and other miscellaneous expenses in excess of statutory deductible limits for tax purposes.

(iii) The amounts primarily represent the effect of additional deductions in research and development expense.

## 10. OTHER COMPREHENSIVE INCOME

**Available-for-sale securities**

| | **2015** | 2014 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Changes in fair value recognised during the year | **16,312** | 10,233 |
| Net deferred tax debited to other comprehensive income | **(2,447)** | (1,535) |
| Net movement in the fair value reserve during the year recognised in other comprehensive income | **13,865** | 8,698 |

## 11. DIVIDENDS

(a) Dividends payable to equity shareholders of the Company attributable to the year:

| | **2015** | 2014 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Final dividend proposed after the end of the reporting period RMB0.1011 per share (2014: RMB0.0931 per share) | **700,220** | 644,812 |

(b) Dividends payable to equity shareholders of the Company attributable to previous financial year, approved during the year:

| | **2015** | 2014 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Final dividend in respect of the financial year ended 31 December 2014, approved during the year, of RMB0.0931 per share (2013: RMB0.1293 per share) | **644,812** | 895,534 |

(c) Special dividends payable to equity shareholders of the Company:

| | **2015** | 2014 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Special dividend proposed after the end of the reporting period RMB0.0101 per share | **69,953** | — |

## 12. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company for the year ended 31 December 2015 of RMB2,334,412 thousand (2014: RMB2,150,258 thousand) and number of shares in issue during the year ended 31 December 2015 of 6,926,018 thousand shares (2014: 6,926,018 thousand shares).

## 13. ACCOUNTS AND BILLS RECEIVABLE, NET

| | **2015** | 2014 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Bills receivable | **202,069** | 431,134 |
| Unbilled revenues for contract work | **7,864,033** | 7,856,102 |
| Trade receivables | **20,536,104** | 19,778,338 |
| | **28,602,206** | 28,065,574 |
| Less: impairment losses | **(1,081,377)** | (624,376) |
| | **27,520,829** | 27,441,198 |

(a) Included in accounts and bills receivable are amounts due from CTC Group of RMB15,976 million (2014: RMB13,612 million) as at 31 December 2015. The amounts due from CTC Group are unsecured, interest-free and are expected to be recovered within one year.

(b) The ageing analysis of accounts and bills receivable (net of impairment losses) based on credit terms is as follows:

| | **2015** | 2014 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Current *(note)* | **13,211,725** | 13,536,273 |
| Within 1 year | **11,666,256** | 11,228,501 |
| After 1 year but less than 2 years | **2,131,351** | 1,938,198 |
| After 2 years but less than 3 years | **511,497** | 648,426 |
| After 3 years | **—** | 89,800 |
| Amount past due | **14,309,104** | 13,904,925 |
| | **27,520,829** | 27,441,198 |

*Note:* Including revenues within the credit terms for contract work.

**(c) Impairment of accounts and bills receivable**

Impairment losses in respect of accounts and bills receivable are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against accounts and bills receivable directly.

The movement in allowance for doubtful debts during the year, including both specific and collective loss components, is as follows:

| | **2015** | 2014 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| At 1 January | **624,376** | 372,576 |
| Impairment loss recognised | **577,101** | 295,706 |
| Reversal of impairment loss previously recognised | **(101,648)** | (34,208) |
| Uncollectible amounts written off | **(18,452)** | (9,698) |
| At 31 December | **1,081,377** | 624,376 |

At 31 December 2015, accounts and bills receivable of RMB1,421 million (2014: RMB2,152 million) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific impairment losses of RMB511 million (2014: RMB317 million) were recognised. The Group does not hold any collateral over these balances.

**(d) Accounts and bills receivable that is not impaired**

The ageing analysis of accounts and bills receivable that are neither individually nor collectively considered to be impaired are as follows:

| | **2015** | 2014 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Neither past due nor impaired | **13,211,725** | 13,536,273 |
| Past due but not impaired | | |
| Within 1 year | **10,285,576** | 10,127,135 |
| After 1 year but less than 2 years | **1,000,787** | 938,591 |
| After 2 years but less than 3 years | **269,883** | 245,510 |
| After 3 years | **—** | 39,114 |
| | **24,767,971** | 24,886,623 |

Receivables that were neither past due nor impaired mainly relate to major telecommunications operators for whom there was no recent record of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowances is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

## 14. ACCOUNTS AND BILLS PAYABLE

Accounts and bills payable comprise:

| | **2015** | 2014 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Accounts payable | **17,429,304** | 16,366,810 |
| Bills payable | **2,270,081** | 2,448,758 |
| | **19,699,385** | 18,815,568 |

The ageing analysis of accounts and bills payable based on the invoice date is as follows:

| | **2015** | 2014 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Within 1 year | **17,984,560** | 17,370,714 |
| After 1 year but less than 2 years | **1,191,927** | 994,309 |
| After 2 years but less than 3 years | **270,058** | 237,301 |
| After 3 years | **252,840** | 213,244 |
| | **19,699,385** | 18,815,568 |

Included in accounts and bills payable are amounts due to CTC Group and other related parties of RMB1,777 million (2014: RMB2,239 million) as at 31 December 2015. The amounts due to CTC Group and an associate of the Group are unsecured, interest-free and are expected to be settled within one year.

## 15. SHARE CAPITAL

| | **2015** | 2014 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| **Registered, issued and fully paid:** | | |
| 4,534,598,160 (31 December 2014: 4,534,598,160) domestic shares of RMB1.00 each | **4,534,598** | 4,534,598 |
| 2,391,420,240 (31 December 2014: 2,391,420,240) H shares of RMB1.00 each | **2,391,420** | 2,391,420 |
| | **6,926,018** | 6,926,018 |

| | **2015** | 2014 |
|---|---|---|
| | ***Thousand shares*** | *Thousand shares* |
| At 1 January and 31 December | **6,926,018** | 6,926,018 |

All shareholders are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

## MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

### Overview

In 2015, the Group upheld the management philosophy of "value-driven, seeking steady yet progressive growth and efficient development", firmly captured the opportunities in the domestic telecommunications operator market for 4G network construction, optimization of broadband quality and speed, continued to focus on the two new markets — domestic non-operator market and overseas market, and achieved synchronal growth in revenue and profit. Total revenues for the year amounted to RMB80,960 million, representing an increase of 10.6% compared to 2014. Profit attributable to equity shareholders of the Company was RMB2,334 million, representing an increase of 8.6% compared to RMB2,150 million in 2014. Basic earnings per share were RMB0.337. Free cash flow amounted to RMB3,573 million, representing a substantial increase of 328.8% as compared to RMB833 million in the corresponding period last year.

### Total Revenues

The Group's total revenues in 2015 amounted to RMB80,960 million, representing an increase of 10.6% compared to 2014. Among our businesses, the revenue from telecommunications infrastructure ("TIS") services was RMB39,209 million, representing a year-on-year growth of 15.3%; the revenue from business process outsourcing ("BPO") services was RMB33,014 million, representing a year-on-year growth of 5.8%, the revenue from applications, content and other ("ACO") services was RMB8,737 million, representing a year-on-year growth of 9.9%. As to business structure, construction services, management of infrastructure for information technology ("Network Maintenance") and design services were the three major businesses that contributed to the Group's overall incremental revenues. As to customer structure, the revenue from the domestic telecommunications operators (including the Tower Company) in 2015 amounted to RMB54,793 million, representing a year-on-year growth of 16.3% and accounted for 67.7% of the total revenues. The aggregate revenues from the domestic non-operator customers and overseas customers amounted to RMB26,167 million, representing a year-on-year growth of 0.4%; accounted for 32.3% of the total revenues. In 2015, the Group adopted a market-oriented approach and allocated its resources adaptively to capture the opportunities from both the CAPEX investment after the issuance of 4G licenses and OPEX-driven business in the domestic telecommunications operator market. The Group achieved favourable business development in the domestic telecommunications operator market and the incremental revenue from such market accounted for 98.6% of the total incremental revenues, and this market was the major driving force of growth for the Group's total revenues.

The following table sets forth a breakdown of our total revenues for 2014 and 2015, together with their respective changes:

| | **2015** *RMB'000* | 2014 *RMB'000* | Percentage Change |
|---|---|---|---|
| **Telecommunications Infrastructure Services** | | | |
| Design services | **7,638,658** | 6,664,097 | 14.6% |
| Construction services | **28,783,754** | 24,875,087 | 15.7% |
| Project supervision and management services | **2,786,855** | 2,468,893 | 12.9% |
| | **39,209,267** | 34,008,077 | 15.3% |
| **Business Process Outsourcing Services** | | | |
| Management of infrastructure for information technology ("Network Maintenance") | **9,755,886** | 8,146,213 | 19.8% |
| Distribution of telecommunications services and products ("Distribution") | **19,489,410** | 19,599,255 | –0.6% |
| General facilities management | **3,768,734** | 3,469,954 | 8.6% |
| | **33,014,030** | 31,215,423 | 5.8% |
| **Applications, Content and Other Services** | | | |
| System integration | **3,916,704** | 3,574,294 | 9.6% |
| Software development and system support | **1,493,757** | 1,447,777 | 3.2% |
| Value added services | **1,497,005** | 1,285,250 | 16.5% |
| Others | **1,829,183** | 1,645,431 | 11.2% |
| | **8,736,649** | 7,952,752 | 9.9% |
| **Total** | **80,959,946** | 73,176,252 | 10.6% |

*Telecommunications Infrastructure Services*

In 2015, the Group's revenue from TIS services amounted to RMB39,209 million, representing an increase of 15.3% compared to RMB34,008 million in 2014. TIS services were the primary source of revenue and accounted for 48.4% of our total revenues, representing an increase of 1.9 percentage points from 46.5% in 2014. As to the customer structure of the TIS services, the Group's TIS revenue from the domestic telecommunications operator customers amounted to RMB31,624 million and accounted for 80.7% of the total TIS revenues, representing an increase of 2.6 percentage points from the corresponding period of last year. The aggregate TIS revenues from domestic non-operator customers and overseas customers amounted to RMB7,585 million and accounted for 19.3% of the total TIS revenues, representing a decrease of 2.6 percentage points from the corresponding period of last year.

In 2015, the Group firmly captured the opportunities arising from the domestic telecommunications operators' 4G network construction and upgrade on optic fiber broadband, the TIS revenue from domestic telecommunications operator customers increased by 19.1% over 2014. The aggregate TIS revenues from domestic non-operator customers and overseas customers increased by 1.7% over 2014, among which the TIS revenue from domestic non-operator customers recorded a year-on-year growth of 12.9%, showing an increasing growth momentum.

*Business Process Outsourcing Services*

In 2015, the Group's revenue from BPO services amounted to RMB33,014 million, representing an increase of 5.8% compared to RMB31,215 million in 2014. The revenue from BPO services accounted for 40.8% of the total revenues, representing a decrease of 1.8 percentage points from 42.6% in 2014. As to the customer structure of BPO services, the Group's BPO revenue from the domestic telecommunications operator customers amounted to RMB18,699 million, representing an increase of 12.8% compared to 2014, and accounted for 56.6% of the total BPO revenues, representing an increase of 3.5 percentage points from the corresponding period of last year. The aggregate BPO revenues from domestic non-operator customers and overseas customers amounted to RMB14,315 million, representing a decrease of 2.2% from 2014 and accounted for 43.4% of total BPO revenues, representing a decrease of 3.5 percentage points from the corresponding period of last year.

In 2015, the Group's revenue from Network Maintenance business amounted to RMB9,756 million, representing an increase of 19.8% compared to 2014. The Group focused and captured the opportunities arising from OPEX spending and continuous maintenance outsourcing from domestic telecommunications operators, and therefore Network Maintenance business achieved rapid growth of over 18% for two consecutive years and was the second largest contributor to total incremental revenues among all businesses. Besides, the Group's revenue from the Distribution business amounted to RMB19,489 million, representing a decrease of 0.6% compared to 2014, which was mainly attributable to the Group's principle of efficient development and proactively controlled the development of certain Distribution business with low efficiency. However, key businesses among the Distribution business, such as supply chain business, achieved favourable development with revenue amounted to RMB4,082 million, representing an increase of 10.9% compared to 2014. The Group's revenue from general facilities management amounted to RMB3,769 million, representing an increase of 8.6% compared to 2014, and maintaining favourable growth momentum.

*Applications, Content and Other Services*

In 2015, the Group's revenue from ACO services amounted to RMB8,737 million, representing an increase of 9.9% compared to RMB7,953 million in 2014. The revenue from ACO services accounted for 10.8% of the total revenues, which basically remained stable compared to 2014. As to the customer structure of ACO services, the Group's ACO revenue from domestic telecommunications operator customers amounted to RMB4,470 million and accounted for 51.2% of the total ACO revenues, representing an increase of 1.0 percentage point from the corresponding period of last year. Aggregate ACO revenues from domestic non-operator customers and overseas customers amounted to RMB4,267 million, and accounted for 48.8% of the total ACO revenues, representing a decrease of 1.0 percentage point from the corresponding period of last year.

In 2015, the Group continued to pursue innovative development and proactively capitalized on the domestic opportunities of "internet +" and informatization construction. The Group has strengthened its resources integration and product development and continued to promote competitive products and solutions focusing on key areas such as industrial applications, mobile applications, cloud computing, big data and information securities. The Group's ACO revenue from domestic telecommunications operator customers increased by 12.1% over 2014, while aggregate ACO revenues from domestic non-operator customers and overseas customers increased by 7.6% over 2014.

**Cost of Revenues**

The Group's cost of revenues in 2015 was RMB69,572 million, representing an increase of 11.3% from 2014 and accounting for 85.9% of the total revenues.

The following table sets out a breakdown of the Group's cost of revenues in 2014 and 2015 and their respective changes:

| | **2015** | 2014 | Percentage |
|---|---|---|---|
| | ***RMB'000*** | *RMB'000* | Change |
| Direct personnel costs | **8,731,020** | 8,892,965 | –1.8% |
| Depreciation and amortisation | **447,031** | 450,741 | –0.8% |
| Purchase of materials and telecommunications products | **20,452,798** | 20,190,921 | 1.3% |
| Subcontracting charges | **31,811,771** | 25,763,190 | 23.5% |
| Operating lease charges and others | **8,129,685** | 7,196,732 | 13.0% |
| **Total cost of revenues** | **69,572,305** | 62,494,549 | 11.3% |

*Direct Personnel Costs*

In 2015, direct personnel costs was RMB8,731 million, representing a decrease of 1.8% from RMB8,893 million in 2014. Direct personnel costs as a proportion to our total revenues was 10.8%, representing a decrease of 1.4 percentage points from 2014. With the growth in business volume in 2015, the Group consistently applied reasonable control over its total headcount and subcontracted its low-end businesses, and thereby minimized the staff costs. The Group also strictly complied with the newly-amended Labour Contract Law and employed dispatch workers in accordance with the relevant regulations to avoid related risks.

*Depreciation and Amortisation*

In 2015, depreciation and amortisation were RMB447 million, representing a decrease of 0.8% from RMB451 million in 2014. Depreciation and amortisation as a proportion to our total revenues was 0.5%, which remained generally stable compared to 2014.

*Purchase of Materials and Telecommunications Products*

In 2015, the cost of purchase of materials and telecommunications products was RMB20,453 million, representing an increase of 1.3% compared to RMB20,191 million in 2014. Purchase of materials and telecommunications products as a proportion to our total revenues was 25.3%, representing a decrease of 2.3 percentage points from 2014. Costs of materials and telecommunications products covers project materials related to infrastructure construction projects and costs for the procurement of products related to Distribution business. The decrease in the growth rate of costs of materials and telecommunications products from last year was mainly because the Group effectively controlled the development of certain low-end Distribution business, thus reducing the cost of relevant telecommunications products.

*Subcontracting Charges*

In 2015, subcontracting charges were RMB31,812 million, representing an increase of 23.5% compared to RMB25,763 million in 2014. Subcontracting charges as a proportion to our total revenues was 39.3%, representing an increase of 4.1 percentage points over 2014. The increase in subcontracting charges was mainly derived from the TIS services and Network Maintenance business. Having considered its strategic development, effectiveness and efficiency, the Group continued to focus on high-end businesses and outsource certain low-end tasks. Besides, as a result of the rapid growth in Network Maintenance business, which is labour-intensive in nature and demands for more subcontracts, subcontracting charges grew rapidly during the year. As the scale of the Group's business continued to expand, the engagement of subcontractors enabled a more flexible utilization of external resources for the Group, and at the same time will led to a more rapid growth in the Group's subcontracting charges.

*Operating Lease Charges and Others*

In 2015, operating lease charges and others were RMB8,129 million, representing an increase of 13.0% over RMB7,197 million in 2014. Operating lease charges and others as a proportion to our total revenues was 10.0%, representing an increase of 0.2 percentage point over 2014.

**Gross Profit**

The Group achieved a gross profit of RMB11,388 million in 2015, representing an increase of 6.6% over RMB10,682 million in 2014. The Group's gross profit margin in 2015 was 14.1%, representing a decrease of 0.5 percentage point from 14.6% in 2014. In 2015, the decrease in gross profit margin of the Group was due to various factors, including the decrease in service charge in certain businesses, higher subcontracting charges, and low profit margin in the initial stage of expansion into new markets. At the same time, the Group also strived to optimize the business and customer structure and to control costs, thereby gross profit margin showed a moderate declining trend as compared to the previous years.

**Selling, General and Administrative Expenses**

The selling, general and administrative expenses of the Group in 2015 were RMB9,306 million, representing an increase of 6.0% compared to RMB8,777 million in 2014. Benefited from the economics of scale in business development and effective cost control, the selling, general and administrative expenses as a proportion of the total revenues was 11.5%, representing a decrease of 0.5 percentage point from 2014.

**Finance Costs**

In 2015, the Group's finance costs were RMB51 million, representing an increase of 151.6% compared to RMB20 million in 2014. In the second half of 2014, the Group introduced a strategic investor for overseas business expansion. With the enhanced financial resources to support business development, finance costs also increased accordingly.

**Income Tax**

The income tax of the Group in 2015 was RMB487 million and our effective tax rate was 17.3%, representing a decrease of 0.3 percentage point from 17.6% of 2014. The difference between the Group's effective tax rate and the statutory tax rate was mainly due to the preferential income tax rate treatment enjoyed by certain subsidiaries, which are classified as new and high-technology enterprises, and the preferential policy of tax deduction before income tax for research and development expenses. In 2015, certain subsidiaries of the Group that fall under the scope of new and high-technology enterprises were entitled to a preferential income tax rate of 15%. Certain enterprises in the western parts of China were entitled to the preferential policies for Western Development Program. Apart from these subsidiaries, the Company and other domestic subsidiaries of the Group were mainly subject to an income tax rate of 25%. The overseas subsidiaries of the Group were subject to different tax rates in various countries.

**Profit Attributable to Equity Shareholders of the Company and Basic Earnings Per Share**

In 2015, profit attributable to equity shareholders of the Company was RMB2,334 million, representing an increase of 8.6% over RMB2,150 million in 2014. Profit attributable to equity shareholders of the Company accounted for 2.9% of our total revenues, which remained stable compared to 2014. Basic earnings per share of the Company were RMB0.337 (2014: RMB0.310).

**Capital Expenditure**

The Group implemented stringent budget management over capital expenditure, and made adjustments according to changes in market condition. In 2015, capital expenditure amounted to RMB712 million, representing an increase of 10.2% over RMB646 million in 2014. The capital expenditure in 2015 accounted for 0.9% of the total revenues and remained relatively stable as compared to 2014. The capital expenditure of the Group included the purchases of production facilities and equipment, machinery and meters, plant and office buildings, intangible assets and other operating assets.

**Cash Flow**

The Group's net cash inflow in 2015 amounted to RMB2,209 million, an increase of 283.5% over RMB576 million in 2014. As at the end of 2015, the cash and cash equivalents of the Group amounted to RMB9,536 million, of which 92.2% was denominated in Renminbi.

The following table sets out our cash flow positions in 2014 and 2015, respectively:

| | **2015** | 2014 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Net cash generated from operating activities | **4,687,811** | 1,608,854 |
| Net cash used in investing activities | **(1,686,164)** | (876,674) |
| Net cash used in financing activities | **(792,831)** | (156,051) |
| Net increase in cash and cash equivalents | **2,208,816** | 576,129 |

In 2015, net cash generated from operating activities was RMB4,688 million, representing an increase of RMB3,079 million from RMB1,609 million in 2014. The increase in net cash generated from operating activities was mainly attributable to the Group's "value-driven" principle and appraisal system, the strengthening of management of cash flow and accounts receivable, and effective accounts receivable settlement and collection work during the course of business expansion.

In 2015, net cash used in investing activities was RMB1,686 million, representing an increase of RMB809 million from RMB877 million in 2014 which were mainly term deposits for over three months.

In 2015, net cash used in financing activities was RMB793 million, representing an increase of RMB637 million from RMB156 million in 2014. The change in cash flow from financing activities was mainly due to the increase in debt financing from the introduction of strategic investor for overseas business expansion in 2014.

**Working Capital**

As at the end of 2015, the Group's working capital (i.e. current assets net of current liabilities) was RMB17,580 million, increased by RMB1,750 million from RMB15,830 million in 2014. The increase in working capital was mainly due to the expansion of the Group's business and effective management of accounts receivable which led to an increase in cash.

**Indebtedness**

As at the end of 2015, total indebtedness of the Group was RMB861 million, decreased by RMB36 million from RMB897 million as at the end of 2014. Indebtedness of the Group were mainly denominated in US dollar, of which Renminbi loan accounted for 5.4%, US dollar loan accounted for 94.1% and South African Rand loan accounted for 0.5%, and of which 24% was fixed interest rate loans and 76% was floating interest rate loans.

As at the end of 2015, our gearing ratio[11] was 3.4%, representing a decrease of 0.4 percentage point from 3.8% as at the end of 2014.

**Contractual Obligations**

The following table sets out our contractual commitments as at 31 December 2015:

| | **Total** | **2015** | **2016** | **2017** | **2018** | **2019 and after** |
|---|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Short-term debt | 177,005 | 177,005 | — | — | — | — |
| Long-term debt | 34,455 | — | 18,221 | 16,234 | — | — |
| Convertible preference shares and preference shares | 649,360 | — | — | — | — | 649,360 |
| Operating lease commitments | 782,787 | 308,106 | 180,052 | 83,664 | 53,001 | 157,964 |
| Capital commitments | 522,101 | 522,101 | — | — | — | — |
| Of which: | | | | | | |
| Authorized and contracted for | 317,445 | 317,445 | — | — | — | — |
| Total of contractual obligations | 2,165,708 | 1,007,212 | 198,273 | 99,898 | 53,001 | 807,324 |

11 Gearing ratio equals to total interest-bearing debts at the end of the financial year divided by the sum of equity attributable to equity shareholders of the Company and interest-bearing debts.

### Exchange Rate

Most of the Group's revenues and expenses are denominated in Renminbi. As at the end of 2015, the balance of our cash and cash equivalents in foreign currencies accounted for 7.8% of the Group's total cash and cash equivalents, of which 4.7% and 0.3% were denominated in US dollars and Hong Kong dollars, respectively.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

For the year ended 31 December 2015, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

## AUDIT COMMITTEE

The audit committee has reviewed the accounting principles and practices adopted by the Group and discussed risk management, internal control and financial reporting matters including the review of the annual report for the year ended 31 December 2015 with the management and the Company's international auditors, Deloitte Touche Tohmatsu.

## COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

As a company incorporated in the PRC and listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company has not only complied with the relevant provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") but also has abided by the PRC Company Law and the applicable laws, regulations and regulatory requirements of Hong Kong and the PRC as the basic guidelines for the Company's corporate governance. Throughout the year ended 31 December 2015, the Company has complied with the code provisions as set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules.

## COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules to govern securities transactions by the directors of the Company. The Company has made specific enquiries in writing to the directors, and each of the directors has confirmed his/her compliance with the Model Code in connection with the transactions of the Company's securities in the reporting period.

## CLOSURE OF SHARE REGISTER

### 1. Annual General Meeting

The H share register of members of the Company will be closed, for the purpose of determining shareholders' entitlement to attend the annual general meeting to be held on Friday, 24 June 2016 (the "Annual General Meeting"), from Wednesday, 25 May 2016 to Friday, 24 June 2016 (both days inclusive), during which period no transfer of H shares will be registered. In order to attend the Annual General Meeting, all transfer documents, accompanied by the relevant share certificates, must be lodged for registration with Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, not later than 4:30 p.m. on Tuesday, 24 May 2016. H share shareholders who are registered with Computershare Hong Kong Investor Services Limited on Friday, 24 June 2016 are entitled to attend the Annual General Meeting.

### 2. Proposed Final Dividend and Special Dividend

The Board proposes a final dividend of RMB0.1011 per share and a special dividend of RMB0.0101 per share, and the total dividend is RMB0.1112 per share (pre-tax) for the year ended 31 December 2015. The dividend proposal will be submitted for consideration at the Annual General Meeting. If such proposed dividend distribution is approved by the shareholders, the final dividend and special dividend will be distributed to those shareholders whose names appear on the register of members of the Company on Tuesday, 12 July 2016. The register of members will be closed from Thursday, 7 July 2016 to Tuesday, 12 July 2016 (both days inclusive). In order to be entitled to the final dividend and special dividend, H share shareholders who have not registered the transfer documents are required to deposit the transfer documents together with the relevant share certificates at Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong at or before 4:30 p.m. on Wednesday, 6 July 2016.

Dividends will be denominated and declared in Renminbi. Dividends will be paid in Renminbi for holders of domestic shares and holders of H shares (including enterprises and individuals) who invest in the H shares of the Company listed on the Hong Kong Stock Exchange through the Shanghai Stock Exchange ("the Southbound Trading Link") (the "Southbound Shareholders"), and dividends for H share shareholders other than the Southbound Shareholders will be paid in Hong Kong dollars. The relevant exchange rate will be the average of the mid-point rates of Renminbi to Hong Kong dollars as announced by the People's Bank of China for the week prior to the date of approval of declaration of dividends by the Annual General Meeting. The record date for entitlement to the shareholders' rights and the relevant arrangements of dividend distribution for Southbound Shareholders are the same as those for the Company's H share shareholders. The proposed dividends are expected to be paid on or about Thursday, 18 August 2016 upon approval at the Annual General Meeting.

The Company shall be obliged to withhold and pay income tax on behalf of overseas non-resident enterprise shareholders and overseas resident individual shareholders of H shares whose names appear on the Company's H share register of members on Tuesday, 12 July 2016 according to the following regulations:

For the overseas resident individual shareholders of the Company, pursuant to relevant laws and regulations including the Law of the People's Republic of China on Individual Income Tax, the Regulations for the Implementation of the Law of the People's Republic of China on Individual Income Tax, and the letter dated 28 June 2011 from the State Administration of Taxation to the Inland Revenue Department of Hong Kong, for individual H share shareholders receiving dividends who are Hong Kong or Macau residents or whose country of domicile is a country which has entered into a tax treaty with the PRC stipulating a dividend tax rate of 10%, the Company, as a withholding agent, is required to withhold and pay individual income tax at the rate of 10%. For individual H share shareholders receiving dividends whose country of domicile is a country which has entered in to a tax treaty with the PRC stipulating a dividend tax rate lower than 10%, the Company will withhold the individual income tax at a tax rate of 10%. The Company can process applications on behalf of those shareholders to seek entitlement of the relevant agreed preferential treatments pursuant to relevant regulations, and upon approval by the tax authorities, the extra amount of tax withheld will be refunded. For individual H share shareholders receiving dividends whose country of domicile is a country which has entered into a tax treaty with the PRC stipulating a dividend tax rate higher than 10% but lower than 20%, the Company will withhold the individual income tax at the agreed-upon effective tax rate when distributing dividends and no application procedures will be necessary. For individual H share shareholders receiving dividends whose country of domicile is a country which has not entered into any tax treaty with the PRC or are under other situations, the Company will withhold the individual income tax at a tax rate of 20% when distributing dividends.

For the overseas non-resident enterprise shareholders of the Company (including HKSCC Nominees Limited, corporate nominees or trustees, or other organizations or entities that are considered non-resident enterprise shareholders), pursuant to the Law of the People's Republic of China on Enterprise Income Tax, the Regulations for the Implementation of the Law of the People's Republic of China on Enterprise Income Tax and relevant rules and regulations, as a withholding agent, the Company is required to withhold and pay the enterprise income tax at the tax rate of 10% on behalf of the overseas non-resident enterprise shareholders.

For the Southbound Shareholders of the Company, according to the relevant provisions under the "Notice on Tax Policies for Shanghai-Hong Kong Stock Connect Pilot Programme (Cai Shui [2014] No. 81)", the Company shall withhold individual income tax at the rate of 20% with respect to dividends received by the Mainland individual investors for investing in the H shares of the Company listed on the Hong Kong Stock Exchange through the Southbound Trading Link. In respect of the dividends for the investment of Mainland securities investment funds in the H shares of the Company listed on Hong Kong Stock Exchange through the Southbound Trading Link, the tax levied on dividends derived from such investment shall be ascertained by reference to the rules applicable to the treatment of individual income tax. The Company is not required to withhold income tax on dividends derived by the Mainland enterprise investors under the Southbound Trading Link, and such enterprises shall report the income and make tax payment by themselves.

Should the shareholders of the H shares of the Company have any doubt in relation to the aforesaid arrangements, they are recommended to consult their tax advisors for relevant tax impact in mainland China, Hong Kong and other countries (regions) on the possession and disposal of the H shares of the Company.

## ANNUAL REPORT

The annual report for the year ended 31 December 2015 will be dispatched to shareholders and made available on the website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (www.chinaccs.com.hk) in due course.

## FORWARD-LOOKING STATEMENTS

The Company would also like to caution readers about the forward-looking nature of certain of the above statements. These forward-looking statements are subject to risks, uncertainties and assumptions, which are beyond our control. Potential risks and uncertainties include those concerning the growth of the telecommunications industry in China, the development of the regulatory environment and our ability to successfully execute our business strategies. In addition, these forward-looking statements reflect our current views with respect to future events and are not a guarantee of future performance. We do not intend to update these forward-looking statements. Actual results may differ materially from the information contained in the forward-looking statements as a result of a number of factors.

Beijing, PRC
31 March 2016

*As at the date of this announcement, our executive directors are Mr. Sun Kangmin, Mr. Si Furong and Ms. Hou Rui, our non-executive directors are Mr. Li Zhengmao and Mr. Zhang Junan, and our independent non-executive directors are Mr. Wang Jun, Mr. Zhao Chunjun, Mr. Siu Wai Keung, Francis, Mr. Lv Tingjie and Mr. Wu Taishi.*