

CHAIRMAN'S STATEMENT



Sun Kangmin
Chairman

In 2015, the Group upheld the management philosophy of “value-driven, seeking steady yet progressive growth and efficient development”. We firmly captured the opportunities 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 remarkable operating results and a gradual enhancement in corporate value.

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.

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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 ratio¹ 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 flow² 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.

The Group has leveraged on both "CAPEX and OPEX-driven" businesses³ 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 customers⁴, 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).

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

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.

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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 businesses⁵ 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.

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.

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.

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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 Jianguhua, 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