

PRESIDENT'S STATEMENT

In 2015, the Group achieved scale development through value enhancement. Total revenues exceeded RMB80 billion and revenue structure was further optimized. In addition, we mapped out the development plan in accordance with market changes, adhered to deepening reform and management innovation, and established a solid foundation for future development of the Group.



Si Furong
President

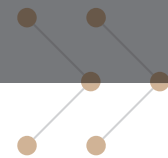
Dear Shareholders,

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 margin¹. Benefited from the economies of scale in business development and effective cost

¹ 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.



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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%.

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 services² 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 products³, and revenue from the key businesses under ACO services⁴ 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.

² Revenue from supply chain service was included in the revenue from distribution business of the Group.

³ Six major group-level products include smart city, smart security, smart industrial park, intelligent building, cloud computing services and e-certification.

⁴ Key businesses under ACO services include system integration, software development and system support, and value added services.

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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.

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.

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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"⁵ 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.

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

⁵ The three-step strategy covers business replication, capability extension and informatization innovation.



**Business
Process
Outsourcing
Services**

Overseas
Customers

1.6%*

Domestic
Telecommunications
Operator Customers

56.6%*

Domestic
Non-operator
Customers

41.8%*

* representing the proportion of revenue from the respective customer in the Business Process Outsourcing services

