

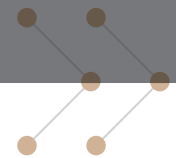
MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

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.

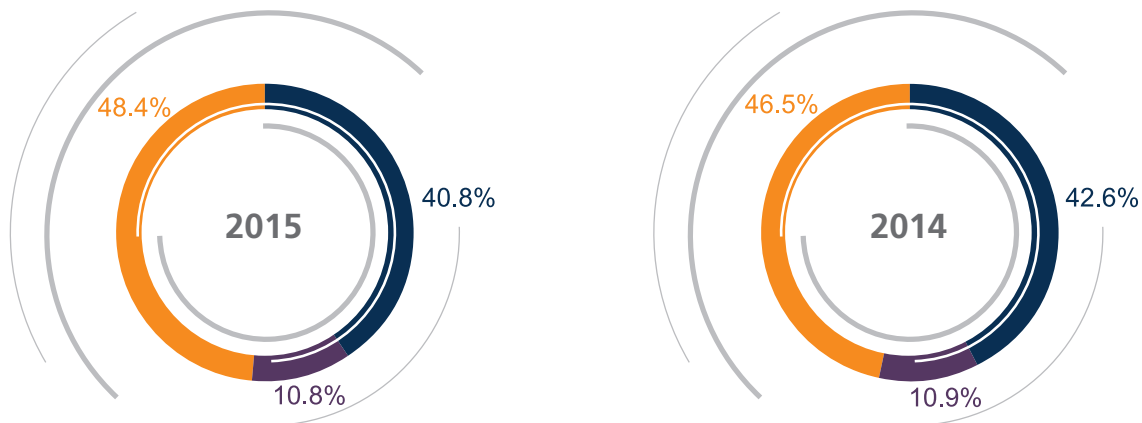
TOTAL REVENUES

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.



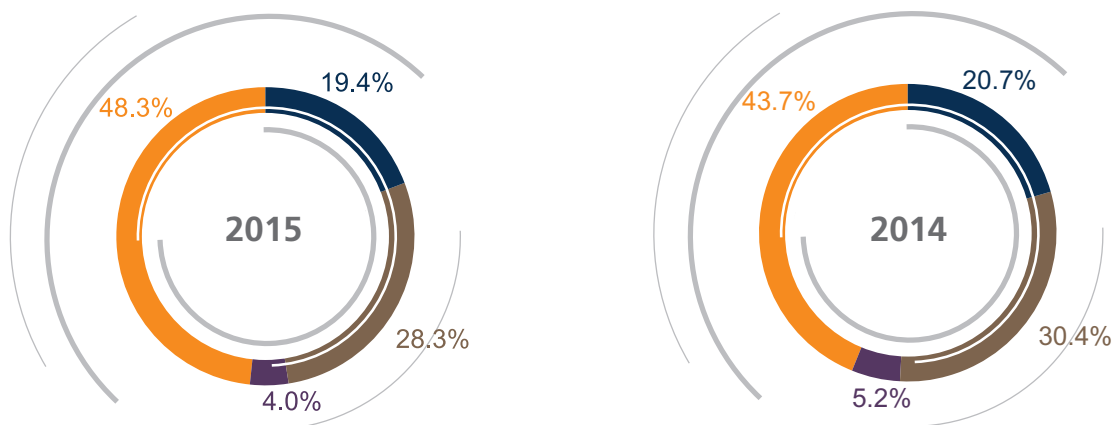
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BUSINESS REVENUE MIX



- Telecommunications Infrastructure Services
- Business Process Outsourcing Services
- Applications, Content and Other Services

CUSTOMER REVENUE MIX



- China Telecom
- China Mobile, China Unicom and the Tower Company
- Domestic non-operator customers
- Overseas customers

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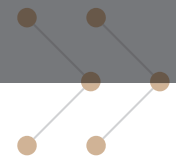
The following table sets forth a breakdown of our total revenues for 2014 and 2015, together with their respective changes:

	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	19,599,256	-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.



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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.

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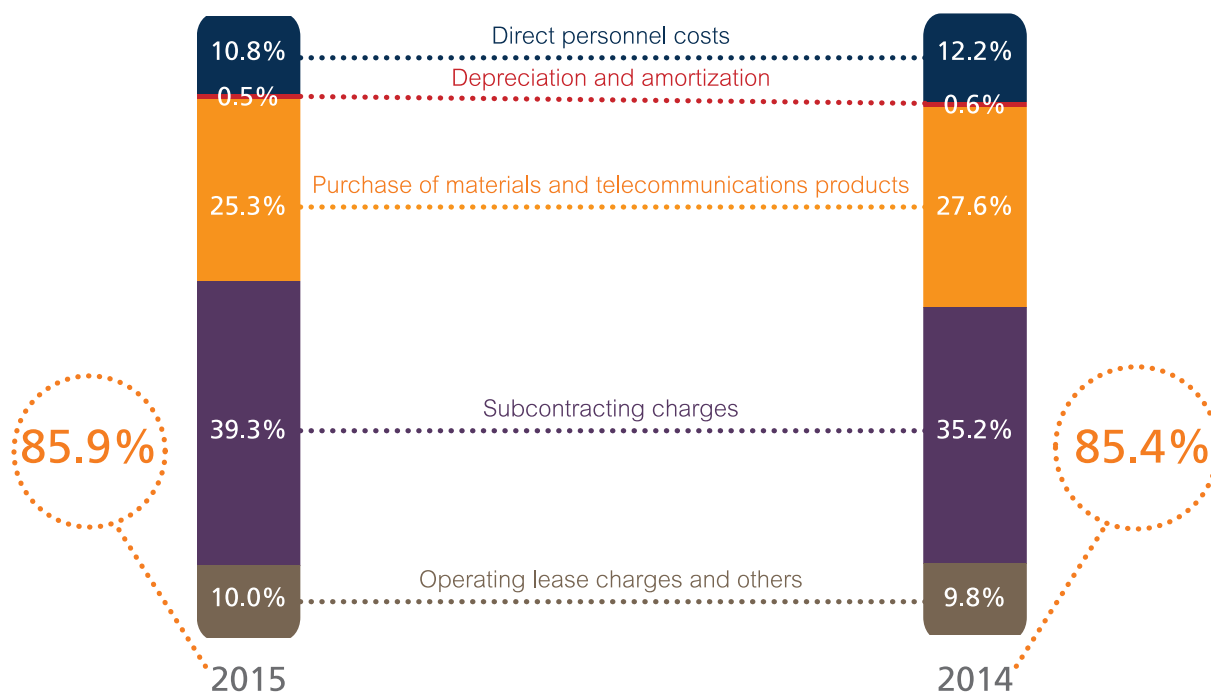
COST OF REVENUES

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:

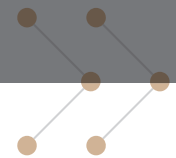
	2015 RMB'000	2014 RMB'000	Percentage Change
Direct personnel costs	8,731,020	8,892,965	-1.8%
Depreciation and amortisation	447,031	450,741	-0.8%
Purchase of materials and telecommunications products	20,452,798	20,190,921	1.3%
Subcontracting charges	31,811,771	25,763,190	23.5%
Operating lease charges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

COST OF REVENUES AS A % OF TOTAL REVENUES



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.



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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.

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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

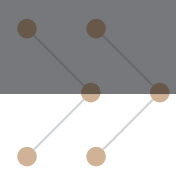
The Group's net cash inflow in 2015 amounted to RMB2,209 million, an increase of 283.5% over RMB576 million in 2014. As at the end of 2015, the cash and cash equivalents of the Group amounted to RMB9,536 million, of which 92.2% was denominated in Renminbi.

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

	2015 RMB'000	2014 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.



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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 ratio¹ 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	2016	2017	2018	2019	2020 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

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.

¹ 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.



**Applications
Content
and Other
Services**

Overseas
Customers

2.1%*

Domestic
Telecommunications
Operator Customers

51.2%*

Domestic
Non-operator
Customers

46.7%*

* representing the proportion of revenue from the respective customer in the Applications, Content and Other services

