

# PRESIDENT'S STATEMENT

In 2016, facing the slow recovery of global economy and the “New Normal” in the economic development of China, the Group stayed vigilant and made innovative breakthroughs, and achieved satisfactory operating results and continued increase in free cash flow through further market expansion and reinforcement of the “value-driven principle”. The outstanding operating performance and sufficient funds have provided strong endogenous power for the Group’s development and built a solid foundation for a new dimension of future growth.

**Si Furong**  
President



Dear Shareholders,

I am very pleased to present the operating results of the Group in 2016.

## FINANCIAL PERFORMANCE

In 2016, facing the slow recovery of global economy and the “New Normal” in the economic development of China, the Group stayed vigilant and made innovative breakthroughs, and achieved satisfactory operating results through further market expansion and reinforcement of the “value-driven principle”. Total revenues of the year amounted to RMB88,449 million, representing a year-on-year growth of 9.3%. Affected by the decrease in service charges in certain businesses and increase in labour-related costs, the overall gross profit margin was 13.2%, representing a year-on-year decrease of 0.9 percentage point. Benefited from the economies of scale and effective enhancement of internal management, selling, general and administrative expenses for the year accounted for 10.7% of the total revenues, representing a year-on-year decrease of 0.8 percentage point. Profit attributable to equity shareholders of the Company for the year amounted to RMB2,536 million, representing a year-on-year increase of 8.6%. Net profit margin was 2.9%, which remained the same as that of last year. In 2016, the basic earnings per share of the Group was RMB0.366. Attributable to our stringent management of accounts receivable, the accounts receivable turnover days were 117 days, representing a year-on-year decrease of 7 days. Our free cash flow was RMB4,361 million, representing a year-on-year increase of 22.1%.

## BUSINESS DEVELOPMENT

In 2016, the Group achieved robust business growth amid its proactive control on the development of the products distribution business with lower efficiency. TIS services with traditional competitive edge, Core BPO Services and ACO services, all recorded favourable growth, and our business structure was further optimized.

Revenue from TIS services amounted to RMB45,887 million, representing a year-on-year growth of 17.0%, which presented the fastest growth among our three major businesses, and accounted for 51.9% of the total revenues. Revenue of TIS services from China Telecom recorded a year-on-year growth of 1.9%. During the year, we further developed our traditional businesses and expanded into new and cross-sector businesses, and continued to leverage our service capabilities to further develop the "Two New Markets", thereby achieving vigorous revenue growth of 35.3% and 46.8% from the TIS services in the domestic telecommunications operator customers other than China Telecom and domestic non-operator customers, respectively. The favourable revenue growth of TIS services from domestic non-operator customers effectively reduced the reliance of the Group's TIS services on operators' investment.

Revenue from BPO services amounted to RMB32,533 million, representing a year-on-year decrease of 1.5% and accounting for 36.8% of the total revenues. The decrease was mainly due to the Group's proactive control on the development of products distribution business with lower efficiency, and its increasing focus on transforming towards high-end businesses. Revenue of products distribution business for the year recorded a year-on-year decrease of 20.0%. Excluding the revenue from products distribution business, revenue from the Core BPO Services recorded satisfactory growth of 10.7%. Among that, revenue from network maintenance business recorded a year-on-year growth of 9.5%. After integration and the implementation of synergistic operation, the supply chain business recorded a year-on-year growth of 12.7%.

We captured business opportunities arising from the intelligentization transformation of domestic telecommunications operators and the demand for informatization construction from industry customers, and revenue from ACO services amounted to RMB10,029 million, representing a year-on-year growth of 14.8%, noticeably higher than that of last year<sup>9</sup>, and accounting for 11.3% of the total revenues. To strengthen the development momentum of the Group's high value businesses, we set up an innovation fund to facilitate the commercialization of our products. We closely monitored the development of industry sectors and set up expert committees to formulate a product ecosphere through in-house research and development and co-operation with external parties.

## CUSTOMER DEVELOPMENT

In 2016, the Group focused on both the "CAPEX and OPEX-driven" businesses, and revenue from the domestic telecommunications operator customers amounted to RMB60,889 million, representing a year-on-year growth of 11.1% and accounting for 68.8% of the total revenues. Among that, the revenue from China Telecom was RMB40,597 million, representing a year-on-year growth of 3.7% and accounting for 45.9% of the total revenues. Capturing the vital opportunities arising from the strategic cooperation between China Telecom and China Unicom, centralized procurement by China Mobile and strong demand from China Tower for integrated construction and maintenance services, the Group adopted innovative sales and marketing measures, proactively captured new customer demands and increased its market share. Revenue from domestic telecommunications operator customers other than China Telecom recorded a rapid year-on-year growth of 29.6% and its contribution to the total revenues recorded a year-on-year increase of 3.5 percentage points to 22.9%. Among that, revenue from China Tower recorded the fastest year-on-year growth and was the largest contributor to the incremental revenues among domestic telecommunications operators market. The increase in market share effectively mitigated the influence brought by the decline of CAPEX spending of operators.

<sup>9</sup> In 2015, revenue from ACO services recorded a year-on-year growth of 9.9%.

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In 2016, revenue from the Group's domestic non-operator customers market amounted to RMB23,714 million, representing a year-on-year growth of 3.4% and accounting for 26.8% of the total revenues. Among that, the Core Businesses recorded an increase of 28.7% and its share increased to 73.9% of the revenue in such market, demonstrating a significant enhancement in the quality of development. We grasped the demand from informatization and new ICT construction, and continued to achieve breakthroughs in various industry sectors. We successfully secured 160 large projects each of more than RMB10 million in value from various sectors including government, transportation, internet, IT and power. We leveraged on our existing capabilities and extended our presence to capture the valuable opportunities arising from the opening-up of certain businesses in electricity distribution and sales under the reform of the power sector in China, and applied for and obtained 80 business licences covering the businesses for power network construction turnkey projects, which equipped us with strategic reserves for scale breakthroughs in the power sector in the future. We held product release conferences to promote important group-level products such as smart industrial park and smart security to establish our brand names and industrial standards of our services. During the year, the Group launched an innovation fund for product development and these products received high recognition in the society. Among that, the smart highway was awarded the Supreme Award for New Technological Innovation by the National Development and Reform Commission, the smart industrial park was awarded the Gold Award for the 20th International Software Exhibition of China, the smart city was awarded the Second Prize for the 2016 Nationwide Superior Communications Engineering Consultative Projects by China Association of Communications Enterprises, and the smart security was awarded the Golden Bridge Award by Technology Market Association of China. Besides, we set up the mechanism of "Innovation Fund and Product Innovation Committee", and gained more experience in the commercialization of our products.

In 2016, the overseas business of the Group went through the five-year bottleneck period and achieved a revenue of RMB3,846 million, representing a year-on-year growth of 19.3% and accounting for 4.4% of the total revenues. Our turnkey projects, including the national optic cable backbone network project in Tanzania (Phase 3) and the education network project in Cameroon were in progress as scheduled. The fiber network interconnection project connecting the four Eastern African countries also made meaningful progress. Besides, the Group also achieved breakthroughs in respect of the education informatization and power grid construction projects in South East Asia and Africa. The Group made further progress in respect of its "China-Africa Partnership Program in Trans Africa Information Superhighway" Project, and is trying to leverage on capital by setting up an industry investment fund with its partners to drive scale development of overseas business and control business risks.

### EFFICIENCY ENHANCEMENT

In 2016, the Group enhanced operating efficiency through multiple innovative management initiatives. We commenced the operation of China Comservice Supply Chain Management Company Ltd. and created a unified brand of "中通福" for its distribution chain stores, with a view to integrating the Group's resources for future development and reducing operating cost. We continued to explore synergistic operation and brand promotion of maintenance and property management businesses to cultivate new areas of growth for the sustainable development of the Company. Through the establishment of Inner Mongolia Autonomous Region Communications Services Company Limited, the Group speeded up the scale development and breakthroughs in the northern China market by reallocating its surplus resources from the southern China to northern China market, thereby realizing the economies of scales by leveraging its existing resources. In addition, the Group organized the "Comservice Craftsmanship" competition on construction skills during the year to promote the spirits of craftsmanship with an aim to promote the service standards and strengthen the Group's core competitiveness. The Group also launched three leaders training camps to select outstanding talents for its future development.

### PROSPECTS

In 2017, the Group will continue to uphold the management philosophy of "value-driven, seeking steady yet progressive growth and efficient development" and adhere to the principle of "market-oriented, creating values for customers". By focusing on "optimizing structure, sustaining growth, strengthening capabilities and enhancing efficiency", the Group will strive to create greater value for shareholders and customers.

The Group will secure its stable fundamental performance for its operation by capturing the window of opportunity from 4G network construction and the demand for building optic fiber broadband networks of the domestic telecommunications operators and penetrating traditional business with advantages, while focusing on their recurrent OPEX-driven businesses and endeavouring to develop high-end maintenance and supply chain services. Meanwhile, the Group will focus on and grasp the opportunities arising from new market demands from the transformation and upgrade of domestic telecommunications operators, the strategic cooperation between China Telecom and China Unicom, the integrated construction and maintenance services of China Tower, with a view to expanding new market, increasing its market share and reducing the impact from the change in CAPEX spending of telecommunications operators.

Adhering to our "three-step"<sup>10</sup> strategy, we will capture the opportunities arising from the extensive demand from informatization construction of various industry sectors and the substantial investment for new ICT. We will also integrate our resources and focus on the development in key sectors such as government, power, transportation, education, construction and property. Through business replication and capabilities extension, the Group will endeavour to develop pan-operators customers and enlarge its revenue scale. We will select "smart projects" with high potential to facilitate the commercialization of products from our projects and enrich the portfolio of group-level products as reserves for future promotion. Furthermore, taking advantage of the opening-up of power sector, we will proactively expand our business outside the communications sector and strengthen cross-industry and cross-sector operation.

The Group will promote synergistic operation and market expansion of overseas business through adjustment and optimization of its overseas operation and management systems. We will attempt to utilize industry investment fund proactively to expand our projects and facilitate the implementation of large-scale turnkey projects. We will accelerate the progress of our "China-Africa Partnership Program in Trans Africa Information Superhighway" Project by adhering to our overall principle of "top-tier design, progressive implementation, key breakthroughs and tailored policy for each country". We will strengthen resources sharing with operator customers, cooperate with "Going Abroad" state-owned enterprises and explore the "EPC+"<sup>11</sup> business model, with a view to expanding overseas market together. In addition, we will use various financial instruments such as accounts receivable factoring to prevent funding risks.

In the future, the Group will insist on reform and innovation to transform itself into a high-value enterprise. We will continue to carry out internal integration over our subsidiaries to promote economies of scale, take new initiatives to promote business development and innovate our business models by using social funds and industry investment funds. We will support our subsidiaries to adopt innovative new approaches of development by taking trial run on external equity investment, introducing private investors, participating in joint venture projects, and exploring mixed ownership scheme. Meanwhile, the Group will further motivate all units and employees by setting up a differentiated remuneration allocation system.

Persistence is the key to success. With 10 years of treasured experience, we have become a leading service provider in the informatization sector. We will hold on our initiatives, move forward and commit to achieving breakthroughs and growth through reform and innovation. We are dedicated to striving for a prosperous and fruitful future.



**Si Furong**  
*President*

Beijing, PRC  
30 March 2017

<sup>10</sup> The three-step strategy covers business replication, capability extension and informatization innovation.

<sup>11</sup> EPC+ refers to the business model which comprises EPC (engineering, procurement and construction) + solutions + operating services and financing.