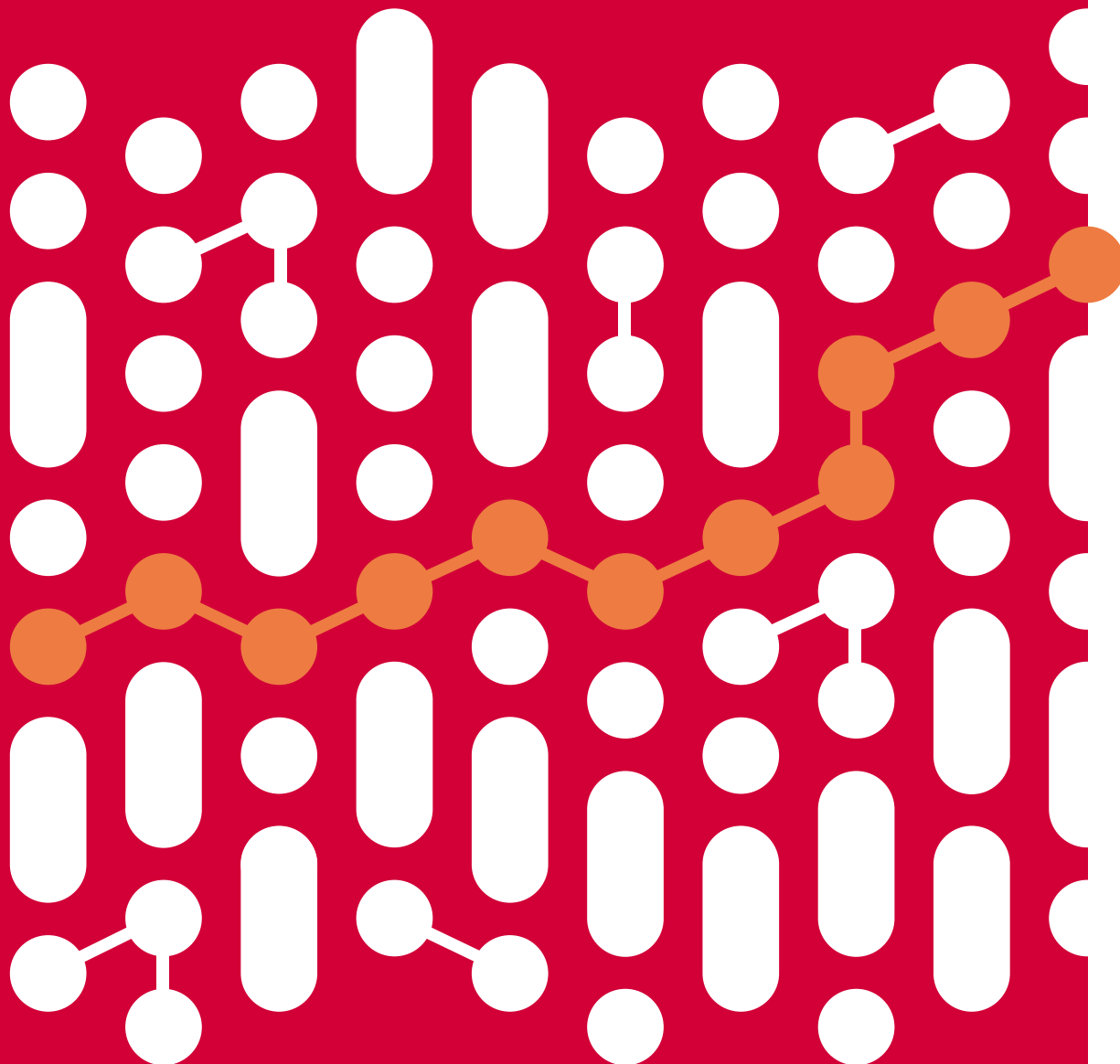


Innovation and Transformation  
**Steady Growth**  
Efficient Development

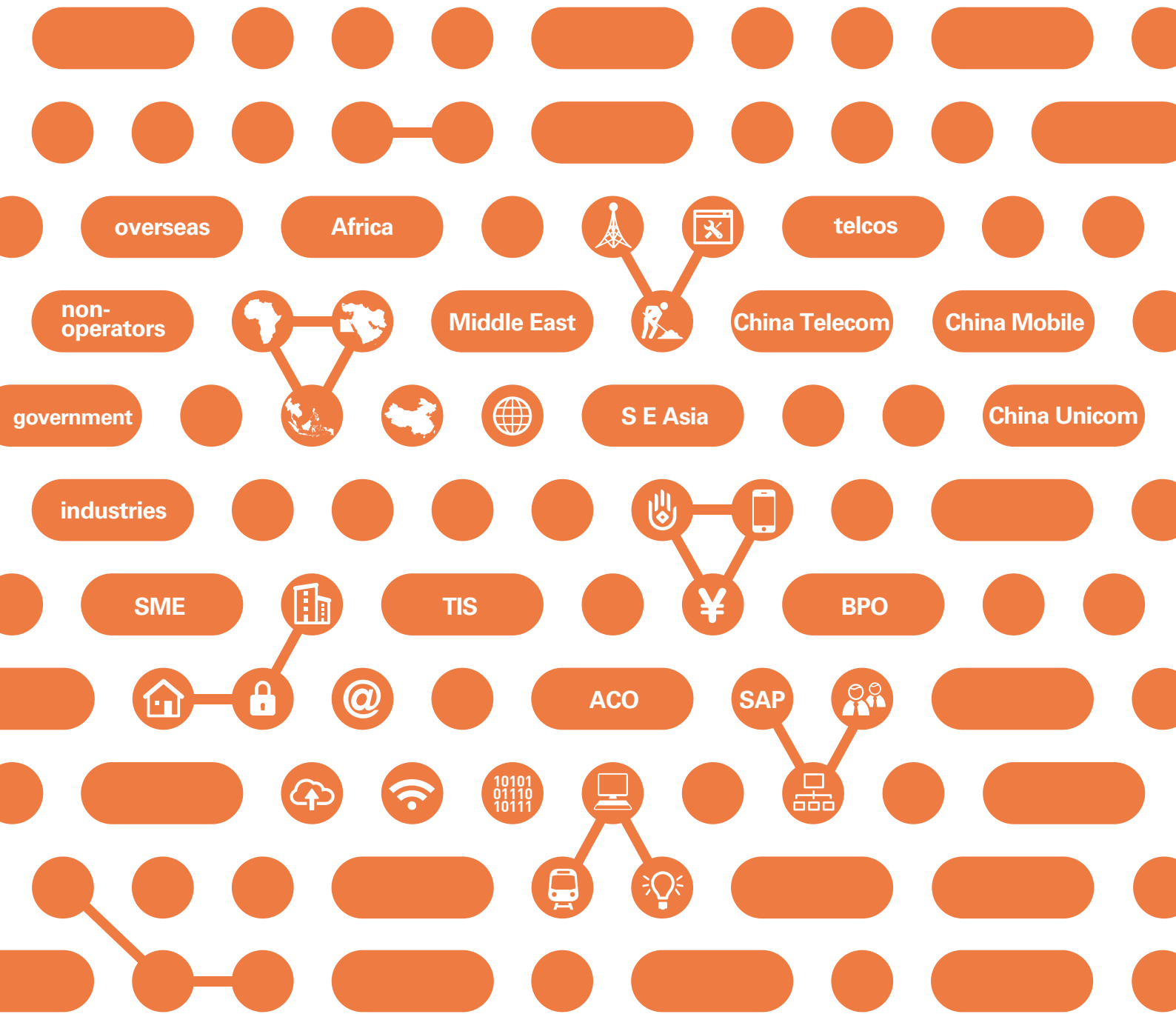


**Annual Report 2014**

**中国通信服务**  
CHINA COMSERVICE



China Communications Services  
Corporation Limited  
Stock code : 552



#### COVER STORY

The main theme of the design is “dot” and “line”. The dynamic infographic is in line with China Comservice’s principle of “Realising Steady Growth while Pursuing Innovation and Transformation”. The design and colour of “dot” and “line” were inspired by the logo of the Company, which offer an association of China Comservice for the readers. In addition, the exquisite differences of these “dots” and “lines” represent the diversified businesses of China Comservice. Among the red and white colours is a line chart connected by orange spots extending from left to right and from bottom to top, implying China Comservice will realise steady growth and efficient development in the course of innovation and transformation.

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For further information,  
please browse our website at:  
<http://www.chinaccs.com.hk>

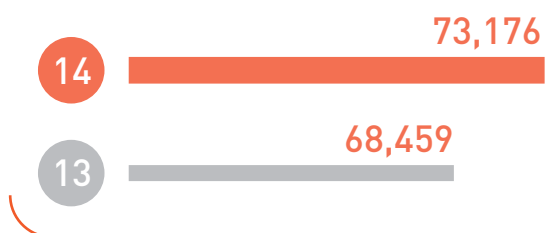
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# FINANCIAL HIGHLIGHTS

	2013	2014	Change
Revenues (RMB million)	68,459	<b>73,176</b>	6.9%
Gross profit (RMB million)	10,378	<b>10,682</b>	2.9%
Profit attributable to equity shareholders (RMB million)	2,238	<b>2,150</b>	-3.9%
Basic earnings per share (RMB)	0.323	<b>0.310</b>	-4.0%
Free cash flow <sup>(1)</sup> (RMB million)	-324	<b>833</b>	-

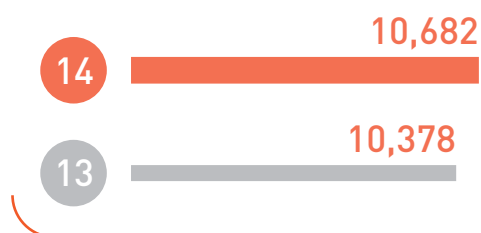
## Revenues

(RMB million)



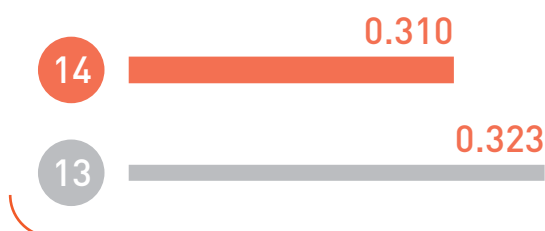
## Gross Profit

(RMB million)



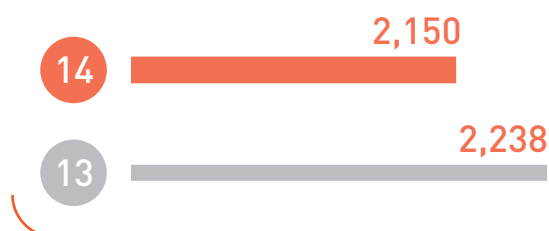
## Basic Earnings Per Share

(RMB)



## Profit Attributable to Equity Shareholders

(RMB million)



<sup>(1)</sup> Free cash flow = Profit for the year + Depreciation and amortization – Changes in working capital – Capital expenditure

# COMPANY PROFILE AND CORPORATE INFORMATION

China Communications Services Corporation Limited (the “Company”) is a leading service provider in the informatisation sector in the PRC, in commitment of “building world-class networks for the informatisation services”, providing integrated support services in the informatisation sector, including telecommunications infrastructure services, business process outsourcing services and applications, content and other services. Our shareholders include China Telecommunications Corporation, China Mobile Communications Corporation, China United Network Communications Group Company Limited and China National Postal and Telecommunications Appliances Corporation. Meanwhile all three telecommunications operators in the PRC are our customers. We also provide services to domestic non-operator customers like government agencies, industrial customers and small and medium enterprises as well as overseas customers. Our service coverage is spread across the nation and we have also extended our business to dozens of countries and regions globally.

On 8 December 2006, the H shares issued by the Company were successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited. As at 31 December 2014, the aggregate share capital of the Company was 6,926,018,400, of which 2,391,420,240 were H shares.

In 2014, the Company ranked 82nd in the “2014 FORTUNE China 500” released by *Fortune China*, and received the Gold Award from *The Asset* at “The Asset Corporate Awards 2014” for its financial performance, corporate governance and investor relations. The Company was again awarded “The Best of Asia – Icon on Corporate Governance” by *Corporate Governance Asia* at the tenth session of the “Corporate Governance Asia Recognition Awards 2014”. The Company was also recognised as “The Best Investment Value Listed Company” by *Tai Kung Pao* at the fourth session of the “China Securities Golden Bauhinia Awards”.

## COMPANY PROFILE AND CORPORATE INFORMATION

### HONORARY CHAIRMAN

Mr. Wang Xiaochu

### BOARD OF DIRECTORS

#### Executive directors

Mr. Sun Kangmin (Chairman)  
Mr. Si Furong  
Ms. Hou Rui

#### Non-executive directors

Mr. Li Zhengmao  
Mr. Zhang Junan

#### Independent non-executive directors

Mr. Wang Jun  
Mr. Zhao Chunjun  
Mr. Wei Leping  
Mr. Siu Wai Keung, Francis

### BOARD COMMITTEES

#### Audit Committee

Mr. Siu Wai Keung, Francis  
(Committee Chairman)  
Mr. Zhao Chunjun  
Mr. Wei Leping

#### Remuneration Committee

Mr. Siu Wai Keung, Francis  
(Committee Chairman)  
Mr. Zhao Chunjun  
Mr. Wei Leping

#### Nomination Committee

Mr. Zhao Chunjun  
(Committee Chairman)  
Mr. Wang Jun  
Mr. Wei Leping

#### Non-Competition Undertaking Review Committee

Mr. Wei Leping  
(Committee Chairman)  
Mr. Zhao Chunjun  
Mr. Siu Wai Keung, Francis

### Right of First Refusal and Priority Right Committee

Mr. Wei Leping  
(Committee Chairman)  
Mr. Zhao Chunjun  
Mr. Siu Wai Keung, Francis

### SUPERVISORY COMMITTEE

Ms. Xia Jianghua  
(Committee Chairperson)  
Mr. Hai Liancheng  
(Independent Supervisor)  
Mr. Si Jianfei  
(Employee Representative Supervisor)

### LEGAL NAME (IN CHINESE)

中國通信服務股份有限公司

### LEGAL NAME (IN ENGLISH)

China Communications Services Corporation Limited

### COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Mr. Chung Wai Cheung, Terence

### INTERNATIONAL AUDITORS

Deloitte Touche Tohmatsu

### LEGAL ADVISORS

Freshfields Bruckhaus Deringer  
King & Wood Mallesons Lawyers

### REGISTERED OFFICE

Level 5 No. 2 and B  
Fuxingmen South Avenue  
Xicheng District  
Beijing, PRC 100032

### BUSINESS ADDRESS

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Dongcheng District  
Beijing, PRC 100010

### H SHARE REGISTRAR

Computershare Hong Kong  
Investor Services Limited  
Shops 1712–1716, 17th Floor  
Hopewell Centre  
183 Queen's Road East  
Wanchai  
Hong Kong

### LISTING PLACE

The Stock Exchange of Hong Kong Limited

### STOCK CODE

00552

### CONTACT INFORMATION

#### Investor Relations Department

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Facsimile: (852) 3699 0120  
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32/F, Great Eagle Centre  
23 Harbour Road  
Wanchai  
Hong Kong  
Email: [ir@chinaccs.com.hk](mailto:ir@chinaccs.com.hk)

#### Office of Board of Directors

Telephone: (8610) 5850 2290  
Facsimile: (8610) 5850 1534

### WEBSITE

[www.chinaccs.com.hk](http://www.chinaccs.com.hk)

# MILESTONES

## 2006

### AUGUST

The Company was established, with primary service areas including Shanghai, Zhejiang Province, Fujian Province, Hubei Province, Guangdong Province and Hainan Province.

### DECEMBER

The Company was listed on the Main Board of The Stock Exchange of Hong Kong Limited. Gross proceeds from the IPO was approximately HK\$3.3 billion.

## 2007

### AUGUST

The Company completed the acquisition of the businesses of specialized telecommunications support services in 13 provinces (municipalities and autonomous regions) from China Telecommunications Corporation for a consideration of RMB4,630 million.

## 2008

### APRIL

Mr. Wang Xiaochu resigned as Non-Executive Director and Chairman of the Company, and was re-designated as the Honorary Chairman. On the same date, Mr. Li Ping was appointed as Chairman of the Company.

The Company completed the placement of 327 million new H Shares with net proceeds of approximately HK\$1,668 million.

### MAY

The Company completed the acquisition of the 100% equity interests in China International Telecommunications Construction Corporation for a consideration of RMB505 million.

## 2009

### MARCH

China Telecommunications Corporation completed the transfer of 506,880,000 and 236,300,000 domestic shares of the Company to China Mobile Communications Corporation and China United Network Communications Group Company Limited respectively.

### MAY

The Group acquired the equity interests in Guoxin Lucent Technologies Network Technologies Co., Ltd. ("Guoxin Lucent") (51%), Shanghai Tongmao Import & Export Co., Ltd. (95.945%) and Shenzhen Telecom Engineering Company Limited (40%) for a total consideration of approximately RMB115 million.

### NOVEMBER

The Company and Accenture International SARL established a joint venture, China Communications Service Application Solution Technology Co., Ltd..

## MILESTONES

### 2010

#### APRIL

The Company acquired the remaining 49% equity interests in Guoxin Lucent for a total consideration of RMB41 million. After the completion of the acquisition, Guoxin Lucent became a wholly-owned subsidiary of the Company.

### 2011

#### MARCH

The Company proposed rights issue of domestic shares and H shares.

#### JUNE

The Company and Sybase, Inc. announced to establish a joint venture.

#### OCTOBER

The Group and Bytemobile, Inc. announced to establish a joint venture.

### 2012

#### FEBRUARY

The Company completed the rights issue. Dealing in the H rights shares commenced on The Stock Exchange of Hong Kong Limited on 10 February 2012. The rights issue raised gross proceeds of approximately RMB2,991 million (approximately HK\$3,677 million).

#### JUNE

The Company acquired the equity interests and assets in relation to several telecommunications infrastructure service companies in Ningxia and Xinjiang, etc. as well as 51% equity interests in Sino-British Submarine System Co., Ltd. for a total consideration of approximately RMB416 million.

### 2013

#### NOVEMBER

The Company announced jointly with China UnionPay and Bank of Changsha the launch of "Gripay", an Internet mobile financial service platform.

The Company announced jointly with China Telecom and SAP to offer SAP's cloud solution to the enterprises in China. Such service is offered by the joint venture of the Company with SAP.

#### DECEMBER

Mr. Si Fulong was appointed as the President of the Company and appointed as Executive Director of the Company on 21 February 2014.

### 2014

#### JULY

China Communications Facilities Services Corporation Limited (now renamed as China Tower Corporation Limited) indicated to the Company the relevant arrangements of preferential treatment and non-competition.

### 2015

#### JANUARY

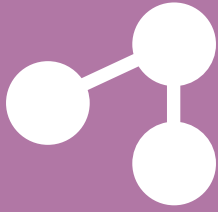
Mr. Li Ping resigned as the Chairman and an Executive Director of the Company. On the same date, Mr. Sun Kangmin was appointed as an Executive Director and the Chairman of the Company.



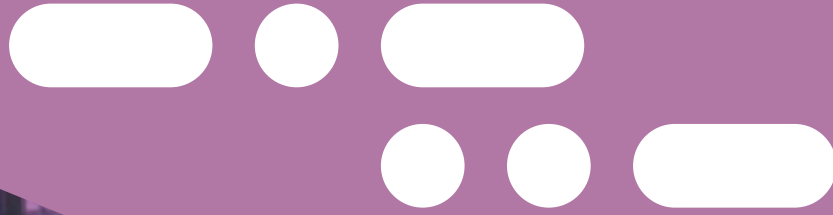


**Grasp opportunities**  
by adhering to the  
"value-driven" principle





The Group has improved its mechanism for budgeting, assessment and resources allocation by adhering to the “value-driven” principle in order to enhance efficient development of the Group. The Group will fully support the construction of 4G network by seizing the opportunities arising from the increasing capital expenditure and operating expenditure of telecommunications operators and undertake business from the Tower Company proactively. In respect of the domestic non-operator market, the Group will focus on government agencies and customers from construction, transportation, electricity, energy and financial industries and promote differentiated solutions. In respect of the overseas market, the Group will focus on the communications network construction demand of developing countries and realize the breakthroughs in the scale of turkey projects.



opportunities  
by adhering to the  
“value-driven” principle





# CHAIRMAN'S STATEMENT



**Sun Kangmin**  
Chairman

As China's economy entered into a "new normal" phase and the government promoted the comprehensive and deepened reforms in China, the Group captured opportunities arising from the comprehensive and deepened reforms to promote innovation in operational management and business models, and strengthen external cooperation, with a view to laying a solid foundation for further development of the Group.

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Dear Shareholders,

In 2014, China's economy entered into a "new normal" phase and the government promoted the comprehensive and deepened reforms in China. The operation of the Group was collectively affected by the changes of the macro-economic conditions and the development environment of the industry. During the year, the Group adopted a market-oriented approach to tackle the challenges proactively. The Group managed to maintain its stable and healthy development through proper allocation of resources and optimisation of business structure to enhance the quality of development. Meanwhile, the Group captured opportunities arising from the comprehensive and deepened reforms to promote innovation in operational management and business models, and strengthen external cooperation, with a view to laying a solid foundation for further development of the Group.

### OPERATING RESULTS

In 2014, the Group recorded total revenues of RMB73,176 million, representing a year-on-year growth of 6.9%. Profit attributable to equity shareholders of the Company was RMB2,150 million, representing a year-on-year decrease of 3.9%, but such decrease was lowered as compared with that of 2013<sup>1</sup>. Free cash flow<sup>2</sup> was RMB833 million, reaching a record high in the recent five years. Having considered the interests of and returns to our shareholders and the funding requirement for the Group's future development, the Board proposed to pay a final dividend of RMB0.0931 per share for the financial year ended 31 December 2014.

### MAINTAINING LEADING POSITION IN THE DOMESTIC TELECOMMUNICATIONS OPERATOR MARKET

In 2014, affected by the progress of 4G licenses issuance in China, the domestic telecommunications operators showed an imbalanced pace of network construction investment between the first half and second half of the year. The Group closely followed the pace of network construction investment, accelerated its business development later in the year, grasped the opportunities arising from the increasing demand of outsourcing maintenance services from our customers by leveraging on our advantages in integrated services of construction and maintenance, and provided quality and differentiated solutions for telecommunications operators. In 2014, revenue from domestic telecommunications operators increased by 8.8% compared to that of the last year, representing 64.4% of the total revenues. The domestic telecommunications operators remained the most important contributors of the operating results of the Group.

### PERSISTING IN EFFICIENT EXPANSION OF TWO NEW MARKETS

In 2014, adhering to the principle of "efficient development", the Group actively expanded the domestic non-operator market and overseas market. While pursuing reasonable growth, the Group scaled down the development of certain businesses with low operating efficiency, and focused more on the optimization of revenue structure and the enhancement of income quality. Total revenues from these markets increased by 3.7% as compared with the previous year, of which revenue from domestic non-operator customers reached a year-on-year growth of 4.4% and represented 30.4% of the total revenues, and revenue from overseas customers recorded a year-on-year decline of 0.6% and represented 5.2% of the total revenues. In view of the transformation and upgrade of the domestic economy and the complicated and ever-changing foreign environment, the Group believes that the continuous enhancement of the development quality in the two new markets provides a favourable pre-requisite for the sustainable development of the Group.

<sup>1</sup> Profit attributable to equity shareholders of the Company for 2013 was RMB2,238 million, representing a year-on-year decrease of 7.0%.

<sup>2</sup> Free cash flow = Profit for the year + Depreciation and amortization – Changes in working capital – Capital expenditure

## CHAIRMAN'S STATEMENT

### PROMOTING COMPREHENSIVE AND DEEPENED REFORMS AND EXTERNAL COOPERATION

In 2014, the Group focused on the innovation of operational management and business models. The Group adjusted the organizational structure of its headquarters in accordance with market needs and the development strategies of the Company, and reduced the management layers of some specialized subsidiaries and deployed more personnel to handle front-line marketing activities. The Group also explored the feasibility of professional operations and projects cooperation for certain business segments to reduce its operating costs and focus more on market development.

During the year, the Group successfully developed several typical informatisation turnkey projects, such as "Smart Qianhai", "Guanlan Cloud Computing Centre" and "China Life Data Centre". The Group entered into strategic cooperation and centralised procurement agreements with well-known local and overseas enterprises for future cooperation in the development of "Smart City" and "Safe City". The Group also entered into contracts with 18 companies for the sale of Success Factors, a human resources management solution jointly promoted by the Group and SAP. "Gripay", an Internet mobile financial service platform of the Group, has built up its client base and gained brand awareness locally.

### PREFERENTIAL TREATMENT AND NON-COMPETITION ARRANGEMENTS WITH THE TOWER COMPANY<sup>3</sup>

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In 2014, pursuant to the arrangement for the establishment of the Tower Company, the Group commenced the relevant work in relation to our preferential treatment and non-competition arrangements with the Tower Company, and undertook some construction and maintenance businesses.

### CORPORATE SOCIAL RESPONSIBILITY

The Group has always been committed to corporate social responsibility. In 2014, the Group immediately reconnected the communication networks affected by natural disasters in some areas in Hainan, Guangxi and Yunnan to assist operators in ensuring the normal operation of telecommunications network. Meanwhile, the Group adhered to its environmental protection philosophy. While minimising energy consumption, the Group also developed and promoted energy-saving products to build a resource-conservation society.

<sup>3</sup> Tower Company refers to China Tower Corporation Limited (formerly known as China Communications Facilities Services Corporation Limited).

### CORPORATE GOVERNANCE

In 2014, the Group received the Gold Award from *The Asset* at "The Asset Corporate Awards 2014" for its financial performance and corporate governance. The Group was again awarded "The Best of Asia – Icon on Corporate Governance" by *Corporate Governance Asia* at the tenth session of the "Corporate Governance Asia Recognition Award 2014". The Group was also recognised as "The Best Investment Value Listed Company" by *Tai Kung Pao* at the fourth session of the "China Securities Golden Bauhinia Awards". These awards demonstrated the Company's achievements in results performance and corporate governance over the years and the high recognition of the Company by the capital market.

### PROSPECTS

Currently, the Group is facing many new situations and changes as brought by the macro economy and industry environment, but we believe that there will be more opportunities than challenges ahead. On 27 February 2015, the Ministry of Industry and Information Technology announced the issuance of operation permit for the "LTE/4G digital cellular mobile service (LTE FDD)". It is expected that domestic telecommunications operators will put more effort in network construction and will continue to outsource their maintenance business so as to focus on their core business, which will bring valuable opportunities to the Group to expand such market. Meanwhile, China is developing strategic emerging industries, accelerating informatisation of the society and boosting information consumption, all of which will provide ample opportunities in the domestic non-operator market of the Group. Currently, the demand of telecommunications infrastructure in the Middle East and Africa remains strong. In light of the "Going Abroad" of Chinese capital and enterprises and "One Belt and One Road<sup>4</sup>" strategies of China, it is believed that the potential of overseas market is huge. Besides, the Group will have new business opportunities under the preferential treatment and non-competition arrangements with the Tower Company.

On the other hand, the Group will continue to capture the opportunities from the comprehensive and deepened reforms to cope with the challenges, and enhance vitality and capability of the Group by pursuing system and mechanism innovation. The Group will further optimise its internal structure in accordance with market needs so as to meet customers' requirement flexibly. The Group will promote the specialization and integration of high-value business to improve its ability to provide integrated services throughout the entire industry chain. The Group will consolidate internal advantageous resources, actively track and reserve new technologies, devote more investments to research and development and enhance external cooperation to continuously develop products with core competitiveness. The Group will also promote innovation in business model to enhance its market development ability and profitability to prevent operation risks.

<sup>4</sup> "One Belt and One Road" refers to the "New Silk Road Economic Belt" and the "21st Century Maritime Silk Road".

## CHAIRMAN'S STATEMENT

In 2015, the Group will adhere to the principles of “innovation and transformation, seeking steady development, and pursuing efficient development” to strengthen the value-driven principle. The Group will strike a reasonable balance between development pace and quality in pursuit of greater value for shareholders and customers.

Finally, on behalf of the Board, I would like to express my sincere gratitude to Mr. Li Ping, who resigned as the Chairman of the Company in January 2015, for his outstanding contributions to the Group. I would also like to take this opportunity to express my sincere gratitude to shareholders and customers of the Group and all sectors of society for their longstanding care and support to the Group.



**Sun Kangmin**

*Chairman*

Beijing, PRC  
25 March 2015



# PRESIDENT'S STATEMENT



**Si Furong**  
President

In 2015, adhering to the principle of “value-driven and efficient development”, the Group will focus on expanding the three major markets, promoting reforms and innovation, lowering cost and enhancing efficiency, so as to create greater value for both its shareholders and customers.

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Dear Shareholders,

I am very pleased to present the operating results of the Group in 2014.

## FINANCIAL PERFORMANCE

In 2014, in face of the complex and volatile internal and external operating environment, the Group adhered to its market-oriented approach, allocated its resources adaptively for the expansion of the three major customer<sup>1</sup> markets, and closely followed the pace of network construction and higher outsourcing demand of maintenance of domestic telecommunications operators. The Group recorded total revenues of RMB73,176 million for the year, representing a year-on-year increase of 6.9%. During the year, the reduction of service charge and the implementation of the “VAT Reform<sup>2</sup>”, Labour Contract Law<sup>3</sup> and other new industry policies imposed extra pressures on the Group in terms of competition and costs. In addition, the Group adopted a more prudent approach in financial management in 2014. As a result of the aforementioned factors, profit attributable to equity shareholders of the Company amounted to RMB2,150 million for the year, representing a year-on-year decrease of 3.9%. Gross profit margin and net profit margin were 14.6% and 2.9%, respectively. Basic earnings per share amounted to RMB0.310.

<sup>1</sup> Three major customers refer to domestic telecommunications operators, domestic non-operator customers and overseas customers.

<sup>2</sup> VAT Reform refers to the replacement of business tax with value added tax.

<sup>3</sup> Labour Contract Law refers to the amended PRC Labour Contract Law.

## PRESIDENT'S STATEMENT

The Group continued to strengthen the management of cash flow and accounts receivable through effective settlement and collection work. Free cash flow for the year was RMB833 million, representing a significant improvement from RMB324 million for 2013.

## BUSINESS DEVELOPMENT

In 2014, benefiting from the demands of 4G development of domestic telecommunications operators, the revenue from telecommunications infrastructure ("TIS") services achieved a year-on-year increase of 6.2%, accounting for 46.5% of the total revenues. The revenue of TIS services from China Telecom recorded a year-on-year increase of 7.9% whereas revenue of TIS services from the overseas market recorded a year-on-year increase of 10.8%.

In 2014, the revenue from business process outsourcing ("BPO") services achieved a year-on-year increase of 7.6%, accounting for 42.6% of the total revenues. In addition to our focus on the business opportunities from the capital investment of domestic telecommunications operators, the Group also sought business opportunities from their operating expenditure and continuous demand of maintenance outsourcing. Revenue from network maintenance increased by 18.3%, more than doubled in terms of the growth rate as compared with the previous year<sup>4</sup>, and the relevant incremental revenue accounted for nearly 27% of total incremental revenues.

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In 2014, the revenue from applications, content and other services ("ACO") achieved a year-on-year increase of 7.3%, accounting for 10.9% of the total revenues. During the year, the Group focused on the development of key areas including "Smart City" and "Safe City", and continued to promote the relevant competitive products and solutions. Moreover, there were breakthroughs in the number of users of our typical innovative products, such as Success Factors, a human resources management solution and "Gripay", an Internet mobile financial service platform.

## CUSTOMER DEVELOPMENT

In 2014, the Group focused on three major customer markets and allocated more resources on important areas of business development. Revenue from domestic telecommunications operator market was RMB47,117 million, representing a year-on-year growth of 8.8%. Revenue from China Telecom achieved a year-on-year growth of 9.3%, accounting for 43.7% of the total revenues while the aggregate revenues from China Mobile and China Unicom achieved a year-on-year growth of 7.6%, accounting for 20.7% of the total revenues. The Group optimized the revenue composition of domestic non-operator customers and overseas customers, and the revenue growth for businesses of less profitability slowed down significantly. Revenue from domestic non-operator customers amounted to RMB22,269 million, representing a year-on-year growth of 4.4% and accounting for 30.4% of the total revenues. Revenue from overseas customers amounted to RMB3,790 million, accounting for 5.2% of the total revenues. While reinforcing our presence in certain important markets, including Congo (K), Tanzania and Nigeria, we also successfully achieved new breakthroughs in winning turnkey projects in Niger and Gabon, and the proportion of revenues from turnkey projects increased to 51% of the revenue from overseas market.

<sup>4</sup> In 2013, revenue from network maintenance of the Group was RMB6,884 million, representing a year-on-year increase of 7.3%.

### MANAGEMENT INNOVATION

In 2014, the Group captured opportunities arising from the comprehensive and deepened reforms and undertook various innovative measures, including adjusting its organizational structure, streamlining the management layers of specialized subsidiaries and reforming certain business segments so as to enable the Group to keep in pace of the market development. For precise management, the Group has further identified the principle of "value-driven" and established a system that integrated budget, assessment and resource allocation on the basis of cash flow and profit contribution in order to enhance the operating efficiency of the Group. The Group established a long-term mechanism for management of accounts receivable, and put extra effort in the collection of long outstanding receivables, thereby effectively accelerated cash collection. The Group also further enhanced the risk prevention capability by conducting internal special audits.

### PROSPECTS FOR 2015

In 2015, adhering to the principle of "value-driven and efficient development", the Group will focus on expanding the three major markets, promoting reforms and innovation, lowering cost and enhancing efficiency, so as to create greater value for both its shareholders and customers through the following measures:

1. The Group will consolidate our leading position in the domestic telecommunications operator market by seizing business opportunities arising from 4G development. The Group will fully support the construction of 4G network by seizing the opportunities arising from investment in network construction by operator customers. The Group will also focus on the opportunities from the operating expenditure and needs of customers to provide competitive one-stop construction and maintenance solutions. The Group will vigorously develop businesses in network maintenance and network optimization, and strive for breakthroughs in high-end maintenance, collaborative logistics and energy-preserving products.
2. The Group will strengthen the establishment of its organization structure to support further expansion of domestic non-operator market. The Group will accelerate the establishment of five key systems relating to marketing, products, procurement, delivery and financing to create synergistic effects in market expansion. The Group will establish a vertically integrated marketing system and focus on the informatisation demand of government, industries and small-and-medium enterprises. The Group will establish product lines both in the group and regional level to promote representative products, such as "Smart City", "Intelligent Building", "Smart Transportation", "Smart Security" and "SAP Cloud Computing". The Group will strengthen the synergistic development of products across different regions to enhance market penetration.
3. The Group will adopt a new operational model to boost the leaping development in the overseas market. The Group will focus on the markets in the Middle East, Africa and Southeast Asia which have demand for "Broadband Countries", "Smart City" and "Regional Information Hubs". The Group will also review its products offerings and promote products and services with distinctive competitive advantages to secure large scale turnkey projects. The Group will adopt new business model to initiate projects through consultation and planning, to launch projects through investment and finance and to develop projects through operation and maintenance. The Group will refine its presences in the overseas market by enhancing differentiated management and resources allocation to businesses and regions with higher profitability.

## PRESIDENT'S STATEMENT

4. The Group will implement the preferential treatment and non-competition arrangements with the Tower Company. The Group will focus on customers' needs, coordinate at various levels within the Group, and provide full service support.
5. The Group will integrate internal and external resources to develop core products. The Group will track and reserve new technologies and increase its investment in research and development in key areas, including cloud computing, Internet of Things and information security. The Group will allocate innovation funds to establish product bases. The innovation of product, mechanism and business model will be fully integrated for the development of more competitive core products.
6. The Group will enhance efficiency by strengthening precise management. The Group will further refine the organizational structure of provincial-level subsidiaries and specialized subsidiaries, strengthen project management and sub-divide performance evaluation units so as to promote cost reduction and achieve higher profitability. The Group will improve capital management to improve the efficiency of utilization of funds, and strengthen its financial control to prevent operational risks.

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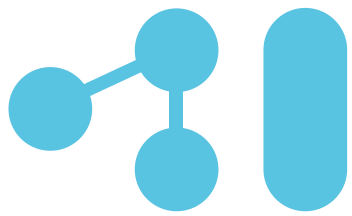


**Si Furong**

*President*

Beijing, the PRC

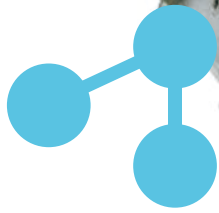
25 March 2015

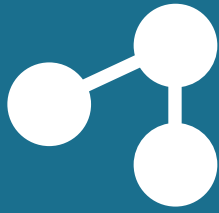


Pursuing

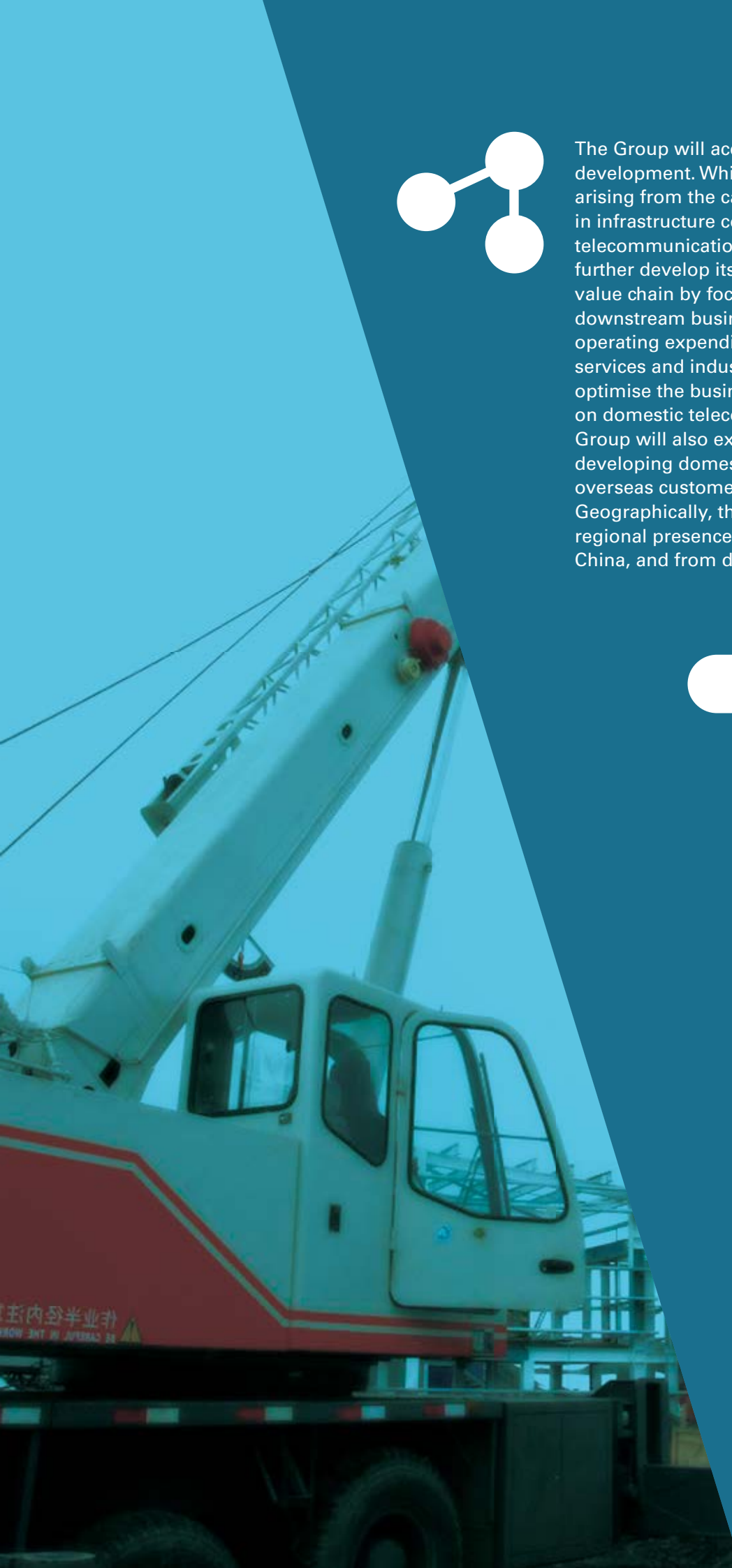
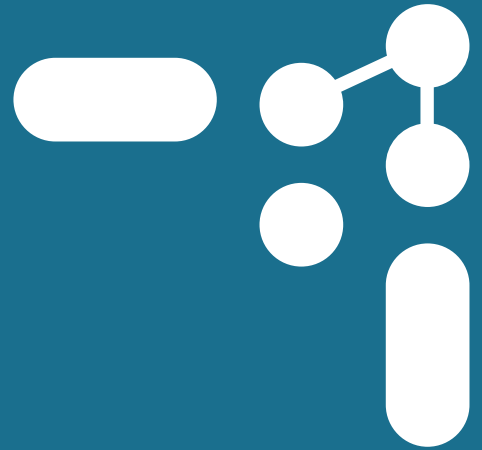
Development

with Efficiency





The Group will accelerate its business development. While capturing the opportunities arising from the capital expenditure investment in infrastructure construction by telecommunications operators, the Group will further develop its business along the industry value chain by focusing on the upstream and downstream businesses, including the operating expenditure in high-end maintenance services and industrial applications so as to optimise the business structure. While focusing on domestic telecommunications operators, the Group will also expand its customer base by developing domestic non-operator customers, overseas customers and Internet companies. Geographically, the Group will expand its regional presence from southern to northern China, and from domestic to overseas market.





# BUSINESS OVERVIEW

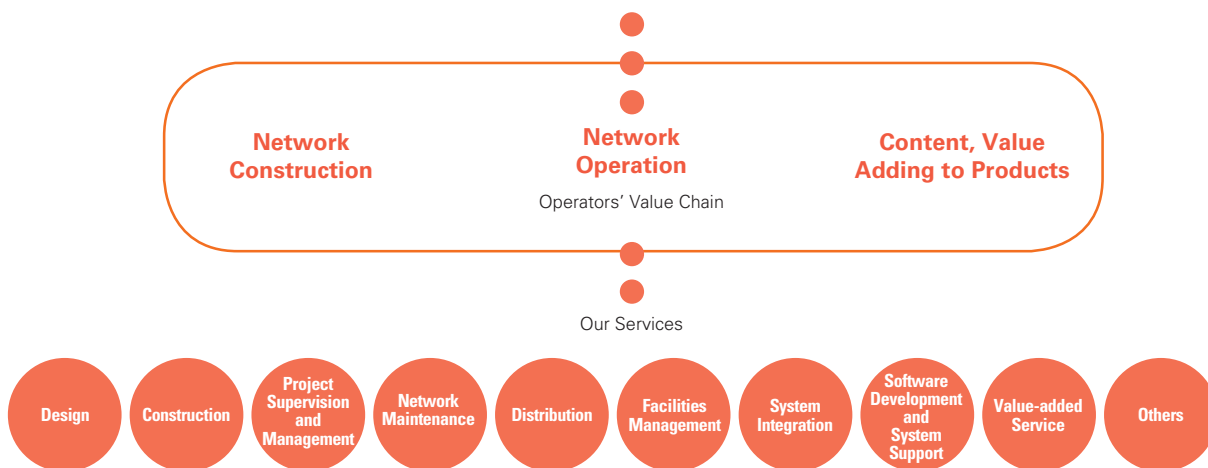
The Group is a leading service provider in the PRC that provides integrated support services in the informatisation sector including telecommunications, media and technology. The Group provides integrated solutions, including telecommunications infrastructure services, business process outsourcing services as well as applications, content and other services to telecommunications operators, media operators, telecommunications equipment manufacturers, telecommunications infrastructure providers, government agencies, industrial customers and small-and-medium enterprises ("SMEs").

The Group's business covers China and dozens of countries and regions globally. Its overseas customers are mainly located in the markets including Africa, the Middle East and Southeast Asia.

## CUSTOMER SERVICES AND MARKET EXPANSION

In 2014, the Group continued to adhere to its market-oriented approach and overcame the imbalanced pace of network construction investment of domestic telecommunications operators. The Group allocated resources adaptively for the expansion of the three customer markets by leveraging on its advantages of integrated services to further expand into the domestic telecommunications operator market, and the Group's leading position in such market was further consolidated. Furthermore, the Group accelerated its business development in the domestic non-operator market and actively and orderly expanded into the overseas market. The income structure was optimized, and the quality of overall business development and the risk prevention capability of the Group were further enhanced.

**We provide an integrated package of services through all stages of operators' value chain**





## BUSINESS OVERVIEW

(In RMB million except percentages)	2014		2013		Changes over 2013
	Revenue	Percentage to total revenues	Revenue	Percentage to total revenues	
Domestic telecommunications operator customers	47,117	64.4%	43,326	63.3%	8.8%
Domestic non-operator customers	22,269	30.4%	21,321	31.1%	4.4%
Overseas customers	3,790	5.2%	3,812	5.6%	-0.6%
Total	73,176	100%	68,459	100%	6.9%

In 2014, the Group maintained steady and sound development. While pursuing steady revenue growth, the Group scaled down the development of certain businesses with low operating efficiency and further enhanced the quality of income from domestic non-operators and overseas customers. The Group achieved total revenues of RMB73,176 million, representing a year-on-year increase of 6.9%.

In 2014, revenue from domestic telecommunications operator customers amounted to RMB47,117 million, representing a year-on-year increase of 8.8% and accounting for 64.4% of the total revenues. Domestic telecommunications operator customers were the most important contributor of the operating results in 2014. As the operation permit for the LTE/4G digital cellular mobile service (TD-LTE) was issued in December 2013 and the number of LTE hybrid network trial cities gradually increased since the second half of 2014, domestic telecommunications operators accelerated their investment in network construction which provided more business opportunities for the Group in telecommunications infrastructure services. Moreover, the Group closely monitored the increasing demand of outsourcing maintenance services from domestic telecommunications operator customers and leveraged on its advantages in integrated services of construction and maintenance to fully support 4G network construction and overall network maintenance of domestic telecommunications operator customers. The Group believes that the issuance of FDD LTE license will boost the network construction investment of domestic telecommunications operators. The comprehensive and deepened reforms measures, the promotion of "Broadband Countries" strategy, as well as the commencement of operation of the Tower Company will provide the Group with precious opportunities for expanding into the relevant markets in China.

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Establishment of communication system for the Youth Olympic Games

## BUSINESS OVERVIEW

In 2014, revenue from domestic non-operator customers amounted to RMB22,269 million, representing a year-on-year increase of 4.4% and accounting for 30.4% of the total revenues. The Group proactively grasped the development opportunities brought by the rapid development of informatisation due to domestic economic transformation and upgrade and focused on the informatisation demand of government agencies, industrial customers and SMEs and provided our customers with services such as urban pipeline relocation, Smart City, cloud computing/data centres and intelligent building. The Group successfully entered into agreements in relation to informatisation turnkey projects, such as Smart Qianhai, Smart Ningbo Exhibition Centre, China Life Data Centre, Guanlan Cloud Computing Centre, intelligentization of White Swan Hotel and Safe Binjiang, which further enhanced the brand awareness and recognition of the Group. In the future, the Group will focus on the demand arising from national policies in urbanization and informatisation and will strive to expand into key sectors, such as construction and real estate, transportation, internet and IT, energy and finance, to provide its customers with typical informatisation products and solutions, including "Smart City", "Safe City", "Intelligent Building" and "Cloud Computing".



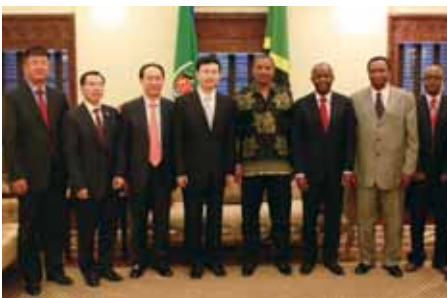
Smart Ningbo Exhibition Centre Project

In 2014, revenue from overseas customers amounted to RMB3,790 million, representing a year-on-year decrease of 0.6% and accounting for 5.2% of the total revenues. The Group continued to optimize the revenue structure of overseas customers by scaling down the development of certain businesses with low operating efficiency and increasing the proportion of turnkey projects to overseas revenue. During the year, revenue from overseas turnkey projects accounted for 51% of overseas revenue, representing a year-on-year increase of 9 percentage points.

The Group further consolidated its position in major markets, including Congo (K), Tanzania and Nigeria and expanded into new markets in Gabon and Niger for the construction of national backbone networks. During the year, the Group strengthened its cooperation with a strategic investor and financial institutions, to further broaden its financing channels and actively supported the development of its overseas business. In the future, the Group will grasp the opportunities brought by the governments promotion of "One Belt and One Road" construction, the establishment of "Asian Infrastructure Investment Bank" and the "Going Abroad" strategy of Chinese capital and enterprises and focus on the demand of "Broadband Countries, Smart Cities and Regional Information Hubs" in Africa, the Middle East and Southeast Asia. The Group will endeavour to realise rapid scale development in overseas market by providing its customers with high quality and differentiated products and services.

## TELECOMMUNICATIONS INFRASTRUCTURE SERVICES

As the largest telecommunications infrastructure service provider in China, the Group possesses all the highest grade qualifications in the communications construction industry in China. It is also able to provide worldwide operators with comprehensive telecommunications infrastructure services including planning, design, construction and project supervision for fixed-line, mobile, broadband networks and supporting systems. In 2014, the Group's revenue from telecommunications infrastructure services amounted to RMB34,008 million, representing a year-on-year growth of 6.2%.



Meeting with government officials of Tanzania



Submarine cable construction

The Group fully supported the broadband and mobile network construction of three major telecommunications operators and overseas customers. In 2014, the Group's revenue of telecommunications infrastructure services from domestic telecommunications operators amounted to RMB26,548 million, representing a year-on-year growth of 6.6%. The Group's revenue from the provision of telecommunications infrastructure services for overseas customers amounted to RMB2,964 million, representing a year-on-year increase of 10.8%.

The Group also provides construction services of ancillary communication networks, and integrated solutions for informatisation and intelligent buildings to domestic non-operator customers, such as government agencies, financial institutions, broadcasting and television enterprises and construction enterprises. The Group continuously achieved breakthroughs in Smart City, intelligent building and construction of data centre.



Fiber optic broadband network project in the information park

## BUSINESS OVERVIEW

In 2014, pursuant to the arrangement for the establishment of the Tower Company, the Group commenced the relevant work in relation to the preferential treatment and non-competition arrangements and undertook some construction and maintenance businesses of the Tower Company, and securing the continuity of services.

The Group believes that the Group's telecommunications infrastructure business will benefit from the increasing opportunities arising from the acceleration of network construction investment of domestic telecommunications operators as a result of 4G license issuance, the typical informatisation construction businesses such as "Smart City" and "Safe City" driven by the promotion of urbanization and informatisation in China, the booming demand for telecommunications infrastructure and mobile network construction in overseas emerging countries and the demand for integrated services from the Tower Company.



4G equipment installation and base station construction



## BUSINESS PROCESS OUTSOURCING SERVICES

The Group is the largest integrated provider of business process outsourcing services for the communications industry in China. Extending the telecommunications infrastructure services along the value chain of the communications industry, the Group mainly provides services including management of infrastructure for information technology ("Network Maintenance"), distribution of telecommunications services and products ("Distribution") and general facilities management. The target customers include domestic and overseas telecommunications operators, government agencies and enterprise customers. In 2014, as the Group actively expanded related business from operators' operating expenditure, revenue of business process outsourcing services amounted to RMB31,215 million, representing a year-on-year growth of 7.6%.

The Group provides Network Maintenance services for telecommunications operators in relation to fiber optic cables, electric cables, base stations, network equipments and user terminals. Continuous growth in the market space of maintenance services as a result of the enlarging network scale and the persistent maintenance outsourcing by domestic telecommunications operators have facilitated the rapid growth of revenue of Network Maintenance business of the Group. In 2014, revenue of Network Maintenance business amounted to RMB8,146 million, representing a year-on-year growth of 18.3% and it recorded the highest growth rate among all businesses of the Group in 2014. The incremental revenue of Network Maintenance business accounted for 26.8% of the total incremental revenues for the year.



Our emergency team worked hard for restoration of telecommunications networks in time of natural disasters

The Distribution services of the Group include marketing agency services for communications business, basic logistics and value-added logistics, sale of communications machineries, and wholesale and distribution of handsets. Our major customers are telecommunications operators, telecommunications equipment manufacturers, government agencies and medium to large-sized enterprises. In 2014, the Group adhered to the principle of “efficient development” in developing its distribution business and scaled down the development of business with low operating efficiency. The revenue of the distribution business for the year amounted to RMB19,599 million, representing a year-on-year increase of 3.5%. The growth rate was significantly lower than that of corresponding period of the previous year<sup>1</sup>.



Tower maintenance

The Group provides general facilities management services on equipment rooms, buildings and high-end office buildings for domestic telecommunications operators and non-operator customers. In 2014, revenue of the general facilities management services amounted to RMB3,470 million, representing a year-on-year growth of 8.7%.

The Group believes there is large market space and huge potential from the operating expenditure of domestic telecommunications operators. Business process outsourcing services have the characteristics of strong customer loyalty, low account receivables and sound cash flows. The Group will further consolidate its advantageous resources and commence professional operation in certain high-valued business lines to strive for efficient development in these markets.

<sup>1</sup> In 2013, revenue from the Distribution services of the Group amounted to RMB18,934 million, representing a year-on-year increase of 11.7%.

## BUSINESS OVERVIEW

### APPLICATIONS, CONTENT AND OTHER SERVICES

The Group provides services such as system integration, software development and system support, and value-added services for domestic telecommunications operators, government agencies, industrial customers and SMEs. In 2014, revenue of applications, content and other services amounted to RMB7,953 million, representing a year-on-year growth of 7.3%.

In 2014, the Group continued to promote competitive products and solutions such as “Smart City”, video surveillance, business and operation supporting systems, mobile informatisation and information security. Meanwhile, the Group also achieved breakthroughs in its innovative products, and its Internet mobile financial service platform “Gripay” had over 3 million registered users and became widely known locally. Agreements were signed with 18 corporate clients for Success Factors, a public cloud solution for human resources launched in August 2014 which was jointly operated by SAP and the Group.

The Group believes that the above areas are with enormous market space. The Group will leverage on its existing products and customer base, lift vibrancy and strengthen capability of specialised companies and key staff members through system and mechanism innovation, increase investment in the research and development and strengthen external cooperation, with a view to accelerating product innovation and promotion in key areas such as information security, Internet of Things and cloud computing.



The Company and SAP jointly launched cloud services



# 智慧宁波信息化战略总体架构

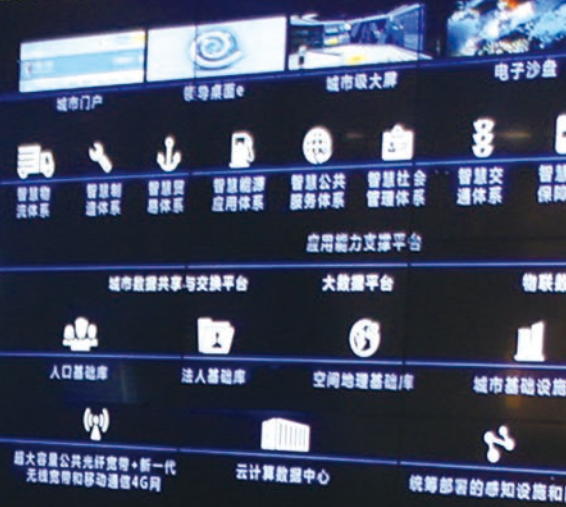
应用系统层

应用系统层

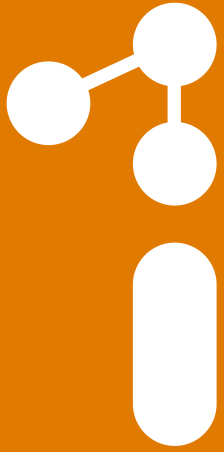
公共平台层

数据资源层

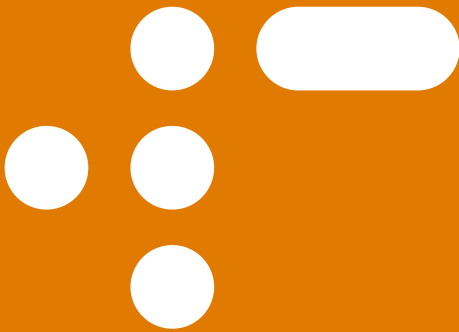
信息基础设施层



Implementing  
**Reforms**  
for Efficiency



The Group will promote deepened reforms to lift its vibrancy and strengthen its capability. The Group will pursue innovative operational and business models, optimise its organizational structure, and promote the specialization and integration of businesses to enhance its ability to provide integrated services. The Group will sub-divide performance evaluation units and optimise project management system. The Group will enhance its product innovation, review its product portfolio and devote more resources on research and development to key products so as to enhance its service quality and competitiveness.



# Reforms for Efficiency Implementing







# 智慧宁夏信息化建设总体架构

智慧宁夏

- 基础支撑
- 数据资源
- 业务应用
- 安全保障



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

## OVERVIEW

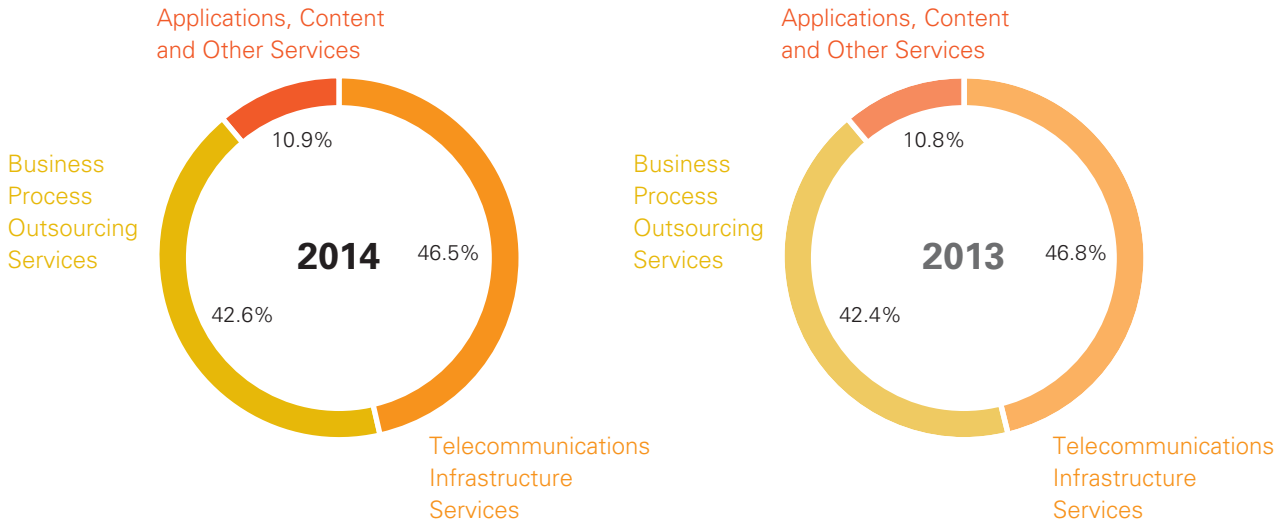
In 2014, the Group adhered to its market-oriented approach and allocated its resources in an adaptive way for the expansion of the three major customer markets. The Group's total revenues reached RMB73,176.25 million, representing an increase of 6.9% from 2013. However, the reduction of service charge and the implementation of the "VAT Reform", Labour Contract Law and other new industry policies imposed extra pressure on the Group in terms of competition and costs. In addition, the Group adopted a more prudent approach in financial management in 2014. As a result of the aforementioned factors, profit attributable to equity shareholders of the Company amounted to RMB2,150.26 million, representing a decrease of 3.9% from RMB2,238.35 million in 2013, and such decrease was lowered as compared with that of 2013. Basic earnings per share were RMB0.310. Free cash flow was RMB833.22 million in 2014, representing a significant improvement from RMB-323.58 million of last year.

## TOTAL REVENUES

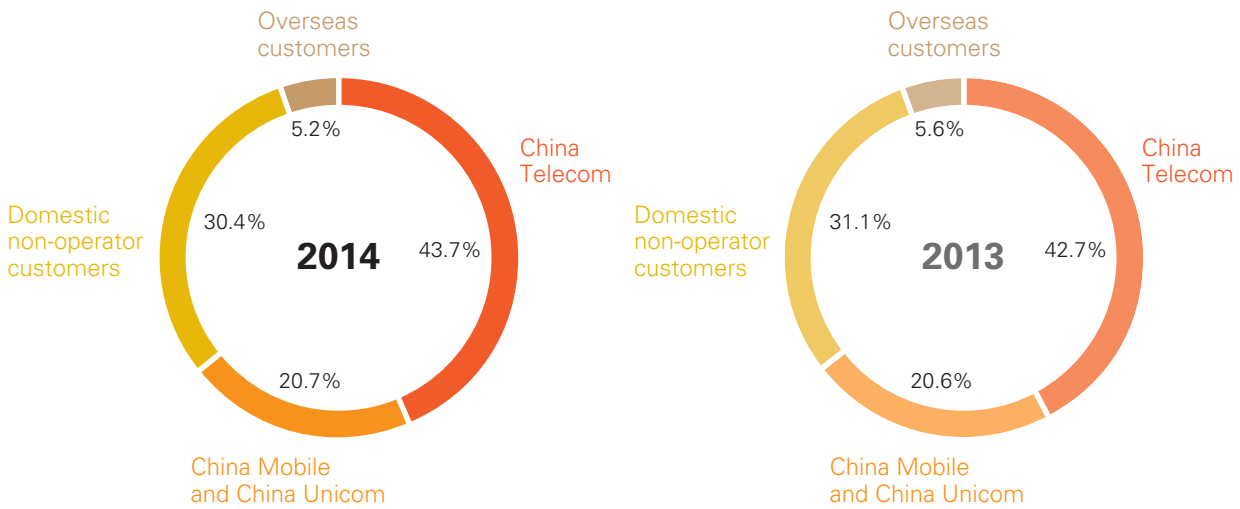
Our total revenues in 2014 were RMB73,176.25 million, representing an increase of 6.9% from 2013. Among our businesses, the revenue from telecommunications infrastructure ("TIS") services was RMB34,008.08 million, representing an increase of 6.2% from 2013; the revenue from business process outsourcing ("BPO") services was RMB31,215.42 million, representing an increase of 7.6% from 2013; the revenue from applications, content and other ("ACO") services was RMB7,952.75 million, representing an increase of 7.3% from 2013. As to business structure, construction services and network maintenance services were the two major businesses that contributed to the Group's overall incremental revenues. As to customer structure, the revenue from the domestic telecommunications operators in 2014 amounted to RMB47,117.25 million, representing 64.4% of the total revenues and an increase of 8.8% from 2013; the aggregate revenues from the domestic non-operator customers and overseas customers amounted to RMB26,059.00 million, representing an increase of 3.7% from 2013 and 35.6% of the total revenues. In 2014, the Group adopted a market-oriented approach and allocated its resources adaptively to grasp the opportunities from the network construction investment by domestic telecommunications operators after the issuance of 4G licenses. The Group saw favorable business development in the domestic telecommunications operator market and the incremental revenue from such market accounted for 80.4% of the total incremental revenues. This market was a major driving force of the Group's total revenues growth.

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

## BUSINESS MIX



## CUSTOMER MIX



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

The following table sets forth a breakdown of our total revenues for 2013 and 2014, together with their respective changes:

	2014 RMB'000	2013 RMB'000	Percentage Change
<b>Telecommunications Infrastructure Services</b>			
Design services	6,664,097	6,325,767	5.3%
Construction services	24,875,087	23,426,702	6.2%
Project supervision and management services	2,468,893	2,283,772	8.1%
	<b>34,008,077</b>	32,036,241	6.2%
<b>Business Process Outsourcing Services<sup>1</sup></b>			
Management of infrastructure for information technology	8,146,213	6,884,291	18.3%
Distribution of telecommunications services and products	19,599,256	18,933,812	3.5%
General facilities management	3,469,954	3,193,474	8.7%
	<b>31,215,423</b>	29,011,577	7.6%
<b>Applications, Content and Other Services</b>			
System Integration	3,574,294	3,355,792	6.5%
Software development and system support	1,447,777	1,378,348	5.0%
Value Added Services	1,285,250	1,170,597	9.8%
Others	1,645,431	1,506,541	9.2%
	<b>7,952,752</b>	7,411,278	7.3%
<b>Total</b>	<b>73,176,252</b>	68,459,096	6.9%

### Telecommunications Infrastructure Services

In 2014, the revenue from TIS services of the Group was RMB34,008.08 million, representing an increase of 6.2% over RMB32,036.24 million in 2013. TIS services were our primary source of revenues and accounted for 46.5% of our total revenues, representing a decrease of 0.3 percentage point from 46.8% in 2013. In light of the progress of 4G licenses issuance, domestic telecommunications operators showed imbalanced pace of network construction investment between the first half and second half of the year. The Group closely followed the pace of network construction investment by domestic telecommunications operators. TIS revenue from domestic telecommunications operators amounted to RMB26,547.76 million, representing an increase of 6.6% over RMB24,903.22 million in 2013. The aggregate TIS revenues from domestic non-operator market and overseas market amounted to RMB7,460.31 million, representing an increase of 4.6% over RMB7,133.02 million in 2013. Aggregate revenues from the domestic non-operator market and overseas market accounted for 21.9% of the total TIS revenues, representing a decrease of 0.4 percentage point over 2013.

<sup>1</sup> In consideration of the business development, the Group renamed its network maintenance business and facility management business in business process outsourcing services business as management of infrastructure for information technology business ("network maintenance") and general facilities management business ("facilities management") from 1 January 2014. Such changes do not affect the historical data.

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

### Business Process Outsourcing Services

In 2014, the revenue from BPO services of the Group was RMB31,215.42 million, representing an increase of 7.6% over RMB29,011.58 million in 2013. The revenue from BPO services accounted for 42.6% of our total revenues, representing an increase of 0.2 percentage point from 42.4% in 2013. Among BPO services, the revenue from network maintenance amounted to RMB8,146.21 million, representing an increase of 18.3% from 2013, more than doubled in terms of the growth rate as compared with last year, and incremental revenue from network maintenance accounted for 26.8% of the total incremental revenues. Such favorable development was mainly because the Group focused and captured the opportunities arising from the continuously increasing operating expenditure of the domestic telecommunications operators and their continuous demands for maintenance outsourcing. The revenue from distribution of telecommunications services and products ("Distribution Business") was RMB19,599.26 million, representing an increase of 3.5% over 2013. The growth rate was significantly lower than that of last year<sup>2</sup> because the Group adhered to the principle of efficient development and proactively controlled the development of certain Distribution Businesses with relatively low operating efficiency.

### Applications, Content and Other Services

In 2014, the revenue from ACO services of the Group was RMB7,952.75 million, representing an increase of 7.3% over RMB7,411.28 million in 2013. The revenue from ACO services accounted for 10.9% of our total revenues, representing an increase of 0.1 percentage point from 10.8% in 2013. During the year, by pursuing openness and innovation, the Group strived to grasp opportunities brought by the informatisation in China, and continuously promoted competitive products and solutions in key areas such as "Smart City" and "Safe City".

## COST OF REVENUES

Our cost of revenues in 2014 was RMB62,494.55 million, representing an increase of 7.6% from 2013 and accounting for 85.4% of our total revenues.

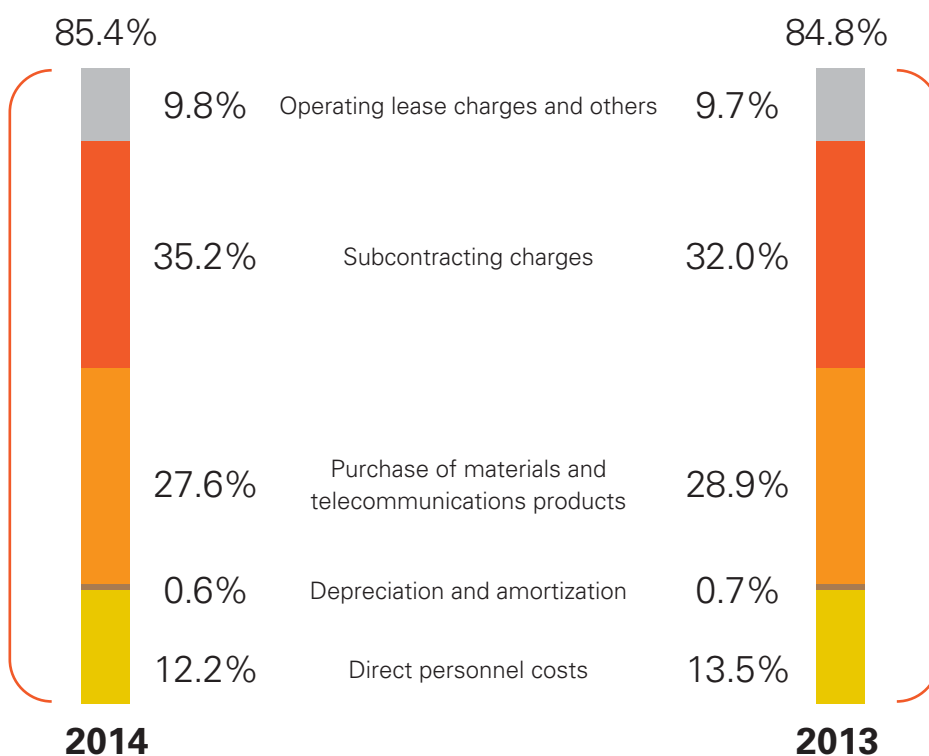
The following table sets out a breakdown of our cost of revenues in 2013 and 2014 and their respective changes:

	<b>2014</b> <b>RMB'000</b>	2013 RMB'000	Percentage Change
Direct personnel costs	<b>8,892,965</b>	9,251,872	-3.9%
Depreciation and amortisation	<b>450,741</b>	462,103	-2.5%
Purchase of materials and telecommunications products	<b>20,190,921</b>	19,804,087	2.0%
Subcontracting charges	<b>25,763,190</b>	21,873,785	17.8%
Operating lease charges and others	<b>7,196,732</b>	6,689,260	7.6%
<b>Total cost of revenues</b>	<b>62,494,549</b>	58,081,107	7.6%

<sup>2</sup> In 2013, the Group's revenue from Distribution Business was RMB18,933.81 million, representing a year-on-year increase of 11.7%.

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

### COST OF REVENUES AS A % OF TOTAL REVENUES



#### Direct Personnel Costs

In 2014, direct personnel costs were RMB8,892.97 million, representing a decrease of 3.9% over RMB9,251.87 million in 2013. With the growth in business volume in 2014, 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 Labour Contract Law, and employed dispatch workers in accordance with the relevant regulations to avoid related risks. Direct personnel costs as a proportion to our total revenues was 12.2%, representing a decrease of 1.3 percentage points compared to 2013.

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

### Depreciation and Amortisation

In 2014, depreciation and amortisation were RMB450.74 million, representing a decrease of 2.5% over RMB462.10 million in 2013. Depreciation and amortisation as a proportion to our total revenues was 0.6%, representing a decrease of 0.1 percentage point compared to 2013.

### Purchase of Materials and Telecommunications Products

In 2014, the costs of materials and telecommunications products purchase were RMB20,190.92 million, representing an increase of 2.0% from RMB19,804.09 million in 2013. The significant decrease in the growth rate of costs of materials and telecommunications products<sup>3</sup> was mainly because the Group effectively controlled the development of certain low-end Distribution Businesses. Cost of materials and telecommunications products as a proportion to our total revenues was 27.6%, representing a decrease of 1.3 percentage points compared to 2013.

### Subcontracting Charges

In 2014, subcontracting charges were RMB25,763.19 million, representing an increase of 17.8% over RMB21,873.79 million in 2013. Such increase was mainly resulted from our TIS services and network maintenance services. Having considered its strategic development, effectiveness and efficiency, the Group continued to focus on high-end businesses and outsource certain low-end tasks, and the Group believed that engaging subcontractors could facilitate a more flexible utilization of external resources. 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. Subcontracting charges as a proportion to our total revenues was 35.2%, representing an increase of 3.2 percentage points compared to 2013.

### Operating Lease Charges and Others

In 2014, operating lease charges and others were RMB7,196.73 million, representing an increase of 7.6% over RMB6,689.26 million in 2013. Operating lease charges and others as a proportion to our total revenues was 9.8%, which remained stable as compared with 2013.

## GROSS PROFIT

In 2014, the Group's gross profit amounted to RMB10,681.70 million, representing an increase of 2.9% over RMB10,377.99 million in 2013. The Group's gross profit margin in 2014 was 14.6%, representing a decrease of 0.6 percentage point from 15.2% in 2013. The decrease in gross profit margin was due to various factors, including the decrease in service charge, higher subcontracting charges, low profit margin in the initial stage of expansion into new markets and the change in the pricing of our design services and project supervision and management services resulting from the implementation of the "VAT Reform" in the telecommunications industry from 1 June 2014.

## SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Our selling, general and administrative expenses in 2014 were RMB8,777.03 million, representing an increase of 5.9% over RMB8,288.16 million in 2013. In 2014, the Group strengthened cost control on selling and administrative expense. Selling, general and administrative expenses as a proportion to our total revenues was 12.0%, representing a decrease of 0.1 percentage point compared to 2013.

<sup>3</sup> In 2013, the Group's purchase of materials and telecommunications products was RMB19,804.09 million, representing a year-on-year increase of 12.2%.

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

### FINANCE COSTS

In 2014, the Group's finance costs were RMB20.43 million and increased by 81.9% over RMB11.23 million in 2013. In 2014, the Group introduced a strategic investor for overseas market expansion. While increasing the financial resources to support business development, finance costs also increased accordingly.

### INCOME TAX

The income tax of the Group in 2014 was RMB463.09 million and our effective tax rate was 17.6%, representing a decrease of 0.2 percentage point compared to 17.8% in 2013. The difference between our 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 key software enterprises and new and high-technology enterprises the preferential policy of tax deduction before income tax for research and development expenses. Certain key software enterprises were entitled to a preferential income tax rate of 10%. Certain new and high-technology enterprises and enterprises which could enjoy the preferential policies for Western Development Program were entitled to a preferential income tax rate of 15%. Several subsidiaries of the Group were subject to an income tax rate of 20%. Apart from these subsidiaries, the Company and other domestic subsidiaries of the Group were 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 2014, profit attributable to equity shareholders of the Company was RMB2,150.26 million, representing a decrease of 3.9% over RMB2,238.35 million in 2013. Profit attributable to equity shareholders of the Company accounted for 2.9% of our total revenues, representing a decrease of 0.4 percentage point as compared with 2013. Basic earnings per share of the Company were RMB0.310.

### CAPITAL EXPENDITURE

We implement stringent budget management over capital expenditure, and adjust our capital expenditure plan according to changes in market condition. In 2014, our capital expenditure amounted to RMB645.60 million, representing a decrease of 8.4% from RMB705.23 million in 2013. The capital expenditure in 2014 accounted for 0.9% of our total revenues. Our capital expenditure included the purchases of production facilities and equipment, machinery and meters, plant and office buildings, intangible assets and other operating assets.

### CASH FLOW

Our net cash inflow in 2014 amounted to RMB576.13 million as compared to the net cash outflow of RMB2,086.36 million in 2013. As at the end of 2014, our cash and cash equivalents amounted to RMB7,313.52 million, of which 89.1% was denominated in Renminbi.



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

The following table sets out our cash flow positions in 2013 and 2014, respectively:

	2014 RMB'000	2013 RMB'000
Net cash generated from operating activities	1,608,854	320,943
Net cash used in investing activities	(876,674)	(1,009,334)
Net cash used in financing activities	(156,051)	(1,397,967)
Net increase/(decrease) in cash and cash equivalents	576,129	(2,086,358)

In 2014, net cash generated from operating activities was RMB1,608.85 million, representing an increase of RMB1,287.91 million from RMB320.94 million in 2013. The increase in net cash generated from operating activities was mainly due to the Group continuously strengthened its cash flow and accounts receivable management, and initiated accounts receivable settlement and collection work effectively.

In 2014, net cash used in investing activities was RMB876.67 million, representing a decrease of RMB132.66 million from RMB1,009.33 million in 2013. Cash used in investing activities mainly comprised capital expenditure such as equipment purchases.

In 2014, net cash used in financing activities was RMB156.05 million, representing a decrease of RMB1,241.92 million from RMB1,397.97 million in 2013. The change in cash flow from financing activities was mainly due to the increased liability by the Group after introducing a strategic investor for overseas expansion.

### WORKING CAPITAL

As at the end of 2014, working capital (i.e. current assets minus current liabilities) was RMB15,829.97 million, representing an increase of RMB1,414.23 million from RMB14,415.74 million in 2013. The increase in working capital was mainly due to the expansion of our business and the prolonged repayment cycle by major customers of the Group.

### INDEBTEDNESS

As at the end of 2014, total indebtedness of the Group was RMB897.43 million, representing an increase of RMB791.95 million from RMB105.48 million at the end of 2013. Indebtedness of the Group were mainly denominated in US dollar, of which Renminbi loan accounted for 1.5% and US dollar loan accounted for 98.5%, and of which 31.3% was fixed interest rate loans and 68.7% was floating interest rate loans.

As at the end of 2014, our gearing ratio<sup>4</sup> was 3.8%, representing an increase of 3.3 percentage points from 0.5% in 2013.

<sup>4</sup> Gearing ratio equals to total interest-bearing debts divided by the sum of total interest-bearing debts and equity attributable to equity shareholders of the Company at the end of each financial year.

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

### CONTRACTUAL OBLIGATIONS

The following table sets out our contractual obligations as at 31 December 2014:

	<b>Total</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019 and after</b>
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Short-term debt	246,818	246,818	-	-	-	-
Long-term debt	38,708	-	17,378	21,330	-	-
Convertible preference shares and preference shares	611,900	-	-	-	-	611,900
Operating lease commitments	786,911	304,985	161,318	98,425	64,345	157,838
Capital commitments	449,925	449,925	-	-	-	-
Of which:						
Authorized and contracted for	118,586	118,586	-	-	-	-
Authorized but not contracted for	331,339	331,339	-	-	-	-
<b>Total of contractual obligations</b>	<b>2,134,262</b>	<b>1,001,728</b>	<b>178,696</b>	<b>119,755</b>	<b>64,345</b>	<b>769,738</b>

### EXCHANGE RATE

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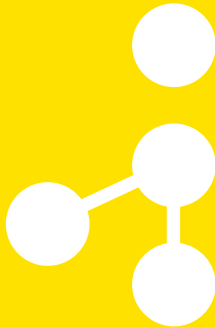
Most of our revenues and expenses are settled in Renminbi. As at the end of 2014, the balance of our cash and cash equivalents in foreign currencies accounted for 10.9% of our total cash and cash equivalents, of which 7.5% and 0.2% were denominated in US dollars and Hong Kong dollars, respectively.



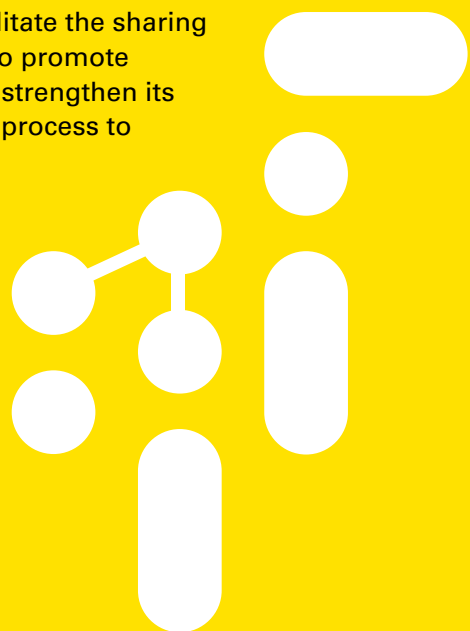
**Strengthening  
Management**

**for Efficiency**





The Group will strengthen precise management to promote cost reduction and enhance efficiency. The Group will have tight control over its headcount growth and optimise its staff structure to control its labour cost. The Group will enhance cash centralization and promote operational efficiency of funds. The Group will tighten non-operational capital expenditure as well as administration and management expenses. The Group will facilitate the sharing of resources and synergistic development to promote business development. The Group will also strengthen its risk management by improving the system process to promote efficient management.



# Management for Efficiency





# PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

## HONORARY CHAIRMAN



Mr. WANG Xiaochu

age 57, is the Honorary Chairman<sup>(1)</sup> of our Company. Mr. Wang is also the Chairman of China Telecommunications Corporation, and Chairman and Chief Executive Officer of China Telecom Corporation Limited. Mr. Wang was the Chairman and Non-Executive Director of the Company (until April 2008).

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## EXECUTIVE DIRECTORS



Mr. SUN Kangmin

age 57, is the Chairman of our Board of Directors and an Executive Director of our Company in charge of our overall management. Mr. Sun is also the Vice President of China Telecommunications Corporation, an Executive Director and Executive Vice President of China Telecom Corporation Limited and a Director of China Tower Corporation Limited. Mr. Sun is a senior engineer, he holds a bachelor degree. Mr. Sun served as Head of the Information Industry Department of Sichuan Province, Director General of Communication Administration Bureau of Sichuan Province, Chairman and General Manager of Sichuan Telecom Company Limited. Mr. Sun has 31 years of operational and managerial experience in the telecommunications industry in China.

(1) Honorary Chairman is not a member of the Board and does not have any power or right to vote on any matters considered by the Board.

## PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT



**Mr. SI Furong**

age 54, is the President and an Executive Director of our Company, responsible for our daily operations and management. Mr. Si is also the Managing Director of the Sideline Industrial Management Department of China Telecommunications Corporation and a Director of China Tower Corporation Limited. Mr. Si graduated from Information Engineering University in 1982 with a bachelor degree in wireless telecommunications. He also received an EMBA degree from Peking University Guanghua School of Management in 2006. Mr. Si previously served as the Director of the Corporate Affairs Department of China Telecommunications Corporation, the Director of the Corporate Affairs Department of China Telecom Corporation Limited, the General Manager of Shaanxi Telecom Company Limited of China Telecommunications Corporation, the General Manager of Shaanxi branch of China Telecom Corporation Limited, the General Manager of China Telecommunications Corporation Shaanxi network asset branch and Chairman of Shaanxi Communication Services Company Limited. Prior to joining China Telecommunications Corporation, Mr. Si was the Deputy Director of the Personnel Department of the Ministry of Information Industry. Mr. Si has 30 years of operational and managerial experience in the telecommunications industry in China.



**Ms. HOU Rui**

age 45, is an Executive Director, Executive Vice President and Chief Financial Officer of our Company. Ms. Hou received a master degree in Management Engineering from Beijing University of Posts and Telecommunications in 1995 and a master degree in International Commercial Accounting from The University of New South Wales in 2002. Prior to joining the Company, Ms. Hou was Deputy Managing Director of the Finance Department in China Telecommunications Corporation. Prior to that, Ms. Hou served as Divisional Director of General Finance Division and Budgeting Division of China Telecommunications Corporation's Finance Department and the Director and the Chief Accountant of Guangxi Telecom Company. Ms. Hou has over 20 years experience in telecommunications industry and financial management.

## PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

### NON-EXECUTIVE DIRECTORS



**Mr. LI Zhengmao**

age 53, is a Non-Executive Director of the Company. Mr. Li is the Vice President of China Mobile Communications Corporation, and the Director and Deputy General Manager of China Mobile Communication Company Limited. Mr. Li received a doctor's degree of radio engineering from the Southeast University. Mr. Li previously served as a professor of radio engineering, the Deputy Director of the Science and Technology Institute for the University of Electronic Science and Technology of China and the Director of national key laboratory. Mr. Li has held various positions in the China United Telecommunications Corporation, including the Deputy Head of the Network Technology Department, the Head of the Wireless Communication Department, the Head of the Technology Department and the Deputy Chief Engineer. He was also the Executive Director and Vice President of China Unicom Limited, the General Manager of the Yunnan branch of China United Telecommunications Corporation, and the Director and Deputy General Manager of China United Telecommunications Corporation. Mr. Li has extensive experience in telecommunications technology and business operations.



**Mr. ZHANG Junan**

age 58, is a Non-Executive Director of our Company. Mr. Zhang is a Vice President of China United Network Communications Group Company Limited, a Director and Senior Vice President of China Unicom (Hong Kong) Limited, a Director and Senior Vice President of China United Network Communications Corporation Limited and a Non-Executive Director of PCCW Limited. Mr. Zhang graduated from the Nanjing University of Posts and Telecommunications majoring in carrier communication in 1982, received a master degree in Business Administration from the National Australian University in 2002 and received a Doctor of Business Administration from Hong Kong Polytechnic University in 2008. Mr. Zhang previously served as Executive Director of China Unicom (Hong Kong) Limited, Deputy General Manager and General Manager of the Anhui Provincial Telecommunications Company, Chairman and General Manager of Anhui Provincial Telecommunications Co., Ltd., Director of Bengbu Municipal Posts and Telecommunications Bureau in Anhui Province and Deputy Director of Anhui Provincial Posts and Telecommunications Bureau. Mr. Zhang has extensive management experience in the telecommunications industry.



## PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

### INDEPENDENT NON-EXECUTIVE DIRECTORS



Mr. WANG Jun

age 74, is an Independent Non-Executive Director of our Company. Mr. Wang graduated from the Harbin Engineering Institute in the PRC. Mr. Wang was the former Chairman of China International Trust and Investment Corporation (“CITIC”). After his retirement in July 2006, he became the Chairman and Executive Director of Goldbond Group Holdings Limited. Mr. Wang was a Non-Executive Director and Honorary Chairman of HKC (Holdings) Limited (Until 17 April 2008) and an Executive Director and Chairman of the Board of Directors of CITIC 21CN Company Limited (until 30 April 2014).



Mr. ZHAO Chunjun

age 74, is an Independent Non-Executive Director of our Company. Mr. Zhao is the Chairman of Chinese Society for Management Modernization, an Independent Non-Executive Director of Dongfang Electric Corporation Limited and an Independent Director of China United Network Communications Limited. Mr. Zhao was the Chairman of the Supervisory Committee of Tongfang Co., Limited, an Independent Director of Daheng New Epoch Technology, Inc. and Bank of China Investment Management Company Limited. Mr. Zhao graduated from Tsinghua University in the PRC. He was Dean of the School of Economics and Management of Tsinghua University between June 2001 and October 2005, having previously served as Executive/First Vice Dean between January 1987 and June 2001.

## PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT



**Mr. WEI Leping**

age 69, is an Independent Non-Executive Director of our Company. Mr. Wei is the Executive Vice Chairman of Science and Technology Committee of the Ministry of Industry and Information Technology of the PRC and the Chairman of Science and Technology Advisory Committee of China Telecommunications Corporation, mainly responsible for the high-level technical advisory work for the telecommunications industry of China and China Telecommunications Corporation. Mr. Wei is a professor level Senior Engineer. He graduated in 1970 from Tsinghua University with a major in radio engineering and received a master degree in communication and information systems engineering from the Research Institute of Telecommunications and Technology. Mr. Wei previously served as Executive Director and Executive Vice President of China Telecom Corporation Limited, Chief Engineer of China Telecommunications Corporation, Deputy Director of the Telecommunications Research Institute of the Ministry of Information Industry of the PRC, Deputy Director of the Telecommunications Science Planning and Research Institute of the MPT and Deputy Director and Chief Engineer of the Telecommunications Transmissions Research Center of the MPT. Mr. Wei has 37 years of experience in research and development for technologies in the telecommunications industry in China and has been involved in research and decision making on major technology strategic development and projects for the nation, industry and enterprise for a long time.

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**Mr. SIU Wai Keung, Francis**

age 61, is an Independent Non-Executive Director of our Company. Mr. Siu is currently an Independent Non-Executive Director of GuocoLand Limited (listed on the Singapore Exchange), and CITIC Pacific Limited, Hop Hing Group Holdings Limited, Shunfeng Photovoltaic International Limited and China Huishan Dairy Holdings Co. Ltd and CGN Power Co., Limited (listed on the Hong Kong Stock Exchange). Mr. Siu was an Independent Non-Executive Director of Hua Xia Bank Co., Limited (until February 2014) and Beijing Hualian Hypermarket Company Limited (until March 2015). Mr. Siu graduated from the University of Sheffield, United Kingdom, with a Bachelor of Arts in Economics and Accounting and Financial Management in 1979. He is also a fellow member of the Institute of Chartered Accountants in England and Wales, and a fellow member of the Hong Kong Institute of Certified Public Accountants. He joined KPMG Manchester, UK in 1979 and returned to Hong Kong in 1986 and became a partner of KPMG Hong Kong in 1993. From 2000 to 2002, he was a Senior Partner of KPMG Shanghai Office. From 2002 to March 2010, he was a Senior Partner of KPMG Beijing Office as well as a Senior Partner of Northern Region, KPMG China. Mr. Siu has been in the accounting profession for over 30 years.

## PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

### SUPERVISORS

#### Ms. XIA Jianghua

age 56, is the Chairperson of our Supervisory Committee. Ms. Xia is consultant of Auditing Office of China Telecommunications Corporation. Ms. Xia is a senior auditor. Prior to joining China Telecommunications Corporation, she served as Vice-Divisional Director of the Auditing Bureau of MPT, Vice Divisional Director (standing) of the Auditing Division of DGT. Ms. Xia has 30 years management and auditing experience in the telecommunications industry.

#### Mr. HAI Liancheng

age 70, is an Independent Supervisor of our Company. Mr. Hai studied at the Civil Aviation College and Chinese Communist Party's (CPC) School, and obtained a college diploma. Mr. Hai served as Vice-Divisional Director and Divisional Director of the Financial Division of the Financial Department of Civil Aviation Administration of China ("CAAC"), Vice-Director and Director of the Financial Department of CAAC, General Manager of China Aviation Oil Supply Corporation and Vice General Manager of China Aviation Oil Holding Company. From September 2001 to February 2006, Mr. Hai served as the Chairman of South China BlueSky Aviation Oil Co., Ltd. and China Aviation Oil Corporation Ltd.. Mr. Hai has been the Director General of the CAAC Sub-association of the China Association of Chief Financial Officers and Chairman of the CAAC Training Centre for Accounting and Auditing since January 2006. Mr. Hai was employed by PICC Property and Casualty Co. Ltd. as consultant from June 2007 to June 2009. From October 2007 to March 2011, Mr. Hai was the Chairman of Zhong Peng Certified Public Accountants Ltd.. From March 2011 to March 2014, Mr. Hai served as senior advisor of China PnR Co., Ltd..

#### Mr. SI Jianfei

age 52, is an Employee Representative Supervisor and the Deputy Director of the Work Committee Office of the Union of the Company. Prior to that, Mr. Si was the Director of the General Manager's Office and Office of Board of Directors of the Company and concurrently served as the General Manager of Beijing Hongxiang Hotel. Mr. Si graduated from University of International Business and Economics in 2002 with an MBA degree. Mr. Si joined the Sideline Industrial Management Department of China Telecommunications Corporation in 2003 and served as the Divisional Director of the General Management Division. Prior to that, Mr. Si was the Deputy Director of Corporate Affairs Department of China Telecom Corporation Limited Xinjiang Branch. Mr. Si has 23 years working experiences in the telecommunications industry.

## PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

### MANAGEMENT

#### Mr. SUN Kangmin

(Please refer to the "Executive Directors" section)

#### Mr. SI Furong

(Please refer to the "Executive Directors" section)

#### Ms. HOU Rui

(Please refer to the "Executive Directors" section)

#### Mr. CHENG Hongyan

age 54, is an Executive Vice President of our Company. Mr. Cheng is a researcher-level senior engineer. Mr. Cheng was the General Manager of Jiangsu Communications Services Company Limited, a wholly-owned subsidiary of the Company. Mr. Cheng graduated from Nanjing University of Posts and Telecommunications in 1982 with a bachelor degree in telecommunications engineering, and received an MBA degree from China University of Mining and Technology in 2002 and an MBA degree from University of Quebec at Montreal in 2003. Mr. Cheng previously served as the Assistant Director of Suzhou Municipal Posts and Telecommunications Bureau in Jiangsu Province, the Deputy Director and the Chief Engineer of Xuzhou Municipal Telecommunications Bureau, the Deputy General Manager and the Chief Engineer of Xuzhou branch of China Telecom Corporation Limited, the General Manager of Huaian branch of China Telecom Corporation Limited, the Deputy General Manager and General Manager of Jiangsu Telecom Industry Group Co., Ltd.. Mr. Cheng has over 31 years of operational and managerial experience in telecommunications industry.

#### Mr. XU Chuguo

age 51, is an Executive Vice President of our Company. Mr. Xu is a professor-level senior engineer. Mr. Xu was the General Manager of China International Telecommunications Construction Corporation, a wholly-owned subsidiary of the Company. Mr. Xu graduated from Chongqing University of Posts and Telecommunications in 1987 with a bachelor degree in telecommunications engineering and received an EMBA degree from Peking University Guanghua School of Management in 2006. Mr. Xu previously served as the Director of The 3rd Engineering Bureau and the Deputy General Manager of the predecessor of China International Telecommunications Construction Corporation. Mr. Xu has over 26 years of market development, operational and managerial experience in domestic and overseas telecommunications industry.

## PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

### Mr. LIANG Shiping

age 45, is an Executive Vice President of our Company. Mr. Liang joined the Company in August 2008 as Director of the Marketing Department of the Company. Mr. Liang received a bachelor's degree in Computer Engineering from the Computer Science Department of Jilin University in 1992 and master's degree in Computer Application from the Sixth Research Institute of the Ministry of Machinery and Electronics Industry in 1996. Prior to joining the Company, Mr. Liang served at the Data Communication Bureau of the Ministry of Posts and Telecommunications, the Multimedia Bureau of the Telecom Administration of the Ministry of Posts and Telecommunications and the Technology Development Department of China Telecom Data Communication Bureau. From October 2000 to August 2008, Mr. Liang served as a Divisional Director of the Planning Division of the Data Communication Bureau and the Application Development Division of the Corporate Informatisation Department. Mr. Liang has over 23 years' experience in telecommunications and IT industry.

### Mr. YAN Dong

age 43, is an Executive Vice President and Chief Risk Officer of our Company. Mr. Yan is also the Deputy Managing Director of the Sideline Industrial Management Department of China Telecommunications Corporation and a Director of Besttone Holding Co., Ltd. Prior to that, Mr. Yan was the Director of the Corporate Affairs Department of the Company, the Employee Representative Supervisor of the Company, the Director of the Risk Management Department of the Company and the Deputy General Manager and Chief Financial Officer of China International Telecommunications Construction Corporation. Mr. Yan graduated from Shandong University in 2002 with an MBA degree. Prior to joining the Company in 2006, Mr. Yan served as a Project Manager in Shandong International Trust and Investment Corporation, Office Director and Manager of the Investment Department of Shandong Luxin Investment Corporation, General Manager of Shandong Luxin Property Investment and Development Co., Ltd. and Divisional Director of Coordinated Development Division and Sideline Industrial Restructuring Division of the Sideline Industrial Management Department of China Telecommunications Corporation. Mr. Yan has extensive experience in financial management, business administration and operation of listed companies.

## COMPANY SECRETARY

### Mr. CHUNG Wai Cheung, Terence

age 41, has been our Company Secretary, Assistant Chief Financial Officer and Qualified Accountant since 16 October 2006. Mr. Chung graduated from Melbourne University, Australia, with a bachelor of commerce degree in 1996 and received a master's degree in Business Administration from the Australian Graduate School of Management in 2005. Mr. Chung is a member of the Hong Kong Institute of Certified Public Accountants and the CPA Australia. Between March 2001 and October 2006, Mr. Chung worked as Finance Manager and Senior Finance Manager with China Mobile Limited and China Telecom Corporation Limited, respectively. Mr. Chung has nearly 19 years of experience in auditing, financial management and company secretarial work with accounting firm and listed companies.

# REPORT OF THE DIRECTORS

The board of directors (the “Board”) of China Communications Services Corporation Limited (the “Company”) is pleased to present the Report of the Directors of the Company, together with the audited financial statements of the Company and its subsidiaries (the “Group”) prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2014.

## PRINCIPAL BUSINESSES

The Group is a leading telecommunications service provider in the PRC that provides integrated support services in the field of informatisation. We offer telecommunications infrastructure services, including design, construction and project supervision and management; business process outsourcing services, including management of infrastructure for information technology (“network maintenance”); distribution of telecommunications services and products and general facilities management (“facilities management”); and applications, content and other services, including system integration, software development and system support, and value-added services. The major customers of the Group include domestic telecommunications operators, domestic non-operator customers such as government agencies, industrial customers and small and medium enterprises, and overseas customers.

## RESULTS

Results of the Group for the year ended 31 December 2014 and the financial position of the Company and the Group as at that date are set out in the audited financial statements on page 97 to page 176 in this annual report.

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## DIVIDENDS

The Board proposed a cash dividend of RMB0.0931 per share for the year ended 31 December 2014 based on dividend payout ratio of 30% over the profit attributable to equity shareholders of the Company, and total dividend amounted to approximately RMB644.81 million. The proposed dividends will be submitted for consideration and approval at the 2014 annual general meeting to be held on 26 June 2015. The Company proposed to distribute the dividends on the basis of the total share capital as at the close of trading on the record date for dividend distribution. Dividends will be denominated and declared in RMB. Dividends of domestic shares will be paid in RMB, whereas dividends of H shares will be paid in Hong Kong dollars. The relevant exchange rate will be the average of the mid-point rates of RMB 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 at the 2014 annual general meeting.

Further details in respect of the dividends and distribution by the Company are set out in note 15 of the audited financial statements on page 132 of this annual report.

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 investors of the Shanghai Stock Exchange (including enterprises and individuals) investing in the H shares of the Company listed on Hong Kong Stock Exchange (the "Southbound Trading Link"), the Shanghai branch of China Securities Depository and Clearing Corporation Limited, as the nominee of the holders of H shares under the Southbound Trading Link, will receive all dividends distributed by the Company and will distribute the dividends to the relevant investors of H shares under the Southbound Trading Link through its depository and clearing system.

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. The record date for entitlement to the shareholders' rights and the relevant arrangements of dividend distribution for the holders of H shares under the Southbound Trading Link are the same as those for the Company's H share shareholders.

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.

## REPORT OF THE DIRECTORS

### DIRECTORS AND SENIOR MANAGEMENT OF THE COMPANY

The following table sets out information concerning the directors and senior management of the Company as at the date of this report:

<b>Name</b>	<b>Position in the Company</b>	<b>Date of the first appointment</b>
Wang Xiaochu	Honorary Chairman <sup>(1)</sup>	8 April 2008
Sun Kangmin	Chairman Executive Director	19 January 2015 19 January 2015
Si Furong	Executive Director President	21 February 2014 19 December 2013
Hou Rui	Executive Director Chief Financial Officer Executive Vice President	23 February 2011 30 December 2010 27 October 2010
Li Zhengmao	Non-executive Director	27 November 2012
Zhang Junan	Non-executive Director	12 October 2006
Wang Jun	Independent Non-executive Director	26 September 2006
Zhao Chunjun	Independent Non-executive Director	26 September 2006
Wei Leping	Independent Non-executive Director	28 June 2012
Siu Wai Keung, Francis	Independent Non-executive Director	28 June 2012
Cheng Hongyan	Executive Vice President	21 July 2014
Xu Chuguo	Executive Vice President	21 July 2014
Liang Shiping	Executive Vice President	3 March 2010
Yan Dong	Executive Vice President Chief Risk Officer	18 June 2013
Chung Wai Cheung, Terence	Company Secretary, Assistant Chief Financial Officer and Qualified Accountant	16 October 2006

<sup>(1)</sup> Honorary Chairman is not a member of the Board and does not have any power or right to vote on any matters considered by the Board.

Mr. Si Furong was appointed as an executive director of the Company on 21 February 2014. Mr. Cheng Hongyan and Mr. Xu Chuguo were appointed as an executive vice president of the Company on 21 July 2014. Mr. Li Ping resigned as an executive director and Chairman of the Company on 19 January 2015, on the same day, Mr. Sun Kangmin was appointed as an executive director and Chairman of the Company.



## SUPERVISORS OF THE COMPANY

The following table sets out information concerning the supervisors of the Company as at the date of this report:

Name	Position in the Company	Date of the first appointment
Xia Jianghua	Chairperson of the Supervisory Committee	3 August 2006
Hai Liancheng	Independent Supervisor	3 August 2006
Si Jianfei	Employee Representative Supervisor	18 June 2013

Profiles of the directors, supervisors and senior management are set out in the “Profiles of Directors, Supervisors and Senior Management” section of this annual report.

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”). The Company considers all of the independent non-executive directors are independent.

## SHARE CAPITAL

The Company was incorporated on 30 August 2006. In December 2006, by way of an initial public offering (the “IPO”), the Company issued 1,484,986,000 H shares of RMB1.00 each at a price of HK\$2.20 per share. At the same time, the promoters of the Company transferred 148,498,600 domestic state-owned shares of RMB1.00 each to National Council for Social Security Fund of the PRC (the “NSSF”) and converted them into H shares on the basis of one domestic share to one H share. Immediately after the IPO, the registered capital of the Company amounted to RMB5,444,986,000, of which 1,633,484,600 H shares of the Company were listed and traded on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

On 9 April 2008, the Company announced the completion of placing a total of 359,365,600 H shares, including an issue of 326,696,000 new H shares and an issue of 32,669,600 H shares placed on behalf of NSSF upon conversion of the same number of existing domestic shares of the Company allocated to NSSF by China Telecommunications Corporation (“China Telecom”). After the completion of placing, the total issued shares of the Company increased to 5,771,682,000 shares, of which 1,992,850,200 shares were H shares.

As disclosed in the prospectus of the Company dated 27 November 2006, China Telecom entered into equity transfer arrangements with China Mobile Communications Corporation (“China Mobile”) and China United Telecommunications Corporation (now known as China United Network Communications Group Company Limited (“China Unicom”)), respectively. Pursuant to the arrangements, China Telecom agreed to transfer 506,880,000 and 236,300,000 domestic shares to China Mobile and China Unicom, respectively. On 24 March 2009, the equity transfers were formally completed and became effective. On the same date, Guangdong Telecom Industry Group Corporation and Zhejiang Telecom Industry Corporation completed the transfers of 236,313,086 and 87,664,532 domestic shares, respectively, to China Telecom.

According to the equity transfer agreement between China Telecom and China National Postal and Telecommunications Appliances Corporation on 28 May 2010, China Telecom agreed to transfer 108,899,720 domestic shares of the Company to China National Postal and Telecommunications Appliances Corporation. On 21 June 2011, the equity transfer was formally completed.

## REPORT OF THE DIRECTORS

Pursuant to the resolutions passed at the extraordinary general meeting, H shareholders class meeting and the domestic shareholders class meeting of the Company held on 28 June 2011 and as approved by domestic and overseas regulatory authorities, the Company announced the launch of H share and domestic share rights issue plan of an aggregate of 1,154,336,400 new shares, including 398,570,040 H rights shares and 755,766,360 domestic rights shares on the basis of 2 rights shares for every 10 existing shares on 30 December 2011 at the price of HK\$3.19 per H rights share and RMB2.59 per domestic rights share, respectively. On 10 February 2012, the H rights shares were traded on the Stock Exchange. After completion of the rights issue, the total number of issued shares of the Company was increased to 6,926,018,400 shares, including 2,391,420,240 H shares and 4,534,598,160 domestic shares.

As at 31 December 2014, the share capital of the Company was RMB6,926,018,400 divided into 6,926,018,400 shares of RMB1.00 each. The share capital of the Company was comprised of the following as at the 31 December 2014:

<b>Shares</b>	<b>Number of shares</b>	<b>Approximate percentage of issued share capital (%)</b>
Domestic shares (Total)	4,534,598,160	65.47%
Domestic shares held by:		
China Telecommunications Corporation	3,559,362,496	51.39%
China Mobile Communications Corporation	608,256,000	8.78%
China United Network Communications Group Company Limited	236,300,000	3.41%
China National Postal and Telecommunications Appliances Corporation	130,679,664	1.89%
H shares (Total)	2,391,420,240	34.53%
<b>Total</b>	<b>6,926,018,400</b>	<b>100.00%</b>

**MATERIAL INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY**

As at 31 December 2014, the interests or short positions of persons who at any of the Company’s general meetings (excluding the directors and supervisors of the Company) are entitled to exercise or control the exercise of 5% or more of the voting power in the shares and underlying shares of equity derivatives of the Company in each class as recorded in the register required to be maintained under Section 336 of the Securities and Futures Ordinance (Cap 571 of the Laws of Hong Kong) (the “SFO”) were as follows:

Name of shareholder	Type of shares	Capacity	Number of shares held	Percentage of the respective type of share (%)	Percentage of the total number of shares in issue (%)
China Telecommunications Corporation	Domestic shares	Beneficial owner	3,559,362,496 (L)	78.49	51.39
China Mobile Communications Corporation	Domestic shares	Beneficial owner	608,256,000 (L)	13.41	8.78
China United Network Communications Group Company Limited	Domestic shares	Beneficial owner	236,300,000 (L)	5.21	3.41
Blackrock, Inc.	H Shares	Interest of corporation controlled by the substantial shareholder	162,966,851 (L)	6.81	2.35
JPMorgan Chase & Co.	H Shares	Interest of corporation controlled by the substantial shareholder	144,548,688 (L)	6.04	2.09
			5,998,000 (S)	0.25	0.09
			122,566,736 (P)	5.12	1.77
Commonwealth Bank of Australia	H Shares	Interest of corporation controlled by the substantial shareholder	139,672,847 (L)	5.84	2.02
The Bank of New York Mellon Corporation	H Shares	Interest of corporation controlled by the substantial shareholder	120,111,645 (L)	5.02	1.73
			82,993,645 (P)	3.47	1.20

Note: (L)-Long Position  
(S)-Short Position  
(P)-Lending Pool

Save as stated above, as at 31 December 2014, in the register required to be maintained under Section 336 of the SFO, no other persons were recorded as holding any interests or short positions in the shares or underlying shares of the equity derivatives of the Company.

## REPORT OF THE DIRECTORS

### DIRECTORS' AND SUPERVISORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2014, none of the directors and supervisors of the Company had any interests or short positions in the shares, underlying shares of equity derivatives or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be maintained under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers. As at 31 December 2014, the Company had not granted its directors or supervisors, or their respective spouses or children below the age of 18 any rights to subscribe for the shares or debentures of the Company or any of its associated corporations and none of them has ever exercised any such right to subscribe for shares or debentures.

### SHARE APPRECIATION RIGHTS

Please refer to note 40 to the audited financial statements for details of the share appreciation rights scheme of the Company and the share appreciation rights granted during the year ended 31 December 2014.

### PUBLIC FLOAT

As at the date of this annual report, based on information that is publicly available to the Company and within the knowledge of the directors, the Company has maintained the prescribed public float under the Listing Rules.

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### DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Each of the directors and supervisors has entered into a service contract with the Company. According to the service contract, each of the contracts has an initial term of three years and is renewable in accordance with the Articles of Association of the Company when the initial term expires except for Mr. Sun Kangmin, Mr. Si Furong, Mr. Li Zhengmao and Mr. Si Jianfei. These contracts are terminable at the option of either party by giving three months' notice in writing or according to the terms of the contract prior to the expiry of the contract. No such service contract is not determinable by the Company within one year without payment of compensation (other than statutory compensation). Mr. Li Zhengmao was appointed for a term commencing from the date of the extraordinary general meeting approving his appointment on 27 November 2012 to the date of annual general meeting of the Company for the year 2014 to be held in 2015. Mr. Si Jianfei was elected for a term commencing from 18 June 2013 to the date of annual general meeting of the Company for the year 2014 to be held in 2015. Mr. Si Furong was appointed for a term commencing from the date of the extraordinary general meeting approving his appointment on 21 February 2014 to the date of annual general meeting of the Company for the year 2014 to be held in 2015. Mr. Sun Kangmin was appointed for a term commencing from the date of the extraordinary general meeting approving his appointment on 19 January 2015 to the date of annual general meeting of the Company for the year 2014 to be held in 2015.

### DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

For the year ended 31 December 2014, no director or supervisor of the Company had any material interest, whether direct or indirect, in any contract of significance entered into by the Company, any of its holding companies or subsidiaries or fellow subsidiaries, apart from the service contracts mentioned above.

### EMOLUMENTS OF THE DIRECTORS AND SUPERVISORS

Based on the overall remuneration policy of the Company and with reference to the payroll standard of the same industry companies in the market, the remuneration of directors and supervisors is determined after taking into account the scope and complexities of their duties. Please refer to note 12 to the audited financial statements for details of the emoluments of the directors and supervisors of the Company in 2014.

### PURCHASE, SALE AND REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any securities of the Company during the reporting period.

### SUMMARY OF FINANCIAL INFORMATION

Please refer to pages 177 to 178 of this annual report for a summary of the operating results, assets and liabilities of the Group for each of the years in the five-year period ended 31 December 2014.

### BANK LOANS AND OTHER BORROWINGS

Please refer to note 34 to the audited financial statements for details of bank loans and other borrowings of the Group.

### PROPERTY, PLANT AND EQUIPMENT

Please refer to note 17 to the audited financial statements for movements in the fixed assets of the Group for the year ended 31 December 2014.

### DISTRIBUTABLE RESERVES

Please refer to note 46 to the audited financial statements for details of the movements in the reserves of the Group for the year ended 31 December 2014.

### DONATIONS

For the year ended 31 December 2014, the Group made charitable and other donations of a total amount of RMB0.27 million.

### SUBSIDIARIES AND ASSOCIATED COMPANIES

Please refer to note 23 and note 24 to the audited financial statements for details of the Company's subsidiaries and the Company's associated companies as at 31 December 2014.

## REPORT OF THE DIRECTORS

### CHANGES IN EQUITY

Please refer to the consolidated statement of changes in equity contained in the audited financial statements (pages 102 to 103 of this annual report).

### PLAN OF EMPLOYEES' RETIREMENT BENEFITS

Please refer to note 39 to the audited financial statements for details of the retirement benefits provided by the Group.

### PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights in the Articles of Association requiring the Company to offer new shares to the existing shareholders in proportion to their shareholdings.

### MAJOR CUSTOMERS AND SUPPLIERS

For the reporting period, the sales to the five largest customers of the Group represented 65.5% of the total revenues of the Group; of which, the sales to the largest customer of the Group represented 43.7% of the total revenues of the Group. The purchases from the five largest suppliers of the Group accounted for less than 4.8% of the total annual purchases of the Group.

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To the knowledge of the Board, other than China Telecom and China Mobile (both of them being the shareholders holding more than 5% of the issued share capital of the Company), none of the directors of the Group, their associates, and any person (holding more than 5% of the issued share capital of the Company) has any interests in such suppliers or customers.

### PREFERENTIAL TREATMENT AND NON-COMPETITION ARRANGEMENT WITH THE TOWER COMPANY <sup>(2)</sup>

In July 2014, China Telecom Corporation Limited, a subsidiary of China Telecommunications Corporation, jointly established the Tower Company with China Mobile Communication Company Limited and China United Network Communications Corporation Limited. Pursuant to the relevant arrangements for the establishment of the Tower Company, the Tower Company has indicated to the Company that:

1. on condition that it will not result in a breach by China Telecommunications Corporation and the Company of the Non-Competition Agreement signed between them, when the Tower Company invites public tender for the design, construction, supervision and maintenance of its telecommunications towers and related ancillary facilities, the Tower Company will select the Company on a preferential basis, provided that the terms are the same;
2. in the event of an injection of telecommunications assets into the Tower Company (acquisition by the Tower Company), the existing maintenance agreements entered into between the Company and the respective promoters of the Tower Company will remain valid. Upon the expiration of such maintenance agreements and when the Tower Company invites tender for the maintenance services, the Tower Company will consider the Company on a preferential basis, provided that the terms are the same; and
3. the Tower Company will not compete in contravention of the contents of the Non-Competition Agreement.

<sup>(2)</sup> Tower Company refers to China Tower Corporation Limited (formerly known as China Communications Facilities Services Corporation Limited).

## CONTINUING CONNECTED TRANSACTIONS

Pursuant to Chapter 14A of the Listing Rules, the transactions between the Group and China Telecom and its subsidiaries (excluding our Group and including China Telecom Corporation Limited, collectively the “China Telecom Group”) constitute connected transactions of the Group.

The following table sets out the amounts of continuing connected transactions of the Group during the year ended 31 December 2014:

Unit: RMB million

	Year ended 31 December 2014		Year ending 31 December 2015
	Annual Caps	Actual Amounts	Annual Caps
Engineering related services provided to China Telecom Group	17,000	15,582	17,000
Ancillary telecommunications services provided to China Telecom Group	10,000	7,548	11,000
Operations support services provided to/by China Telecom Group			
Revenue	2,900	2,402	3,000
Expenditure	650	644	650
IT application services provided to/by China Telecom Group			
Revenue	2,100	1,848	2,300
Expenditure	460	239	490
Centralized services provided to China Telecom Group	410	286	420
Property leasing provided to/by China Telecom Group			
Revenue	166	97	166
Expenditure	170	153	180
Supplies procurement services provided to/by China Telecom Group			
Revenue	5,100	4,470	5,600
Expenditure	3,600	2,663	4,100

## CONTINUING CONNECTED TRANSACTIONS AGREEMENTS BETWEEN THE COMPANY AND CHINA TELECOM

The Company and China Telecom entered into six continuing connected transactions agreements on 16 November 2006 to manage the continuing connected transactions between the Group and China Telecom Group. These agreements include Engineering Framework Agreement, Ancillary Telecommunications Services Framework Agreement, Operation Support Services Framework Agreement, IT Application Services Framework Agreement, Property Leasing Framework Agreement and Centralized Services Agreement. Each of these agreements had an initial term expired on 31 December 2008 and, subject to approval from the shareholders (if applicable), the aforementioned six amended continuing connected transactions agreements would be automatically renewed for a further period of not more than three years each time, unless terminated by either party by giving a written notice three months in advance.

## REPORT OF THE DIRECTORS

The Company announced on 15 June 2007, and completed on 31 August 2007, its acquisition of China Telecom's specialized telecommunications support business ("Target Business") located in 13 provinces (municipalities and autonomous regions). In connection with the acquisition of the Target Business, a supplemental agreement in respect of the aforementioned six continuing connected transactions agreements was entered into between the Company and China Telecom on 15 June 2007 (the "2007 Supplemental Agreement"). The 2007 Supplemental Agreement extended the validity period of the six continuing connected transactions agreements to 31 December 2009, and extended the coverage of those agreements to 19 provinces (municipalities and autonomous regions), being the Group's primary service regions immediately after the completion of the acquisition of the Target Business. On 19 September 2008, the Company entered into a supplementary agreement with China Telecom in respect of the aforementioned six agreements (the "2008 Supplementary Agreement") and extended the term of the six continuing connected transactions agreements to 31 December 2010. On 29 October 2009, the Company entered into a Supplies Procurement Service Framework Agreement with China Telecom effective from 1 January 2009 to 31 December 2010. On 9 November 2010, the Company entered into another supplemental agreement with China Telecom in respect of the aforementioned seven agreements (the "2010 Supplementary Agreement") and extended the term of the seven continuing connected transactions agreements to 31 December 2012 with other terms unchanged. On 20 September 2012, the Company entered into another supplemental agreement with China Telecom in respect of the aforementioned seven agreements (the "2012 Supplementary Agreement") and extended the term of the seven continuing connected transactions agreements to 31 December 2015 with other terms generally remained unchanged.

Subject to approval from the shareholders (if applicable), the aforementioned seven amended continuing connected transactions agreements will be automatically renewed for a further period of not more than three years each time, unless terminated by either party by giving a written notice three months in advance. In connection with the entry of the 2012 Supplementary Agreement, the Company also set new annual caps for the three years ending 31 December 2015 in respect of the transactions contemplated under the seven continuing connected transactions agreements (see table above). The 2012 Supplementary Agreement and the new annual caps (excluding the new annual caps for the Property Leasing Framework Agreement and Centralized Services Agreement that did not require any independent shareholders approval under the Listing Rules) were approved by the independent shareholders of the Company at the extraordinary general meeting held on 27 November 2012.

Details of the terms of the above continuing connected transactions are set out below.

### ENGINEERING FRAMEWORK AGREEMENT

Pursuant to the Engineering Framework Agreement, the Company agreed to provide certain engineering related services, such as design, construction, project supervision and management services for telecommunications infrastructure projects undertaken by the China Telecom Group. The charges payable for engineering-related services rendered under the Engineering Framework Agreement shall be determined by reference to market rates or as reflected by prices obtained through the tender process. The Company shall be accorded priority by China Telecom Group in the provision of the engineering related services except in the tender process, provided that the terms and conditions offered by independent third parties to China Telecom Group are no more favourable than those offered by the Company for the same services. In return, the Company has undertaken to China Telecom Group that the Company shall not provide services to it on terms which are less favourable than those offered by the Company to independent third parties.



### ANCILLARY TELECOMMUNICATIONS SERVICES FRAMEWORK AGREEMENT

Pursuant to the Ancillary Telecommunications Services Framework Agreement, the Company agreed to provide to China Telecom Group certain ancillary telecommunications services such as maintenance of network facilities including equipment, ducts and cables, equipment rooms and base stations; distribution of telecommunications products and services; provision of application, content and other services such as fixed-line value-added services, wireless value-added services, Internet value-added services, and the development of online gaming, certificate authentication and the value-added business platform of Internet cafés (the “Ancillary Telecommunications Services”). The Ancillary Telecommunications Services Framework Agreement stipulates that the Ancillary Telecommunications Services be provided at:

- (1) government-prescribed price;
- (2) where there is no government-prescribed price but where there is a government-guidance price, the government-guidance price;
- (3) where there is neither a government-prescribed price nor a government-guidance price, the market price. The market price is defined as the price at which the same type of services are provided by independent third parties in the ordinary course of business; or
- (4) where none of the above is applicable, the price is to be agreed between the relevant parties for the provision of the above services, which shall be the reasonable cost incurred in providing the same plus a reasonable profit (for this purpose, “reasonable costs” means the costs confirmed by both parties after negotiations, and “reasonable profits” means a profit ratio confirmed by both parties during the course of normal commercial negotiation, taking into account factors such as historical price, transaction size, average profit ratio within the relevant industry, supply and demand, labour cost, local commodity prices and economic development levels).

The Company will be given priority by China Telecom Group in the provision of the Ancillary Telecommunications Services, provided that the terms and conditions offered by independent third parties to China Telecom Group are no more favourable than those offered by us for the same services. In return, we have undertaken to China Telecom Group that we shall not provide Ancillary Telecommunications Services to it on terms which are less favourable than those offered by us to independent third parties.

### OPERATION SUPPORT SERVICES FRAMEWORK AGREEMENT

Pursuant to the Operation Support Services Framework Agreement, the Company agreed to provide to China Telecom Group operation support services, including but not limited to facilities management and renovation, network facilities management in relation to buildings used for telecommunications purposes, human resources management, equipment maintenance, advertisements, conferencing services, vehicles and certain repair and leasing of equipment. Under the same Operation Support Services Framework Agreement, China Telecom Group has agreed to provide operation support services such as logistic services, warehouse, medical care, food and beverage, education, hotel and travel services, labour services and other services to us. Each of the parties will accord priority to the other party in the provision of the operation support services, provided that the terms and conditions offered by independent third parties to the relevant party are no more favourable than those offered by the other party for the same services. In return, each of the parties has undertaken to the other that it shall not provide services to the other on terms which are less favourable than those offered to independent third parties. The operation support services under the Operation Support Services Framework Agreement are provided in accordance with the same pricing policy as that of the Ancillary Telecommunications Services Framework Agreement.

## REPORT OF THE DIRECTORS

### IT APPLICATION SERVICES FRAMEWORK AGREEMENT

Pursuant to the IT Application Services Framework Agreement, the Company agreed to provide China Telecom Group with telecommunications network support services, software and hardware development and other related IT services. China Telecom Group has also agreed to provide to the Company certain IT application services, including voice and data, value-added services and information application services. The charges payable for such IT application services under the IT Application Services Framework Agreement shall be determined by reference to market rates, for example, rates as reflected by prices obtained through the tender process (with a minimum of three parties tendering bids). The party receiving the relevant services will accord priority to the party providing such services, provided that the terms and conditions offered by independent third parties to the relevant party are no more favourable than those offered by the other party for the same services. In return, each of the parties has undertaken to the other that it shall not provide services to the other on terms which are less favourable than those offered to independent third parties.

### CENTRALIZED SERVICES AGREEMENT

Pursuant to the Centralized Services Agreement, the centralized services to be provided by the Company to China Telecom Group include:

1. the corporate headquarters management function to manage assets and specialized telecommunications support businesses retained by China Telecom in the PRC other than the Group's primary service areas and any remaining assets of China Telecom in the Group's primary service areas, such as hotels, manufacturing plants, schools and hospitals that are not in association with the specialized telecommunications support businesses; and
2. the provincial headquarters management function to manage remaining assets of China Telecom in the primary service areas of the Group.

Except as otherwise agreed by the parties, the aggregate administrative expenses incurred by us for the provision of the centralized services referred to above (all expenses incurred in connection with the above-mentioned headquarters management functions except remuneration for Directors, share appreciation rights and provision of bad debts) will be apportioned pro rata between the Company and China Telecom Group according to the proportional net asset value of each of the relevant parties.

### PROPERTY LEASING FRAMEWORK AGREEMENT

Pursuant to the Property Leasing Framework Agreement, the rental charges of each property of the Company and China Telecom Group leased by each party from another party are based on market rates. Rental charges are payable monthly in arrears, except as otherwise agreed by parties, and are subject to review every three years by both parties confirming after negotiations whether to adjust the rental charges and the amount of such adjustment.

### SUPPLIES PROCUREMENT SERVICES FRAMEWORK AGREEMENT

Pursuant to the Supplies Procurement Services Framework Agreement, the comprehensive supplies procurement services provided by the Company to China Telecom Group included procurement of imported telecommunications supplies, domestic telecommunications supplies and domestic non-telecommunications supplies; the agency services provided by the Company (as an agent of supplies procurement) to China Telecom Group; sales of telecommunications supplies manufactured by the Company; resale of supplies purchased from independent third parties; management of biddings, verification of technical specifications, warehousing, transportation and installation services. Pursuant to the Supplies Procurement Services Framework Agreement, the comprehensive supplies procurement services provided by China Telecom Group to the Company included sales of telecommunications supplies manufactured by China Telecom Group; resale of supplies purchased from independent third parties; the agency services provided by the China Telecom Group (as an agent of supplies procurement) to the Company; warehousing, transportation and installation services.

The independent non-executive directors of the Company have confirmed that all continuing connected transactions for the year ended 31 December 2014 to which the Group was a party:

1. had been entered into, and that the agreements governing those transactions had been entered into, by the Group in the ordinary and usual course of business;
2. had been entered into either:
  - (i) on normal commercial terms; or
  - (ii) where there was no available comparison to judge whether they are on normal commercial terms, are on terms no less favourable than those available to or (if applicable) from independent third parties; and
3. had been entered into on terms that are fair and reasonable so far as the overall interests of the independent shareholders of the Company are concerned.

The independent non-executive directors have further confirmed that:

The values of continuing connected transactions entered into between the Group and its connected persons which are subject to annual caps have not exceeded their respective annual caps or revised annual caps.

## REPORT OF THE DIRECTORS

The auditors of the Company have performed procedures in accordance with Hong Kong Standard on Assurance Engagements 3000 “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information” and with reference to Practice Note 740 “Auditor’s Letter on Continuing Connected Transactions under the Hong Kong Listing Rules” issued by the Hong Kong Institute of Certified Public Accountants on the continuing connected transactions and issued a letter to the Board to advise that:

1. none of the continuing connected transactions entered into between the Group and China Telecom Group during the year ended 31 December 2014 have not been approved by the Directors;
2. they have performed sample checks on the continuing connected transactions entered into between the Group and China Telecom Group during the year ended 31 December 2014 and have not found that the continuing connected transactions were not in accordance with the pricing policies as stated in the relevant agreements;
3. they have performed sample checks on the continuing connected transactions entered into between the Group and China Telecom Group during the year ended 31 December 2014 and have not found that the continuing connected transactions were not in accordance with the terms of the agreements governing the transactions; and
4. they have not noted that the continuing connected transactions exceeded the 2014 annual caps as disclosed in the announcement dated 20 September 2012 of the Company and approved by the independent shareholders of the Company on 27 November 2012.

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## EMPLOYEES

As at 31 December 2014, the Group had 118 thousand employees as follows:

	<b>Number of Staff (thousand)</b>	<b>Percentage (%)</b>
Management	8	6.78
Technical and marketing	58	49.15
Operations	52	44.07
Total	118	100

The Company regards talent management as one of its major strategies for the new period and continuously optimizes the human resources structure and creates a new mechanism so as to give full play to the functions of talents. The Company adopts a remuneration policy which is linked to staff’s performance. Staff’s remuneration consists of basic salary, performance pay and benefits. Furthermore, the Company attaches much importance to staff training. Directed by the needs of the Company’s strategic development and practical requirements, the Company utilizes resources within and outside the Company to improve the quality and capability of its core staff through various types of trainings.

### COMPLIANCE WITH CORPORATE GOVERNANCE CODE

Please see the “Corporate Governance Report” set out in this annual report for details of our compliance with the Corporate Governance Code.

### MATERIAL LEGAL PROCEEDINGS

As at 31 December 2014, so far as the directors are aware, the Company was not involved in any material litigation or arbitration and no material litigation or claims had been made against, or were pending or threatened against the Company.

### AUDITORS

Deloitte Touche Tohmatsu and Deloitte Touche Tohmatsu Certified Public Accountants LLP were engaged as the international and domestic auditors of the Company respectively for the year ended 31 December 2014. Deloitte Touche Tohmatsu and Deloitte Touche Tohmatsu Certified Public Accountants LLP have audited the accompanying financial statements, which were prepared in accordance with International Financial Reporting Standards. A resolution for the reappointment of Deloitte Touche Tohmatsu and Deloitte Touche Tohmatsu Certified Public Accountants LLP as the international and domestic auditors of the Company for the year ending 31 December 2015 will be proposed at the upcoming 2014 annual general meeting of the Company.

By order of the Board  
**Sun Kangmin**  
*Chairman*

Beijing, PRC  
25 March 2015

# REPORT OF THE SUPERVISORY COMMITTEE

Dear Shareholders,

During the reporting period, all members of the Supervisory Committee conscientiously performed their supervisory duties and earnestly safeguarded the interests of the shareholders and the Company in accordance with the requirements of the relevant laws and regulations such as the PRC Company Law and the Articles of Association of the Company.

During the reporting period, the Supervisory Committee held two meetings. At the fifth meeting of the third session of the Supervisory Committee held on 20 March 2014, the Supervisory Committee reviewed and approved resolutions on the financial statements of the Company for 2013, the profit distribution proposal and dividends distribution plan, external auditors' report, work report of internal control for 2013 and its work plan for 2014, the work report of the Supervisory Committee for 2013 and the work plan of the Supervisory Committee for 2014. In respect of more concerned issues, the Supervisory Committee discussed with the Finance Department, Risk Management Department and external auditors of the Company and made relevant recommendations. At the sixth meeting of the third session of the Supervisory Committee held on 22 August 2014, the Supervisory Committee reviewed and approved the unaudited interim financial statements for 2014, review report of interim financial statements for 2014 by external auditors and work report on internal control of the Company in the first half of 2014 and the work plan for the second half of 2014. During the reporting period, members of the Supervisory Committee attended the meetings of the Audit Committee, the meetings of the Board of Directors and the general meeting held in 2014, and supervised the major decisions of the Company and the performance of the members of the Board of Directors and senior management, and made relevant management recommendations with a serious and responsible attitude.

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The Supervisory Committee is of the opinion that, during the reporting period, the Company persistently adhered to its innovative service strategies with a focus on customers, carried out the market-oriented resource allocation, enhanced comprehensive and deepened reforms and maintained solid fundamentals of the Company in the complicated and volatile internal and external environment. As such, the total revenues of the Company persistently increased to RMB73,176 million, representing a year-on-year growth of 6.9%.

The Supervisory Committee is of the opinion that, all members of the Board of Directors and senior management of the Company have complied with the laws and regulations, and performed their duties in accordance with the Articles of Association of the Company in 2014. In addition, they have also safeguarded the interests of the shareholders, earnestly carried out various resolutions of the general meetings and the board meetings, and operated strictly in accordance with the regulatory requirements for a listed company. The Supervisory Committee was not aware of any violation of relevant national laws and regulations and the Articles of Association, or any acts which would prejudice the interests of the Company.

The Supervisory Committee carefully reviewed the financial statements of the Company for 2014 which were audited by external auditors, and is intended to be submitted by the Board of Directors to the general meeting, and other relevant information. The Supervisory Committee is of the opinion that the financial statements give an objective and true view of the Company's financial position and operating results.

In 2015, to safeguard the interests of the shareholders and the interests of the Company and emphasize the fulfillment of the promises made to the shareholders, the Supervisory Committee will continue to develop new working plans and perform its supervisory duties diligently over the major adjustments and key operating activities in accordance with the PRC Company Law and the Articles of Association of the Company.

By order of the Supervisory Committee

**Xia Jianghua**

*Chairperson of the Supervisory Committee*

Beijing, PRC  
20 March 2015

# CORPORATE GOVERNANCE REPORT

The Company is committed to maintaining sound corporate governance standards and procedures to ensure the completeness, transparency and quality of its information disclosure, and strives to achieve more standardized operational procedures and effective management, so as to safeguard shareholders' interests to the greatest extent.

## CORPORATE GOVERNANCE PRACTICES

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 abided by the PRC Company Law and other applicable laws, regulations and regulatory requirements of Hong Kong and the PRC as fundamental guidelines for the Company's corporate governance. While strictly complying with relevant laws and regulations, the Group is continually striving to further strengthen its internal control and risk management procedures in order to improve its corporate governance standards and transparency.

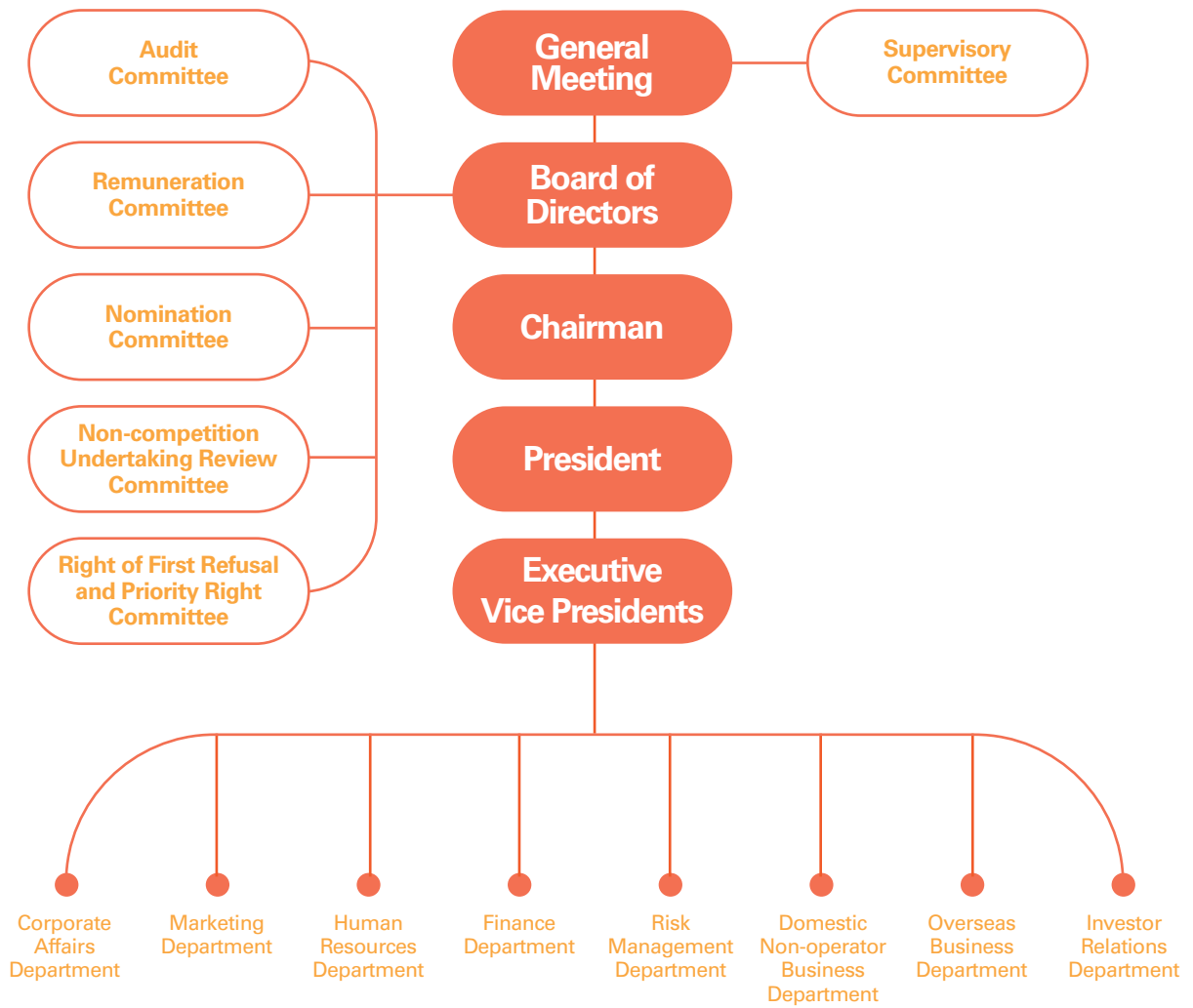
The Board is responsible for performing corporate governance duties, including developing and reviewing the Company's policies and practices on corporate governance; reviewing and monitoring the training and continuous professional development of directors and senior management; reviewing and monitoring the Company's policies and practices in compliance with legal and regulatory requirements; developing, reviewing and monitoring the code of conduct and compliance manual applicable to employees and directors; and reviewing the Company's compliance with the Corporate Governance Code and disclosure in the Corporate Governance Report.

The Company has been recognized by capital market in fostering sound corporate governance over the years. In 2014, the Company was awarded "The Best of Asia – Icon on Corporate Governance" by *Corporate Governance Asia*. Moreover, the Company was awarded again the Gold Award in "Financial Performance, Corporate Governance and Investor Relations" by *The Asset*, and the Company was also once again honored with "The Best Investment Value Listed Company" by *Tai Kung Pao* at the "China Securities Golden Bauhinia Awards".

Throughout the year ended 31 December 2014, the Company has complied with the code provisions as set out in the Corporate Governance Code contained in Appendix 14 of the Listing Rules.

## CORPORATE GOVERNANCE REPORT

### CORPORATE STRUCTURE OF THE COMPANY





### GENERAL MEETING

Pursuant to the Company's Articles of Association, the general meetings are classified as annual general meeting (the "AGM") and extraordinary general meeting (the "EGM"). The AGM is convened once a year and within six months after the end of a financial year. A resolution was separately put forward in respect of each independent matter. The details of the voting procedures and voting by poll at the request of shareholders were set out in the notices of the general meetings in accordance with the provisions under the Articles of Association and the Listing Rules. In accordance with the Listing Rules, all the resolutions were voted by poll in all general meetings held in 2014.

For the first EGM of 2014, a physical meeting was held in Beijing on 21 February 2014, the resolution, including appointment of Mr. Si Furong as an executive director of the Company, was considered and approved by shareholders.

For the 2013 AGM, a physical meeting was held in Beijing on 27 June 2014, at which the resolutions, including the 2013 financial statements, profit distribution proposal and dividend declaration proposal, appointment of auditors, report of the Directors, and report of the Supervisory Committee were considered and approved by shareholders.

The above resolutions at the general meeting were approved and passed by shareholders, and the relevant voting results were published on the websites of the Company and the Stock Exchange.

### SHAREHOLDERS' RIGHTS

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#### Convening General Meeting and Submitting Proposals at General Meetings by Shareholders

Pursuant to Article 8.24 of the Company's Articles of Association, shareholders who request for convening an EGM or a class meeting shall comply with the following procedures:

- (1) Two (2) or more shareholders holding in aggregate 10% or more of the shares carrying the right to vote at the meeting sought to be held shall sign one (1) or more counterpart requisitions stating the object of the meeting and requiring the Board to convene an extraordinary general meeting or a class meeting thereof. The Board shall as soon as possible proceed to convene an extraordinary general meeting or a class meeting thereof after receipt of such requisition(s). The amount of shareholdings referred to above shall be calculated as at the date of deposit of the requisition(s).
- (2) If the Board fails to issue a notice of such a meeting within thirty (30) days from the date of receipt of the requisition(s), the requisitionists may themselves convene such a meeting (in a manner as similar as possible to the manner in which general meetings are convened by the Board) within four (4) months from the date of receipt of the requisition(s) by the Board.

Pursuant to Article 8.6 of the Company's Articles of Association, when the Company convenes an AGM, shareholder(s) holding 5% or more of the total voting shares of the Company shall have the right to submit new proposals in writing, and the Company shall place such proposals on the agenda for such AGM if they are matters falling within the functions and powers of shareholders in general meetings.

### SHAREHOLDERS' ENQUIRIES

Enquiries or requisitions to convene a general meeting or submit a proposal pursuant to the Articles of Association of the Company that the shareholders of the Company wish to make to the Board may be addressed to the Investor Relations Department of the Company by our shareholders' hotline at 852-3699 0000 or by email at [ir@chinaccs.com.hk](mailto:ir@chinaccs.com.hk).

## CORPORATE GOVERNANCE REPORT

### COMMUNICATION WITH SHAREHOLDERS

The Board adopted the shareholders communication policy, which regulates the Company's various regular and irregular daily communication channels with shareholders, including general meeting(s), road shows and daily meetings. The above arrangements enable shareholders and investors keep abreast of the latest operating status and development prospects of the Company, and also enable the Company to get different opinions from the market in an effective and timely way. The details of the communication with the shareholders are set out in the section of "Investor Relations" of this annual report and the website of the Company.

### BOARD OF DIRECTORS

The leadership and supervision of the Company are vested in the Board, which is responsible for implementing the resolutions passed in general meetings, overseeing the Group's businesses and affairs, approving operation plans and investment proposals, reviewing financial policies and performance, and formulating the basic management systems of the Company. The Board has delegated to the senior management the powers and responsibilities to conduct the day-to-day management and operations of the Group and to organize the implementation of the resolutions of the Board, annual business plans and investment proposals. The senior management must obtain the Board approval before entering into any material transactions. The Articles of Association of the Company has clearly defined the scope of duties of the Board and the management of the Company.

### CHAIRMAN AND PRESIDENT

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Mr. Sun Kangmin and Mr. Si Furong take up the position of Chairman and President of the Company, respectively. Our Chairman, Mr. Sun Kangmin is responsible for overseeing the operation of the Board and in charge of the Company's overall management. Our President, Mr. Si Furong is responsible for the Company's daily operation and management.

### COMPOSITION OF THE BOARD

As of the date of this report, the Board comprised nine directors, including three executive directors (Mr. Sun Kangmin, Mr. Si Furong and Ms. Hou Rui), two non-executive directors (Mr. Li Zhengmao and Mr. Zhang Junan) and four independent non-executive directors (Mr. Wang Jun, Mr. Zhao Chunjun, Mr. Wei Leping and Mr. Siu Wai Keung, Francis). The Company has adopted a board diversity policy, which sets out the approach to achieve diversity on the Board. The Company's board diversity policy gives a number of considerations in aspects including skill, knowledge, experience, gender and age. The board members comprise professionals with diversified backgrounds including telecommunications industry, finance, management and academics. The Board has four independent non-executive directors, of which an independent non-executive director (Mr. Siu Wai Keung, Francis) possesses accounting professional qualification in compliance with Rules 3.10 and 3.10A of Chapter 3 of the Listing Rules. The profiles of the directors are set out in the "Profiles of Directors, Supervisors and Senior Management" section of this annual report and the Company's website.

As of the date of this report, to the best knowledge of the directors, the members of the Board did not have any financial, business, family or other material connection with each other, in particular between the Chairman and the President, and all of them are free to make independent judgments.

The Company has received the written annual confirmation of independence from each of the independent non-executive directors pursuant to Rule 3.13 of the Listing Rules, and considers all independent non-executive directors to be independent.

All directors devoted sufficient time and efforts to the business of the Company. The Company also requires the directors to disclose the number of positions they hold in public companies or organizations and provide the Company with the time they devoted to the relevant positions.

The Company has also arranged appropriate insurance cover in respect of possible legal actions against its directors, supervisors and senior management.

### SECURITIES TRANSACTIONS BY DIRECTORS

The Company adopts the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 of the Listing Rules to govern securities transactions by directors. Each of the directors of the Company made a written confirmation that he/she had complied with the Model Code at all applicable times in connection with transactions in the Company’s securities during the reporting period.

### APPOINTMENT OF DIRECTORS

The Company follows a formal, considered and transparent procedure for the appointments of new directors. The Nomination Committee first considers and discusses the nomination and appointment of a new director and then makes recommendations to the Board for decision. The Board shall recommend the candidate(s) at the general meeting and the candidate(s) shall be elected at the general meeting each for a term of three years, effective from the date of election.

Among the board members of the Company, except for Mr. Sun Kangmin, Mr. Si Furong and Mr. Li Zhengmao, the term of office of other directors, including one executive director, one non-executive director and four independent non-executive directors are all three years, commencing from the AGM on 28 June 2012 approving the third session of the Board to the 2014 AGM to be held in 2015. The directors of the Company are all eligible for re-election at the expiration of the term.

The term of office of Mr. Sun Kangmin commenced from 19 January 2015 (the date of the EGM approving his appointment) to the 2014 AGM to be held in 2015. The term of office of Mr. Si Furong commenced from 21 February 2014 (the date of the EGM approving his appointment) to the 2014 AGM to be held in 2015. The term of office of Mr. Li Zhengmao commenced from 27 November 2012 (the date of the EGM approving his appointment) to the 2014 AGM to be held in 2015.

### MEETINGS OF THE BOARD

Pursuant to the Company’s Articles of Association and the Listing Rules, the Board shall convene at least four meetings a year to review and approve its financial and operational performance, and consider and approve the overall strategy and policies of the Company.

The Company Secretary assists the Chairman in preparing the agenda for Board meetings. Unless stipulated otherwise by the Board in advance, the time and place for any Board meeting shall be notified to all directors at least 14 days prior to the date of the meeting. The agenda and related documents of the Board meetings will be delivered to all directors at least 3 days prior to the date of the meeting. The Board and each of the directors may contact the senior management independently if necessary and obtain additional information from the Company so that the directors can make informed decisions with relevant information.

All minutes of the Board meetings record the details of resolutions considered and decisions made, and were kept by meeting secretary and open for inspection by the directors. A director shall abstain from voting on any board resolution approving any proposal in which he or any of his associates has a material interest, nor shall he be counted in the quorum present at the meeting. In 2014, the Board held four meetings and passed one written resolution. In addition to general matters such as review of the annual and interim financial statements, dividend distribution, corporate governance and budget, the Board also considered the resolutions including appointment of directors.

## CORPORATE GOVERNANCE REPORT

In 2014, the Chairman of the Company, had a meeting with the non-executive directors (including independent non-executive directors) without the presence of the executive directors.

The attendance record of the Company's directors in Board meetings, board committee meetings and general meeting(s) in 2014 are as follows:

### Attendance in 2014/Meeting convened during period of appointment

	Board of Directors	Audit Committee	Remuneration Committee	Nomination Committee	Non-competition Undertaking Review Committee	Right of First Refusal & Priority Right Committee	AGM	EGM
<i>Executive Directors</i>								
Sun Kangmin <sup>(1)</sup>	-						-	-
Si Furong <sup>(2)</sup>	4/4						1/1	-
Hou Rui	4/4						1/1	1/1
<i>Non-executive Directors</i>								
Li Zhengmao	4/4 <sup>(3)</sup>						1/1	1/1
Zhang Junan	4/4 <sup>(4)</sup>						0/1	0/1
<i>Independent Non-executive Directors</i>								
Wang Jun	4/4 <sup>(5)</sup>			1/1 <sup>(6)</sup>			1/1	0/1
Zhao Chunjun	4/4	2/2	1/1	1/1	3/3	1/1	1/1	1/1
Wei Leping	4/4 <sup>(7)</sup>	2/2	1/1	1/1	3/3	1/1	1/1	1/1
Siu Wai Keung, Francis	4/4	2/2	1/1		3/3	1/1	1/1	1/1
<i>Resigned Director</i>								
Li Ping <sup>(8)</sup>	4/4						1/1	1/1

(1) Mr. Sun Kangmin was appointed as an executive director of the Company and the Chairman of the Board on 19 January 2015.

(2) Mr. Si Furong was appointed as an executive director of the Company on 21 February 2014.

(3) Mr. Li Zhengmao appointed another director to attend one meeting.

(4) Mr. Zhang Junan appointed other directors to attend three meetings.

(5) Mr. Wang Jun appointed other directors to attend three meetings.

(6) Mr. Wang Jun appointed another director to attend one meeting.

(7) Mr. Wei Leping appointed another director to attend one meeting.

(8) Mr. Li Ping resigned as the Chairman and an executive director of the Company on 19 January 2015.

## DIRECTOR'S TRAINING

Each newly appointed director will be offered training by the Company upon the appointment, so as to ensure that they have appropriate understanding of the Company's business and they are fully aware of their duties as director under the laws and regulations. The Company during the reporting period of this report engaged external lawyers to provide the new directors with training on issues including directors' duties and the Listing Rules.

The Company distributed board memorandum to directors each month, setting out updates on major business and financial position of the Company to facilitate the directors to discharge their duties. In addition, the Company also issued latest information regarding corporate governance and directors' responsibilities under the Listing Rules and other applicable laws and regulations to the directors, ensuring their awareness of their responsibilities under the laws and regulations. The directors were also encouraged to participate in continuous professional development to develop and refresh their knowledge and skills to ensure that their contributions to the Board remain informed and relevant.

In 2014, the training records of the directors of the Company were as follows:

	<b>Attend training or seminar relevant to the Company's industry and business, director's duties and/or corporate governance</b>	<b>Give a speech at the meeting relevant to the Company's industry and business, director's duties and/or corporate governance</b>	<b>Read information relevant to the Company's industry and business, director's duties and/or corporate governance; and/or read regular updates issued by the Company</b>
<i>Executive Directors</i>			
Sun Kangmin <sup>(1)</sup>	–	–	–
Si Furong	√	√	√
Hou Rui	√	√	√
<i>Non-Executive Directors</i>			
Li Zhengmao	√	√	√
Zhang Junan	√	√	√
<i>Independent Non-executive Directors</i>			
Wang Jun			√
Zhao Chunjun	√		
Wei Leping	√	√	√
Siu Wai Keung, Francis	√	√	√
<i>Resigned Director</i>			
Li Ping	√	√	√

<sup>(1)</sup> Mr. Sun Kangmin was appointed as an executive director of the Company and the Chairman of the Board on 19 January 2015.

### BOARD COMMITTEES

As an important part of a sound corporate governance practice, the Board has set up five board committees: the Audit Committee, the Remuneration Committee, the Nomination Committee, the Non-competition Undertaking Review Committee and the Right of First Refusal and Priority Right Committee, and all of which were responsible for the supervision of the overall affairs of the Company in various areas and assistance of discharging its responsibilities. All the five board committees comprise of independent non-executive directors to ensure full expression of independent and objective views and to fulfill each of its responsibilities of the overall safeguard and supervision. The list of members of these committees was published on the websites of the Company and the Stock Exchange.

#### Audit Committee

The Audit Committee consists of three independent non-executive directors: Mr. Siu Wai Keung, Francis (Chairman), who has accounting or related financial management expertise, Mr. Zhao Chunjun and Mr. Wei Leping. The Audit Committee is mainly responsible for reviewing the interim and annual financial statements of the Company to ensure a true and fair view of the state of affairs, reviewing interim and annual results of the Company after consulting with external auditors, and making recommendations to the Board. In addition, the Audit Committee is also responsible for examining the appointment of external auditors, considering and supervising the financial reporting procedures and the internal control systems of the Company, and overseeing the execution of the connected transactions. The Audit Committee makes an assessment of the effectiveness of the Group's internal control at least once a year. In addition, the Audit Committee is also responsible for reviewing the adequacy of resources of the Group's accounting and financial reporting function.

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In 2014, the Audit Committee held two meetings, mainly reviewing the resolutions of the Company for its audited financial report of 2013, interim report of 2014, report on connected transactions, report on internal control and risk management and appointment of independent auditors. The Audit Committee also met with the external auditors separately to discuss the matters found during the audit and other issues that might be raised by the auditors.

#### Remuneration Committee

The Remuneration Committee consists of three independent non-executive directors: Mr. Siu Wai Keung, Francis (Chairman), Mr. Zhao Chunjun and Mr. Wei Leping. The Remuneration Committee is mainly responsible for making recommendations to the Board on the Company's policy and structure for remunerations of all directors, on the establishment of a formal and transparent procedure for developing remuneration policy and the remuneration packages of directors.

In 2014, the Remuneration Committee held one meeting, mainly reviewing the resolutions of adjusting the exercise price of share appreciation rights scheme of the Company.

#### Nomination Committee

The Nomination Committee consists of three independent non-executive directors: Mr. Zhao Chunjun (Chairman), Mr. Wang Jun and Mr. Wei Leping. The Nomination Committee is mainly responsible for making recommendations to the Board on the appointment or reappointment of directors and reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board annually.

In 2014, the Nomination Committee held one meeting, mainly reviewing the resolutions including the review of the Board structure and composition, and recommending Mr. Sun Kangmin as an executive director of the Company, and making their recommendations to the Board.

### Non-Competition Undertaking Review Committee

The Non-competition Undertaking Review Committee consists of three independent non-executive directors: Mr. Wei Leping (Chairman), Mr. Zhao Chunjun and Mr. Siu Wai Keung, Francis. The Non-competition Undertaking Review Committee is mainly responsible for monitoring the implementation of the non-competition undertakings given by China Telecom to us.

In 2014, the Non-competition Undertaking Review Committee held three meetings, mainly reviewing the implementation of the non-competition undertakings by China Telecom, and the implementation of the non-competition undertakings pursuant to the participation in the establishment of China Communications Facilities Services Corporation Limited (now known as "China Tower Corporation Limited") by China Telecom Corporation Limited, and making their recommendations to the Board.

The Company has received a letter issued to the Company by China Telecom stating that they were not in breach of any non-competition undertakings in 2014. The letter has been reviewed by the Non-competition Undertaking Review Committee and the Board.

### Right of First Refusal and Priority Right Committee

The Right of First Refusal and Priority Right Committee consists of three independent non-executive directors: Mr. Wei Leping (Chairman), Mr. Zhao Chunjun and Mr. Siu Wai Keung, Francis. The Right of First Refusal and Priority Right Committee is mainly responsible for monitoring the enforcement of the right of first refusal and priority right granted by China Telecom since the Company was listed and protecting the interests of independent shareholders when such right of first refusal or priority right is exercised. Meeting(s) are held when necessary according to the Right of First Refusal and Priority Right Committee Charter.

In 2014, the Right of First Refusal and Priority Right Committee held one meeting, mainly reviewing the issue of right of first refusal in relation to the participation in the establishment of China Communications Facilities Services Corporation Limited by China Telecom Corporation Limited, and making their recommendations to the Board.

### Independent Board Committee

Pursuant to the relevant requirements under the Listing Rules, a listed company shall establish an Independent Board Committee (which shall consist only of independent non-executive directors) to advise shareholders in relation to transactions that are subject to independent shareholder's approval (such as connected transactions) as to whether the terms of the relevant transaction or arrangement are fair and reasonable and whether such a transaction or arrangement is in the interests of the Company and its shareholders as a whole. In 2014, the Company did not have any transaction requiring independent shareholder's approving and therefore the Independent Board Committee did not hold any meeting.

### Supervisory Committee

The Company established a Supervisory Committee pursuant to the PRC Company Law. The Supervisory Committee consists of three members: Ms. Xia Jianghua (the chairperson), Mr. Hai Liancheng (the external independent supervisor) and Mr. Si Jianfei (the employee representative supervisor). Except for Mr. Si Jianfei, the term of service of the supervisors are three years, commencing from the AGM on 28 June 2012 approving the third session of the Supervisory Committee to the 2014 AGM to be held in 2015, and the supervisors may serve consecutive terms if re-elected upon the expiry of their terms of service. The term of service of Mr. Si Jianfei commenced from 18 June 2013 (the date of the election) to the 2014 AGM to be held in 2015. The Supervisory Committee is a standing supervisory institution of the Company and is accountable and reports to all the shareholders. The Supervisory Committee normally meets at least twice a year.

## CORPORATE GOVERNANCE REPORT

The primary duties of the Supervisory Committee are to supervise the financial activities of the Group, to review the financial statements and other financial information prepared and presented by the Board at the general meeting(s); to supervise the performance of duties of the directors and other senior management; to prevent them from abusing power; and to deal with the directors or to initiate legal actions against the directors on behalf of the Company. In 2014, the Supervisory Committee held two meetings, details of which are set out in the "Report of the Supervisory Committee" of this annual report.

### AMENDMENT(S) TO THE ARTICLES OF ASSOCIATION

The Articles of Association of the Company do not have any material changes during 2014.

### COMPANY SECRETARY

The Company Secretary, Mr. Chung Wai Cheung, Terence, is an employee of the Company and has appropriate understanding of the Company's business. The Company Secretary is responsible for supporting the daily operation of the Board and ensuring the compliance with the policies and procedures of the Board. All of the directors can access to opinions of the Company Secretary to ensure that the procedures of the Board conform to the applicable laws and regulations. The profile of the Company Secretary is set out in the section of "Profiles of Directors, Supervisors and Senior Management" in this annual report. The Company Secretary met the requirement on professional training under the Rule 3.29 of the Listing Rules in 2014.

### REMUNERATION OF THE AUDITORS

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The international and domestic auditors of the Company are Deloitte Touche Tohmatsu and Deloitte Touche Tohmatsu Certified Public Accountants LLP, respectively. The external auditors have provided audit services to the Company for two consecutive years since they were initially appointed at the 2012 annual general meeting on 27 June 2013. The remuneration received by the external auditors for the audit services provided to the Company during the year amounted to RMB33,800 thousand. No non-audit services were provided to the Company by the external auditors during the year.

### DIRECTORS' RESPONSIBILITY FOR FINANCIAL STATEMENTS

The directors are responsible for the preparation of financial statements. The directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern, therefore the directors continue to adopt the going concern approach in preparing financial statements.

The responsibility statement of Deloitte Touche Tohmatsu, our external auditors, regarding its Independent Auditor's Report on the financial statements of the Group is set out on pages 95 to 96 of this annual report.



### INTERNAL CONTROL

The Board of the Company is granted full authority to maintain the soundness and effectiveness of the internal control system of the Group to secure the investment of the shareholders and the assets of the Group. The Group established internal control system and risk management system which conform to COSO standard, including setting management structure and its terms of reference. The purpose is to ensure efficient and effective use of the Group's resources to assist the Group in achieving its operation objectives, safeguarding the Group's assets against any unauthorized use or disposal, ensuring an appropriate maintenance of accounting records and the availability of reliable financial information for internal use or external release, and ensuring compliance of all operating activities with the relevant laws and regulations. Such control system is intended to have in place reasonable safeguards, but not an absolute guarantee, against material misrepresentation or loss, and to minimize but not eliminate any defects in the Group's operating system and the risk of failing to achieve its objectives.

The Group is committed to strengthening its internal control and risk management and has established a sound internal control foundation. The major control measures of the Group in 2014 are summarized as follows:

- Reinforcing internal audit to identify and fix the loopholes in management: The Group focused on unexpected cases in operation and management activities, operation procedures and business structure to strengthen internal audit. It also placed emphasis on the application and conversion of audit results to improve management and to fix loopholes in management.
- Strengthening the rectification and supervision of the problems found. The Group reviewed all the issues identified in internal and external audits and inspections over the years and conducted special inspections on the rectification works of all companies in the Group to ensure the effectiveness of inspections.
- Strengthening internal control assessment: The Group organized subsidiaries of various levels to carry out an assessment on the effectiveness of the design and implementation of internal control system, which focus on the key businesses cycles such as contract management, cost control, cash management, business subcontracting, procurement management, inventory management, sales and engineering, construction and supervision, revealing deficiencies on the design and implementation of internal control procedures and providing suggestions and recommendations so as to prevent material risks on internal control.

The Board considers the Company was in compliance with the internal control requirements under C.2 of the Code Provisions and the internal control and risk management system of the Company was effective. The Board intends to further improve and enhance the Company's internal control and risk management in 2015.

# INVESTOR RELATIONS

Investor relations is an important channel for listed companies to interact and communicate with the capital market. The Company strives to practice effective investor relations measures through various channels to maintain close and timely communication with the investors. Investors are thereby able to have better understanding on the updates of the Company's latest operation and development while the Company can gather information through the enquiries and concern raised out by the investors. The management of the Company is able to have a comprehensive understanding on the advice, comment and expectation of the investors.

As the Company always places great emphasis on investor relations, fairness and transparency remain the fundamental and the Company will continue to adhere to the principle of timeliness, accuracy and effectiveness to establish a better and more effective multi-channel interactive communication mechanism. The Company strives for perfection and persists to maintain best investor relations practice and continues to enhance and realize the investment value of the Company.

## INVESTOR RELATIONS ACTIVITIES

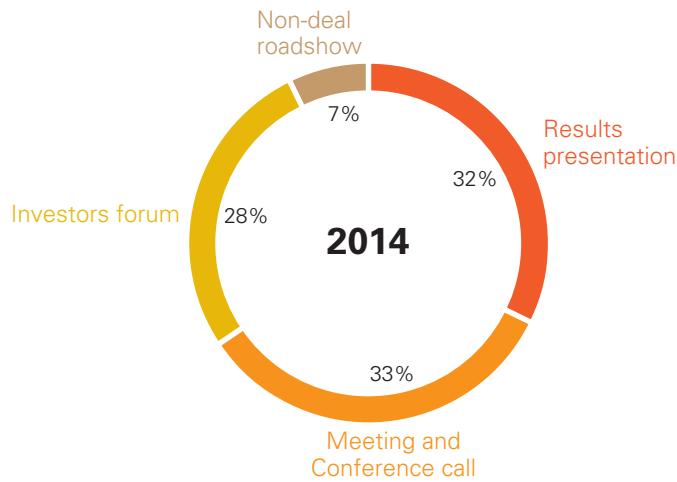
The Company strives to enhance its transparency and improve its communication mechanism with the capital market. The Company conducts constructive mutual communications with the capital market through multiple channels to enhance the understanding of investors of the Company and at the same time update the management about different comments on the Company from the capital market.

The Company organizes and participates in investor and press conferences, non-deal roadshows, investor forums organized by investment banks, one-on-one meetings, teleconferences and video conferences, and timely disseminates information such as development updates and operating results of the Company to the capital market through multiple channels including emails, press releases as well as investor relations website. In 2014, the senior management and the investor relations department of the Company held meetings and communicated with around 500 analysts and investors through the above channels.



2014 Annual Results Presentation

ATTENDANCE ANALYSIS OF INVESTOR RELATIONS ACTIVITIES IN 2014



LIST OF INVESTOR RELATIONS ACTIVITIES OF THE COMPANY IN 2014

Period	Activities	Venue
1/2014	DB Access China Conference 2014	Beijing
3/2014	2013 Annual Results Announcement – Analyst Briefing – Press Conference	Hong Kong
3/2014	Non-deal Roadshow	Hong Kong
5/2014	Macquarie Greater China Conference	Hong Kong
5/2014	DBS Vickers Pulse of Asia Conference	Hong Kong
5/2014	BNP Paribas 5th Annual Asia Pacific TMT Conference	Hong Kong
5/2014	Nomura Pan-Asia Technology Forum 2014	Hong Kong
6/2014	Standard Chartered D3/T5 China Day 2014	Hong Kong
8/2014	2014 Interim Results Announcement – Analyst Briefing – Press Conference	Hong Kong
8/2014	Non-deal Roadshow	Hong Kong
10/2014	Jefferies 4th Annual Asia Summit	Hong Kong
11/2014	Citi Greater China Investor Conference 2014	Macau
11/2014	BAML China Conference 2014	Beijing
11/2014	Goldman Sachs Greater China CEO Summit 2014	Hong Kong

## INVESTOR RELATIONS

### SHAREHOLDING STRUCTURE

In 2014, the Company continued to appoint an international survey company to conduct two comprehensive investigations on the shareholding structure of the Company. With a better understanding of the structure and position changes in its shareholding, background, geographical locations and investment styles of shareholders, the Company was able to conduct more targeted communication with investors and enhance the effectiveness of its investor relations program.

### SHAREHOLDING STRUCTURE<sup>(1)</sup> AS OF 31 DECEMBER 2014



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### INFORMATION DISCLOSURE

The Company firmly believes that information disclosure is not only the responsibility and obligation to protect investors' interest in accordance with the regulatory provisions for the listed companies, but also an important means to improve transparency and enhance the understanding of the Company by the capital market.

Since its listing, the Company has strictly complied with the information disclosure requirements for listed companies and made information disclosure in a timely, just, fair and accurate manner. In 2014, the Company published more than ten corporate communications such as announcements and circulars. Such publications have objectively and comprehensively disclosed information regarding the Company's results, operating performance, financial information, dividend payment, poll results of general meetings, and certain other voluntary disclosures as well as awards received from the capital market.

(1) For details of the material interests and short positions in shares and underlying shares of the Company, please refer to "Report of the Directors".

In 2014, the Company published the following information on the websites of the Stock Exchange and the Company pursuant to the Listing Rules:

14/02/2014	Announcement in relation to the operating performance updates for the full year of 2013
21/02/2014	Announcement of list of directors and their role and function
21/02/2014	Poll results of the extraordinary general meeting held on 21 February 2014 and appointment of executive director
14/03/2014	Announcement relating to the date of board meeting to approve the 2013 annual results
26/03/2014	Announcement of annual results for the year ended 31 December 2013
15/04/2014	Annual report 2013
15/04/2014	Notice of the annual general meeting to be held on 27 June 2014, attendance slip and form of proxy
27/06/2014	Poll results of the annual general meeting held on 27 June 2014 and payment of final dividend
11/07/2014	Inside information announcement
21/07/2014	Announcement of appointment of executive vice president
14/08/2014	Announcement relating to the date of board meeting to approve the 2014 interim results
28/08/2014	Announcement of interim results for the six months ended 30 June 2014
15/09/2014	Interim report 2014
21/11/2014	Announcement of resignation of director, proposed appointment of director and proposed amendments to articles of association
01/12/2014	Notice of the extraordinary general meeting to be held on 19 January 2015, attendance slip and form of proxy

Other than announcements and circulars, the Company's website (<http://www.chinaccs.com.hk>) is also one of the important distribution channels for corporate information dissemination. The financial information, share information, annual reports and investor activities, which are important to the capital market and investors, are systematically disclosed in the "Investor Relations" section of the website of the Company. Investors are able to keep abreast of the Company's latest development through a timely and comprehensive way.



## INVESTOR RELATIONS

Annual report is not only an important document for information disclosure of a listed company, but also one of the important means to communicate the operation philosophy, strategies, current operation and development trends of the Company to the investor community in detail. Hence, the Company always attaches high importance to the preparation of annual reports. The details contained in annual reports allow investors to have more comprehensive understanding of the Company.

The effort of the Company put in the preparation of annual reports received recognition. In 2014, the 2013 annual report of the Company won the Gold award of the "Interior Design" and Silver award of the "Printing and Production" at the "2014 International ARC Awards". Our annual report was also ranked the 28th on "Worldwide Top 100" and the 14th on "Regional Top 80" (Asian Pacific) and once again received the Platinum Award in its industry by the League of American Communications Professionals (LACP).

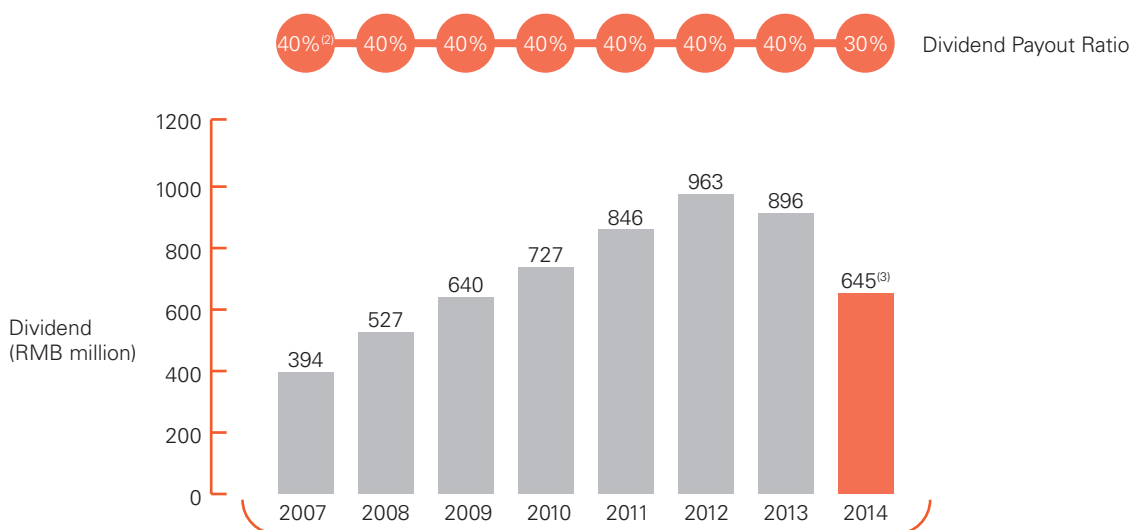


## DIVIDEND

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The Company attaches great importance to the dividend paid to shareholders, and determines its dividend with reference to the Company's operating performance, financial position, cash flow, long-term development needs and potential investment opportunities. The Company has adjusted the dividend payout ratio for the year of 2014 after in-depth discussion with shareholders and investors and having considered various factors including the cash flow position, funding requirement for long-term development, and the sustainability of relatively stable future dividend payout of the Company.

Dividend distribution of the Company since its listing is set out in the below table.



<sup>(2)</sup> The net profits contributed by the acquisitions in 13 provincial business prior to 31 August 2007 (being the completion date of the acquisitions) was excluded from the calculation of 2007 dividend payout ratio.

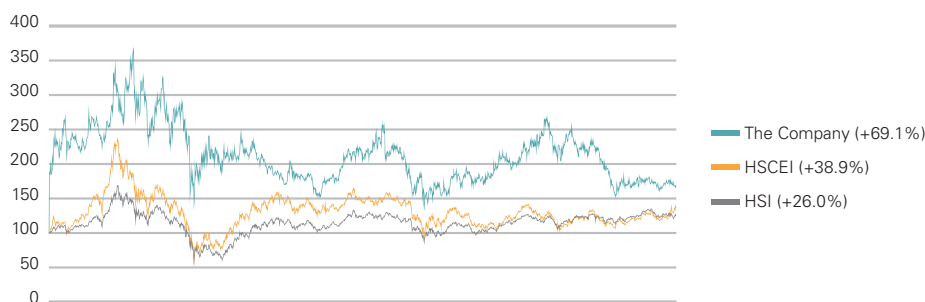
<sup>(3)</sup> Subject to the approval at the 2014 annual general meeting to be held on 26 June 2015.

## SHARE PRICE PERFORMANCE

The Company's H shares were listed on the Stock Exchange on 8 December 2006 at an offer price of HK\$2.2 per share. Since its listing, the Company has grasped various favorable opportunities arising from the industry development, and achieved steady business growth through effective implementation of strategies and sound corporate governance. The Company proactively implements its investor relations program to strengthen the communication and interaction with the capital market. The price of the Company's H shares has been maintaining a favorable overall performance since its listing to 31 December 2014.

### Share Price Performance Since Listing

From 8 December 2006 to 31 December 2014

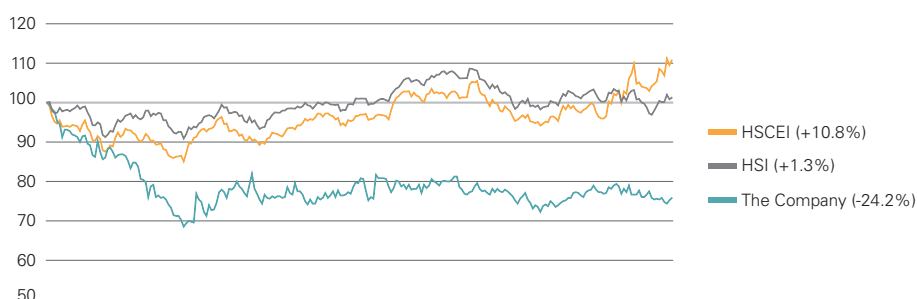


In 2014, the operation of the Company was collectively affected by the changes of the macro-economic conditions and the development environment of the industry. The operating results of the Company fell short of the expectation of the capital market. As such, the Company adopted a proactive investor relations strategy to timely communicate with the capital market of the challenges and prospects of the Company. The share price of the Company was relatively stable after the fluctuation at the beginning of 2014. The Company's share price recorded a decline of around 24% in 2014.

2014	Highest	Lowest	Closing
Price per H share of the Company (HK\$)	4.85	3.28	3.64

### Share Price Performance in 2014

From 1 January 2014 to 31 December 2014



As of 31 December 2014, the total number of shares for the Company was 6,926,018,400 shares, including 4,534,598,160 domestic shares and 2,391,420,240 H shares, both at par value of RMB1.00 each. All the H shares of the Company are listed on the Stock Exchange, representing approximately 34.5% of the total shares of the Company. Based on the closing price as of 31 December 2014, the Company's market capitalization was about HK\$25.2 billion.

## INVESTOR RELATIONS

### MAJOR AWARDS AND RECOGNITIONS IN 2014



1. **“Corporate Governance Asia Recognition Award 2014 – The Best of Asia” by Corporate Governance Asia**
  - Icon on Corporate Governance
2. **“Asian Excellence Recognition Awards 2014” by Corporate Governance Asia**
  - Best Chief Financial Officer
  - Best Investor Relations
3. **“The Asset Corporate Awards 2014” by The Asset**
  - Gold Award – Financial Performance, Corporate Governance and Investor Relations
4. **“2014 China Securities Golden Bauhinia Awards” by Tai Kung Pao**
  - The Best Investment Value Listed Company
5. **“2014 International ARC Awards”**
  - Gold Award – “Interior Design”
  - Silver Award – “Printing and Production”
6. **“Vision Awards” by LACP**
  - Worldwide Top 100
  - Rank 28th
  - Regional Top 80 (Asia-Pacific)
  - Rank 14th
  - Platinum Award
7. **“2014 FORTUNE China 500” published by Fortune China**
  - Rank 82nd



### RECOGNITIONS AND HONORS IN THE CAPITAL MARKET

The Company is a constituent stock of “Hang Seng Corporate Sustainability Benchmark Index”. The Company is also the constituent stocks of Hang Seng Composite Index and Hang Seng Composite MidCap Index.

In 2014, there were more than 10 international research institutions covering and regularly publishing research reports on the Company. Since its listing, the Company’s investment value has been highly recognized by the capital market. As of 31 December 2014, most of the major research institutions maintained positive investment ratings such as “Buy” or “Hold” on the Company.

In 2014, the Company continued to be highly recognized by the capital market, and was awarded many major international awards or recognitions. The Company was awarded and recognized by various publications, including *Fortune China*, *Corporate Governance Asia* and *The Asset*, for its corporate governance, investor relations and investment value. The design and production of the annual report of last year were also honoured with various major awards. The awards won by the Company demonstrated that the Company is highly recognized by the capital market.

### OTHER NECESSARY INFORMATION FOR SHAREHOLDERS

#### Shareholder services

Any matters relating to shareholding, such as transfer of shares, change of name or address, and loss of share certificates should be addressed in writing to the Registrar:

Computershare Hong Kong Investor Services Limited  
Shops 1712–1716, 17/F., Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong  
Telephone: (852) 2862 8628  
Facsimile: (852) 2529 6087

#### Shareholder enquiries

Enquiry hotline during normal office hours (Monday to Friday: 09:00–18:00):  
Telephone: (852) 3699 0000

#### Investor relations enquiries

For enquiries from institutional investors and securities analysts, please contact:

Investor Relations Department, China Communications Services Corporation Limited  
Room 3203–3205, 32/F., Great Eagle Centre, 23 Harbour Road, Wanchai, Hong Kong  
Telephone: (852) 3699 0000  
Facsimile: (852) 3699 0120  
Email: ir@chinaccs.com.hk

# HUMAN RESOURCES DEVELOPMENT

In 2014, the Group implemented its human resources strategy to keep in pace with the comprehensive and deepened reforms of China. Under the principles of “controlling total headcounts, optimizing employment structure, strengthening staff team, enhancing capability, reforming mechanism, pursuing harmony”, the Group focused on the strategy of talent management. A market-oriented human resources management system was established to further enhance the overall efficiency and value for future innovation and transformation of the Group.

In 2014, adhering to the value-driven principle, the Group improved the allocation of human resources for higher efficiency and tilted human resources allocation towards key business, quality business and core talents team. The Group has studied the competitiveness of its compensation packages with a view to optimizing the relationship between labour costs and profits. Dispatch workers were employed by the Group strictly in compliance with the amended Labour Contract Law and the Interim Provisions of Labour Dispatch to further refine its staff structure. As at the end of 2014, the Group had a total of 118 thousand staff. Revenue per headcount amounted to RMB619 thousand per year.

In 2014, the Group put a great emphasis on human resources management and provided more development opportunities to outstanding staff. The “Talents Project” was implemented across the Group by giving priority to human resources development, workforce restructuring, selection of talents and innovation of human resources system so as to cultivate a team of managers with entrepreneurial spirit. The Group carried out the building of “four channels” for market-oriented talents, expanding their career development. Strategies were systematically deployed in the selection, appointment, appraisal, cultivation and motivation of high-end talents, by which core talents were effectively motivated and retained, and the core competitive edge of the Group was enhanced for different customers, regions and professionals.

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In 2014, the Group highly emphasized the cultivation of talents. Comprehensive on-the-job trainings on leadership, professional skill and competency were orderly facilitated by allocating the internal and external resources of the Group, which effectively enhanced the work capability of staff. The Group organized in-house instructors training courses for marketing managers to improve their capabilities and expand our training capacity and methods.

In 2014, the Group kept on with its “people-oriented” philosophy and aimed to create a caring working environment for its staff. The Group contributed to the building of a harmonic and happy enterprise and shared the achievements of business development with its staff. The Group determined the compensation packages according to market statistics with a view to promoting the initiative and passion of the key personnel. The Group abided the relevant national laws and regulations, improved its enterprise pension system and established a healthy and harmonious work environment for its staff as well as built stable labor relationship with its employees. The health and safety of staff are under effective protection.

# NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HERBY GIVEN that the annual general meeting of China Communications Services Corporation Limited ("the Company") for the year 2014 will be held at 10:00 a.m. on 26 June 2015 at No.19, Chaoyangmen Beidajie, Dongcheng District, Beijing, PRC, to consider and, if thought fit, pass the following businesses:

## ORDINARY RESOLUTIONS

1. **THAT** the consolidated financial statements of the company, the report of the Directors, the report of the Supervisory Committee and the report of the international auditors for the year ended 31 December 2014 be considered and approved, and the board of directors of the Company (the "Board") be authorized to prepare the budget of the Company for the year 2015;
2. **THAT** the profit distribution proposal and the declaration and payment of a final dividend for the year ended 31 December 2014 be considered and approved;
3. **THAT** the appointment of Deloitte Touche Tohmatsu and Deloitte Touche Tohmatsu Certified Public Accountants LLP as the international auditors and domestic auditors of the Company, respectively, for the year ending 31 December 2015 be considered and approved, and the Board be authorized to fix the remuneration of the auditors;
4. To consider and approve, by way of separate ordinary resolutions, each of the following resolutions in relation to the election of the members of the fourth session of the Board:

- 4.1. **THAT** the re-election of Mr. Sun Kangmin as an executive director of the Company be and is hereby considered and approved, with effect from date of this resolution for a term of three years until the annual general meeting of the Company for the year 2017 to be held in 2018;

**THAT** any director of the Company be and is hereby authorized to sign on behalf of the Company the director's service contract with Mr. Sun Kangmin, and **THAT** the Board be and is hereby authorized to determine his remuneration.

- 4.2. **THAT** the re-election of Mr. Si Furong as an executive director of the Company be and is hereby considered and approved, with effect from date of this resolution for a term of three years until the annual general meeting of the Company for the year 2017 to be held in 2018;

**THAT** any director of the Company be and is hereby authorized to sign on behalf of the Company the director's service contract with Mr. Si Furong, and **THAT** the Board be and is hereby authorized to determine his remuneration.

- 4.3. **THAT** the re-election of Ms. Hou Rui as an executive director of the Company be and is hereby considered and approved, with effect from date of this resolution for a term of three years until the annual general meeting of the Company for the year 2017 to be held in 2018;

**THAT** any director of the Company be and is hereby authorized to sign on behalf of the Company the director's service contract with Ms. Hou Rui, and **THAT** the Board be and is hereby authorized to determine her remuneration.

## NOTICE OF ANNUAL GENERAL MEETING

- 4.4. **THAT** the re-election of Mr. Li Zhengmao as a non-executive director of the Company be and is hereby considered and approved, with effect from date of this resolution for a term of three years until the annual general meeting of the Company for the year 2017 to be held in 2018;

**THAT** any director of the Company be and is hereby authorized to sign on behalf of the Company the director's service contract with Mr. Li Zhengmao, and **THAT** the Board be and is hereby authorized to determine his remuneration.

- 4.5. **THAT** the re-election of Mr. Zhang Junan as a non-executive director of the Company be and is hereby considered and approved, with effect from date of this resolution for a term of three years until the annual general meeting of the Company for the year 2017 to be held in 2018;

**THAT** any director of the Company be and is hereby authorized to sign on behalf of the Company the director's service contract with Mr. Zhang Junan, and **THAT** the Board be and is hereby authorized to determine his remuneration.

- 4.6. **THAT** the re-election of Mr. Wang Jun as an independent non-executive director of the Company be and is hereby considered and approved, with effect from date of this resolution for a term of three years until the annual general meeting of the Company for the year 2017 to be held in 2018;

**THAT** any director of the Company be and is hereby authorized to sign on behalf of the Company the director's service contract with Mr. Wang Jun, and **THAT** the Board be and is hereby authorized to determine his remuneration.

- 4.7. **THAT** the re-election of Mr. Zhao Chunjun as an independent non-executive director of the Company be and is hereby considered and approved, with effect from date of this resolution for a term of three years until the annual general meeting of the Company for the year 2017 to be held in 2018;

**THAT** any director of the Company be and is hereby authorized to sign on behalf of the Company the director's service contract with Mr. Zhao Chunjun, and **THAT** the Board be and is hereby authorized to determine his remuneration.

- 4.8. **THAT** the re-election of Mr. Siu Wai Keung, Francis as an independent non-executive director of the Company be and is hereby considered and approved, with effect from date of this resolution for a term of three years until the annual general meeting of the Company for the year 2017 to be held in 2018;

**THAT** any director of the Company be and is hereby authorized to sign on behalf of the Company the director's service contract with Mr. Siu Wai Keung, Francis, and **THAT** the Board be and is hereby authorized to determine his remuneration.

5. To consider and approve, by way of separate ordinary resolutions, each of the following resolutions in relation to the re-election of the members of the fourth session of the supervisory committee of the Company (supervisors who represent the shareholders):

- 5.1. **THAT** the re-election of Ms. Xia Jianghua as a supervisor of the Company be and is hereby considered and approved, with effect from date of this resolution for a term of three years until the annual general meeting of the Company for the year 2017 to be held in 2018.

## NOTICE OF ANNUAL GENERAL MEETING

- 5.2. **THAT** the re-election of Mr. Hai Liancheng as a supervisor of the Company be and is hereby considered and approved, with effect from date of this resolution for a term of three years until the annual general meeting of the Company for the year 2017 to be held in 2018.
- 5.3. **THAT** any director of the Company be and is hereby authorized to sign on behalf of the Company the supervisor's service contract with each supervisor, and **THAT** the supervisory committee of the Company be and is hereby authorized to determine the supervisor's remuneration.

and to consider and approve other businesses (if any).

And as special businesses, to consider and, if thought fit, pass the following special resolutions:

### SPECIAL RESOLUTIONS

6. To consider and approve, by way of special resolutions, each of the following resolutions in relation to the granting of a general mandate to the Board to issue debentures:
- 6.1. **THAT** the grant of a general mandate to the Board to issue debentures denominated in local or foreign currencies, in one or more tranches in the PRC and overseas, including but not limited to, short-term commercial paper, medium term note, company bond and corporate debts (the "Debentures"), with a maximum aggregate outstanding repayment amount of up to RMB6.0 billion be and is hereby approved.
- 6.2. **THAT** the Board or any two of the three directors of the Company duly authorized by the Board, namely Mr. Sun Kangmin, Mr. Si Furong and Ms. Hou Rui (the "Authorized Directors"), taking into account the specific needs of the Company and market conditions, be and are hereby generally and unconditionally authorized to:
- a) determine the specific terms and conditions of, and other matters relating to, the issue of Debentures, including but not limited to, the determination of the type, amount, interest rate, term, rating, security, time and place of the issue, any repurchase or redemption provisions, any placing arrangements, any option to adjust the nominal interest rates and the use of proceeds; determine the underwriting arrangements; secure approvals; engage professional advisors; disseminate relevant application documents to the regulatory authorities; obtain approvals from the regulatory authorities; execute all requisite legal documentation relating to the issue as requested by the regulatory authorities and make relevant disclosure;
  - b) do all such acts which are necessary and incidental to the issue of Debentures;
  - c) take all such steps which are necessary for the purposes of executing the issue of Debentures (including, but not limited to, the execution of all requisite documentation and the disclosure of relevant information in accordance with applicable laws) and to the extent that any of the aforementioned acts and steps that have already been undertaken by the Board or the Authorized Directors in connection with the issue of Debentures, be and are hereby approved, confirmed and ratified.
- 6.3. **THAT** the grant of the general mandate under this resolution shall come into effect upon approval from the general meeting and will be valid for 12 months from that date.

## NOTICE OF ANNUAL GENERAL MEETING

7. **THAT:**

- (a) subject to paragraph (c) below, the exercise by the Board during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares of the Company and to make or grant offers, agreements and options which might require the exercise of such powers be hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) shall authorize the Board during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such powers after the end of the Relevant Period;
- (c) the amount of additional domestic shares or overseas-listed foreign invested shares ("H shares") (as the case may be) allotted, issued and dealt with or agreed conditionally or unconditionally to be allotted, issued and dealt with either separately or concurrently by the Board pursuant to the approval in paragraph (a), otherwise than pursuant to any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares in accordance with the Articles of Association of the Company, shall not exceed 20% of each of the Company's existing domestic shares and H shares (as the case may be) in issue at the date of passing this special resolution; and
- (d) for the purpose of this special resolution 7:

"Relevant Period" means the period from the passing of special resolution 7 until the earliest of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the 12 months period following the passing of these special resolutions; and
- (iii) the revocation or variation of the authority given to the Board under these special resolutions by a special resolution of the Company's shareholders by way of a general meeting.

8. **THAT** the Board be authorized to increase the registered capital of the Company to reflect the issue of shares in the Company authorized under special resolution 7, and to make such appropriate and necessary amendments to the Articles of Association of the Company as they think fit to reflect such increases in the registered capital of the Company and to take any other action and complete any formality required to effect such increase of the registered capital of the Company.

By Order of the Board  
**China Communications Services Corporation Limited**  
**Chung Wai Cheung, Terence**  
*Company Secretary*

Beijing, PRC

20 April 2015

## NOTICE OF ANNUAL GENERAL MEETING

### Notes:

- (1) Buyers who submit the share transfer application forms to the Company's share registrar before 4:30 p.m. on 26 May 2015 (Tuesday) and then register as shareholders on the register of members of the Company are entitled to attend the annual general meeting.
- (2) Each shareholder entitled to attend and vote at the annual general meeting may appoint one or more proxies to attend and vote on his behalf at the annual general meeting. A proxy need not be a shareholder. Each shareholder who wishes to appoint one or more proxies should first review the annual report of the Company for the year 2014, which is expected to be despatched to shareholders on around 20 April 2015 (Monday).
- (3) To be valid, the form of proxy together with the power of attorney or other authorization document (if any) signed by the authorized person or notarially certified power of attorney must be delivered to the Office of the Board of the Company for holders of domestic shares and to the Computershare Hong Kong Investor Services Limited for holders of H shares not less than 24 hours before the designated time for the holding of the annual general meeting. Completion and return of a form of proxy will not preclude a shareholder from attending in person and voting at the annual general meeting if he so wishes.

The address of the share registrar for the Company's H shares is as follow:

Computershare Hong Kong Investor Services Limited  
17M Floor, Hopewell Centre  
183 Queen's Road East, Wanchai, Hong Kong

- (4) All resolutions at the general meeting will be voted by poll.
- (5) The registration procedure for attending the annual general meeting:
  - (a) Shareholders attending the annual general meeting in person or by proxy shall present their identity certification. If the attending shareholder is a corporation, its legal representative or person authorized by the board or other decision making authority shall present a copy of the relevant resolution of the board or other decision making authority in order to attend the annual general meeting.
  - (b) Shareholders intending to attend the annual general meeting shall return the attendance slip via hand delivery, mail or fax to the Office of the Board of the Company on or before 5 June 2015 (Friday).
- (6) Closure of the register of members:

- (a) 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, from Wednesday, 27 May 2015 to Friday, 26 June 2015 (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, 26 May 2015. H share shareholders who are registered with Computershare Hong Kong Investor Services Limited on 26 June 2015 are entitled to attend the Annual General Meeting.

- (b) Proposed Final Dividend

The Board proposes a final dividend of RMB0.0931 per share (pre-tax) for the year ended 31 December 2014. The dividend proposal will be submitted for consideration at the Annual General Meeting to be held on 26 June 2015. If such proposed dividend distribution is approved by the shareholders, the final dividend will be distributed to those shareholders whose names appear on the register of members of the Company on Monday, 13 July 2015. The register of members will be closed from Wednesday, 8 July 2015 to Monday, 13 July 2015 (both days inclusive). In order to be entitled to the final 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 Tuesday, 7 July 2015. Dividends will be denominated and declared in Renminbi. Dividends on domestic shares will be paid in Renminbi, whereas dividends on H shares 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 the approval of declaration of dividends at the Annual General Meeting.

## NOTICE OF ANNUAL GENERAL MEETING

- (7) The annual general meeting is expected to last for half a day and shareholders (in person or by proxy) attending the annual general meeting shall be responsible for their own transport and accommodation expenses.
- (8) The address of the Office of the Board is as follows:

No. 19, Chaoyangmen Beidajie  
Dongcheng District  
Beijing 100010  
PRC

Contact person: Chung Wai Cheung, Terence  
Telephone: (8610) 5850 2290  
Facsimile: (8610) 5850 1534

*As at the date of this notice, 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. Wei Leping and Mr. Siu Wai Keung, Francis.*



# INDEPENDENT AUDITOR'S REPORT



## TO THE SHAREHOLDERS OF CHINA COMMUNICATIONS SERVICES CORPORATION LIMITED

*(Established in the People's Republic of China with limited liability)*

We have audited the consolidated financial statements of China Communications Services Corporation Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 97 to 176, which comprise the consolidated and the Company's statements of financial position as at 31 December 2014, and the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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## AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## INDEPENDENT AUDITOR'S REPORT

### OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2014, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Deloitte Touche Tohmatsu**

*Certified Public Accountants*

Hong Kong

25 March 2015

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2014

	Notes	2014 RMB'000	2013 RMB'000
Revenues	4	<b>73,176,252</b>	68,459,096
Cost of revenues	5	<b>(62,494,549)</b>	(58,081,107)
<b>Gross profit</b>		<b>10,681,703</b>	10,377,989
Other operating income	6	<b>805,579</b>	802,216
Selling, general and administrative expenses		<b>(8,777,028)</b>	(8,288,163)
Other operating expenses	7	<b>(84,638)</b>	(116,624)
Finance costs	8	<b>(20,430)</b>	(11,232)
Share of profits of associates		<b>25,700</b>	14,315
<b>Profit before tax</b>	9	<b>2,630,886</b>	2,778,501
Income tax	10	<b>(463,088)</b>	(493,121)
<b>Profit for the year</b>		<b>2,167,798</b>	2,285,380
Attributable to:			
Equity shareholders of the Company		<b>2,150,258</b>	2,238,351
Non-controlling interests		<b>17,540</b>	47,029
<b>Profit for the year</b>		<b>2,167,798</b>	2,285,380
<b>Basic earnings per share (RMB)</b>	16	<b>0.310</b>	0.323

The notes on pages 106 to 176 form part of these financial statements. Details of dividend payable to equity shareholders of the Company attributable to the profit for the year are set out in note 15.

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2014

	Notes	2014 RMB'000	2013 RMB'000
<b>Profit for the year</b>		<b>2,167,798</b>	2,285,380
<b>Other comprehensive income for the year (after tax)</b>			
<b>Items that may be subsequently reclassified to profit or loss (after tax):</b>			
Exchange differences on translation of financial statements of subsidiaries outside of Mainland China		<b>(7,755)</b>	(14,057)
Available-for-sale securities: net movement in the fair value reserve	11	<b>8,698</b>	8,307
		<b>943</b>	(5,750)
<b>Total comprehensive income for the year</b>		<b>2,168,741</b>	2,279,630
<b>Attributable to:</b>			
Equity shareholders of the Company		<b>2,151,087</b>	2,232,601
Non-controlling interests		<b>17,654</b>	47,029
<b>Total comprehensive income for the year</b>		<b>2,168,741</b>	2,279,630

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2014

	Notes	31 December 2014 RMB'000	31 December 2013 RMB'000
<b>Non-current assets</b>			
Property, plant and equipment, net	17	4,538,844	4,686,953
Investment properties	18	682,289	734,121
Construction in progress	19	234,890	207,111
Lease prepayments	20	872,348	897,827
Goodwill	21	103,005	103,005
Other intangible assets	22	249,618	200,093
Interests in associates	24	67,211	71,581
Available-for-sale financial assets	25	838,778	661,359
Deferred tax assets	26	331,854	291,778
Other non-current assets	27	634,084	241,308
<b>Total non-current assets</b>		<b>8,552,921</b>	8,095,136
<b>Current assets</b>			
Inventories	28	2,420,898	2,228,214
Accounts and bills receivable, net	29	27,441,198	25,428,055
Prepayments and other current assets	31	5,833,187	5,027,405
Restricted deposits	32	1,199,411	712,259
Cash and cash equivalents	33	7,313,515	6,760,237
<b>Total current assets</b>		<b>44,208,209</b>	40,156,170
<b>Total assets</b>		<b>52,761,130</b>	48,251,306
<b>Current liabilities</b>			
Interest-bearing borrowings	34	246,818	53,901
Accounts and bills payable	35	18,815,568	17,080,784
Receipts in advance for contract work		1,578,088	1,164,029
Accrued expenses and other payables	36	7,424,966	7,126,497
Income tax payable		312,796	315,222
<b>Total current liabilities</b>		<b>28,378,236</b>	25,740,433
<b>Net current assets</b>		<b>15,829,973</b>	14,415,737
<b>Total assets less current liabilities</b>		<b>24,382,894</b>	22,510,873
<b>Non-current liabilities</b>			
Interest-bearing borrowings	34	38,708	51,580
Other non-current liabilities	37	787,642	154,379
Deferred tax liabilities	26	13,357	16,892
<b>Total non-current liabilities</b>		<b>839,707</b>	222,851
<b>Total liabilities</b>		<b>29,217,943</b>	25,963,284

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2014

	Notes	<b>31 December 2014 RMB'000</b>	31 December 2013 RMB'000
<b>Equity</b>			
Share capital	38	<b>6,926,018</b>	6,926,018
Reserves		<b>16,103,855</b>	14,846,745
<b>Equity attributable to equity shareholders of the Company</b>		<b>23,029,873</b>	21,772,763
<b>Non-controlling interests</b>		<b>513,314</b>	515,259
<b>Total equity</b>		<b>23,543,187</b>	22,288,022
<b>Total liabilities and equity</b>		<b>52,761,130</b>	48,251,306

The notes on pages 106 to 176 form part of these financial statements.

Approved and authorised for issue by the board of directors on 25 March 2015.

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**Sun Kangmin**  
*Chairman*

**Hou Rui**  
*Executive Vice President and  
Chief Finance Officer, Director*

# STATEMENT OF FINANCIAL POSITION

At 31 December 2014

	Notes	31 December 2014 RMB'000	31 December 2013 RMB'000
<b>Non-current assets</b>			
Property, plant and equipment, net	17	10,414	7,451
Construction in progress	19	10,862	5,794
Other intangible assets	22	9,098	8,313
Investments in subsidiaries	23	12,617,534	12,617,534
<b>Total non-current assets</b>		<b>12,647,908</b>	12,639,092
<b>Current assets</b>			
Prepayments and other current assets	31	1,424,210	1,948,230
Restricted deposits	32	254,736	370,390
Cash and cash equivalents	33	1,262,093	672,799
<b>Total current assets</b>		<b>2,941,039</b>	2,991,419
<b>Total assets</b>		<b>15,588,947</b>	15,630,511
<b>Current liabilities</b>			
Accrued expenses and other payables	36	21,667	26,842
Income tax payable		431	4,119
<b>Total current liabilities</b>		<b>22,098</b>	30,961
<b>Net current assets</b>		<b>2,918,941</b>	2,960,458
<b>Total assets less current liabilities</b>		<b>15,566,849</b>	15,599,550
<b>Total liabilities</b>		<b>22,098</b>	30,961
<b>Equity</b>			
Share capital	38	6,926,018	6,926,018
Reserves	46	8,640,831	8,673,532
<b>Total equity</b>		<b>15,566,849</b>	15,599,550
<b>Total liabilities and equity</b>		<b>15,588,947</b>	15,630,511

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The notes on pages 106 to 176 form part of these financial statements.

Approved and authorised for issue by the board of directors on 25 March 2015.

**Sun Kangmin**  
Chairman

**Hou Rui**  
Executive Vice President and  
Chief Finance Officer, Director

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2014

## Equity attributable to equity shareholders of the Company

Notes	Equity attributable to equity shareholders of the Company										Non-controlling interests	Total equity
	Share capital	Share premium	Capital reserve	Statutory surplus reserve	Specific reserve	Fair value reserve	Exchange reserve	Other reserve	Retained earnings	Total		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(note a)	(note b)	(note c)	(note d)	(note e)	(note f)						
<b>Balance as at 1 January 2014</b>	<b>6,926,018</b>	<b>4,529,310</b>	<b>1,846,468</b>	<b>664,801</b>	<b>72,142</b>	<b>30,861</b>	<b>(27,870)</b>	<b>(68,310)</b>	<b>7,799,343</b>	<b>21,772,763</b>	<b>515,259</b>	<b>22,288,022</b>
<b>Changes in equity for the year ended 31 December 2014</b>												
Profit for the year	-	-	-	-	-	-	-	-	2,150,258	2,150,258	17,540	2,167,798
Other comprehensive income	-	-	-	-	-	-	829	-	-	829	114	943
Total comprehensive income	-	-	-	-	-	-	829	-	2,150,258	2,151,087	17,654	2,168,741
Dividend declared	15(b)	-	-	-	-	-	-	-	(895,534)	(895,534)	-	(895,534)
Distribution to non-controlling owners		-	-	-	-	-	-	-	-	-	(19,599)	(19,599)
Appropriation		-	-	-	86,283	-	-	-	(86,283)	-	-	-
Appropriation of maintenance and production funds		-	-	-	-	333,274	-	-	(333,274)	-	-	-
Utilisation of maintenance and production funds		-	-	-	-	(301,966)	-	-	301,966	-	-	-
Others		-	-	-	-	-	-	-	1,557	1,557	-	1,557
<b>Balance as at 31 December 2014</b>	<b>6,926,018</b>	<b>4,529,310</b>	<b>1,846,468</b>	<b>751,084</b>	<b>103,450</b>	<b>30,861</b>	<b>(27,041)</b>	<b>(68,310)</b>	<b>8,938,033</b>	<b>23,029,873</b>	<b>513,314</b>	<b>23,543,187</b>
<b>Balance as at 1 January 2013</b>	<b>6,926,018</b>	<b>4,529,310</b>	<b>1,846,468</b>	<b>541,379</b>	<b>38,216</b>	<b>22,554</b>	<b>(13,813)</b>	<b>(68,310)</b>	<b>6,680,917</b>	<b>20,502,739</b>	<b>499,420</b>	<b>21,002,159</b>
<b>Changes in equity for the year ended 31 December 2013</b>												
Profit for the year	-	-	-	-	-	-	-	-	2,238,351	2,238,351	47,029	2,285,380
Other comprehensive income	-	-	-	-	-	8,307	(14,057)	-	-	(5,750)	-	(5,750)
Total comprehensive income	-	-	-	-	-	8,307	(14,057)	-	2,238,351	2,232,601	47,029	2,279,630
Dividend declared	15(b)	-	-	-	-	-	-	-	(962,717)	(962,717)	-	(962,717)
Distribution to non-controlling owners		-	-	-	-	-	-	-	-	-	(31,190)	(31,190)
Appropriation		-	-	-	123,422	-	-	-	(123,422)	-	-	-
Appropriation of maintenance and production funds		-	-	-	-	322,342	-	-	(322,342)	-	-	-
Utilisation of maintenance and production funds		-	-	-	-	(288,416)	-	-	288,416	-	-	-
Others		-	-	-	-	-	-	-	140	140	-	140
<b>Balance as at 31 December 2013</b>	<b>6,926,018</b>	<b>4,529,310</b>	<b>1,846,468</b>	<b>664,801</b>	<b>72,142</b>	<b>30,861</b>	<b>(27,870)</b>	<b>(68,310)</b>	<b>7,799,343</b>	<b>21,772,763</b>	<b>515,259</b>	<b>22,288,022</b>



## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2014

Notes:

(a) Share premium

The share premium represents the difference between the total amount of the par value of shares issued and the amount of the net proceeds received from the initial public offering in 2006 and subsequent share issuance in 2008 and 2012 respectively.

(b) Capital reserve

The capital reserve represents the difference between the total amount of the par value of shares issued and the amount of the net assets transferred from China Telecommunications Corporation ("CTC"), Guangdong Telecom Industry Group Corporation and Zhejiang Telecom Industry Corporation upon the formation of the Company. Then, the capital reserve was net off by the difference between the consideration for the acquisition of Target Business (as defined in note 1(b)) and the net assets value of the Target Business in 2007 and subsequent common control acquisition net balances.

(c) Statutory surplus reserve

According to the Company's Article of Association, the Company is required to transfer 10% of its net profit as determined in accordance with the People's Republic of China (the "PRC") Accounting Rules and Regulations to its statutory surplus reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of a dividend to shareholders.

Statutory surplus reserve can be used to make good previous years' losses, if any, or to expand the Company's business, and may be converted into share capital by the issuance of new shares to shareholders in proportion to their existing shareholdings or by increasing the par value of the shares currently held by them, provided that the balance after such issue is not less than 25% of the registered capital.

For the year ended 31 December 2014, the Company transferred RMB86 million being 10% of the profit for the current year as determined in accordance with the PRC Accounting Rules and Regulations to this reserve.

(d) Specific reserve for maintenance and production funds

Pursuant to the relevant PRC regulations, provision for production maintenance, production safety and other related expenditures are accrued at fixed rates based on production volume (the "maintenance and production funds"). The Group is required to make a transfer for the provision of maintenance and production funds from retained earnings to a specific reserve. The maintenance and production funds could be utilised when expenses or capital expenditures on production maintenance and safety measures are incurred. The amount of maintenance and production funds utilised would be transferred from the specific reserve back to retained earnings.

(e) Fair value reserve

The fair value reserve represents the net change in the fair value of available-for-sale securities held at the end of the reporting period.

(f) Exchange reserve

The exchange reserve represents all foreign exchange differences arising from the translation of the financial statements of subsidiaries located outside Mainland China.

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2014

Notes	2014 RMB'000	2013 RMB'000
<b>Operating activities</b>		
Profit before tax	<b>2,630,886</b>	2,778,501
Adjustments for:		
Depreciation and amortisation	<b>840,742</b>	798,698
Impairment losses on accounts and bills and other receivables	<b>329,569</b>	120,589
Impairment losses on property, plant and equipment and construction in progress	<b>454</b>	1,563
Impairment losses on inventories	<b>17,609</b>	10,410
Interest income	<b>(94,605)</b>	(90,435)
Finance costs	<b>20,430</b>	11,232
Share of profits of associates	<b>(25,700)</b>	(14,315)
Dividend income	<b>(63,083)</b>	(54,890)
Changes in fair value of financial derivatives	<b>1,969</b>	(154)
Gain on disposal of investments	<b>(69,411)</b>	(50,090)
Net losses on disposal of property, plant and equipment and other intangible assets	<b>2,274</b>	1,678
Exchange differences	<b>15,099</b>	29,941
Write-back of non-payable liabilities	<b>(23,889)</b>	(17,232)
<b>Operating profit before changes in working capital</b>	<b>3,582,344</b>	3,525,496
Increase in inventories	<b>(210,293)</b>	(351,876)
Increase in accounts and bills receivable	<b>(2,659,181)</b>	(4,401,093)
Increase in prepayments and other current assets	<b>(1,209,483)</b>	(375,100)
Increase in accounts and bills payable	<b>1,734,784</b>	2,248,580
Increase/(decrease) in receipts in advance for contract work	<b>414,059</b>	(222,775)
Increase in accrued expenses and other payables	<b>410,672</b>	399,844
<b>Net cash inflow from operations</b>	<b>2,062,902</b>	823,076
Interest paid	<b>(20,042)</b>	(12,366)
Interest received	<b>89,516</b>	91,929
Income tax paid	<b>(523,522)</b>	(581,696)
<b>Net cash generated from operating activities</b>	<b>1,608,854</b>	320,943

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2014

	Notes	2014 RMB'000	2013 RMB'000
<b>Investing activities</b>			
Payments for purchase of property, plant and equipment and other intangible assets		(794,595)	(809,032)
Proceeds from disposal of property, plant and equipment and other intangible assets		13,784	69,054
Restricted bank deposits paid		(64,265)	(395,113)
Dividends received		78,251	61,915
Proceeds from disposal of investments		190,843	67,237
Payments for acquisition of investments		(300,140)	(3,395)
Other cash paid related to investing activities		(552)	–
<b>Net cash used in investing activities</b>		<b>(876,674)</b>	<b>(1,009,334)</b>
<b>Financing activities</b>			
Proceeds from bank and other loans		995,468	976,505
Repayments of bank and other loans		(209,500)	(1,367,118)
Dividends paid		(942,019)	(1,007,354)
<b>Net cash used in financing activities</b>		<b>(156,051)</b>	<b>(1,397,967)</b>
<b>Increase/(decrease) in cash and cash equivalents</b>		<b>576,129</b>	<b>(2,086,358)</b>
<b>Cash and cash equivalents at beginning of year</b>		<b>6,760,237</b>	<b>8,879,491</b>
<b>Effect of foreign exchange rate changes</b>		<b>(22,851)</b>	<b>(32,896)</b>
<b>Cash and cash equivalents at end of the year</b>	33	<b>7,313,515</b>	<b>6,760,237</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 1. PRINCIPAL ACTIVITIES AND ORGANISATION

### (a) Principal activities

The Group is a leading integrated service provider to the telecommunications, media and technology industries in the PRC. Its principal activities comprise provision of a full range of telecommunications support services in the PRC and overseas, including (i) telecommunications infrastructure design, construction and project supervision and management; (ii) business process outsourcing (including network maintenance, facilities management, distribution of telecommunications service and products); and (iii) a variety of other services including applications, content and others.

### (b) Organisation

The Company was established in the PRC on 30 August 2006 as a joint stock limited company under the Company Law of the PRC as part of the Restructuring (as defined below) of CTC, a state-owned enterprise under the direct supervision of the State Council of the PRC. Pursuant to the Restructuring, the Group assumed the telecommunications support services previously carried on by various subsidiaries wholly-owned or controlled by CTC in six provinces and municipality in the PRC, namely, Guangdong Province, Zhejiang Province, Shanghai Municipality, Fujian Province, Hubei Province and Hainan Province (collectively, the "Predecessor Operations") from CTC. The Company was founded by CTC, Guangdong Telecom Industry Group Corporation and Zhejiang Telecom Industry Corporation by ways of the injection of those subsidiaries carrying on the Predecessor Operations and cash contributions.

In connection with the Restructuring, the Predecessor Operations together with the related assets and liabilities that were to be transferred to the Group were segregated from CTC effective on 31 March 2006 (the "Restructuring"). The Restructuring comprised the following:

- (i) CTC underwent a restructuring programme in connection with its full range of telecommunications related services, namely (1) telecommunications infrastructure design, construction and project supervision and management; (2) business process outsourcing (including network maintenance, facilities management and distribution of telecommunications services and products); and (3) a variety of other services including applications, content and others.
- (ii) The net assets were injected into the Company by ways of asset injection of those subsidiaries carrying on the Predecessor Operations in consideration of approximately 3,623.4 million ordinary shares with a par value of RMB1.00 each.
- (iii) The Group, immediately after the Restructuring, contains substantially all of the operating assets and liabilities relating to the Predecessor Operations, comprising (1) telecommunications infrastructure design, construction and project supervision and management; (2) business process outsourcing (including network maintenance, facilities management, distribution of telecommunications services and products); and (3) a variety of other services including applications, content and others.
- (iv) In connection with the Restructuring, certain assets and liabilities historically associated with the Predecessor Operations were not transferred to the Company and were retained by CTC.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 1. PRINCIPAL ACTIVITIES AND ORGANISATION (continued)

### (b) Organisation (continued)

The above Restructuring procedures primarily resulted in an effect of the transfer from CTC to the Company of the operating assets and liabilities relating to the telecommunications related services carried on by the Predecessor Operations, which were previously owned or controlled by CTC prior to the Restructuring.

In December 2006, the Company issued 1,291,293,000 H shares with a par value of RMB1.00 each, at a price of HKD2.20 per H share by way of an initial public offering (the "IPO") to Hong Kong and overseas investors. In connection with the IPO, 129,129,300 domestic state-owned shares of RMB1.00 each owned by CTC and its subsidiaries were converted into H shares and transferred to the National Council for Social Security Fund of the PRC ("SSF"). In December 2006, the Company also issued 193,693,000 H shares with a par value of RMB1.00 each, at a price of HKD2.20 per H share upon the exercise of the overallotment option. In connection with the exercise of the over-allotment option, 19,369,300 domestic state owned shares of RMB1.00 each owned by CTC and its subsidiaries were converted into H shares and transferred to SSF. In April 2008, the Company completed the placing of 326,696,000 H shares with a par value of RMB1.00 each at a price of RMB5.25 (the "Placing"). In connection with the Placing, 32,669,600 domestic legal person shares of RMB1.00 each owned by SSF was converted into H shares. On 8 February 2012, the Company issued 398,570,040 H shares on the basis of 2 H rights shares for every 10 existing H shares at a price of HKD3.19 per H rights share, and issued 755,766,360 domestic shares on the basis of 2 domestic rights shares for every 10 existing domestic shares at a price of RMB2.59 per domestic rights share. A total of 2,391,420,240 H shares have been listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Pursuant to the acquisition agreement dated 15 June 2007, the Company acquired the telecommunications infrastructure services, business process outsourcing services and applications, content and other services located in Jiangsu Province, Anhui Province, Jiangxi Province, Hunan Province, Guangxi Zhuang Autonomous Region, Chongqing Municipality, Sichuan Province, Guizhou Province, Yunnan Province, Shaanxi Province, Gansu Province, Qinghai Province and Xinjiang Uygur Autonomous Region, together with the equity interests in Guangdong Nanfang Communication GSM Intelligent Card System Co., Ltd and Ningbo Public Information Industry Co., Ltd (the "Target Business") from CTC. Such acquisition was completed on 31 August 2007.

Pursuant to the Equity Transfer Agreements entered into by the Company and CTC Group on 26 May 2009, the Company acquired a 95.945% equity interest in Shanghai Tongmao Import & Export Co. Ltd ("Shanghai Tongmao") and a 51% equity interest in Guoxin Lucent Technologies Network Technologies Co., Ltd ("Guoxin Lucent", now renamed as "Guoxun Innovation Software Technology Co., Ltd") for a total purchase price of RMB98.05 million.

Pursuant to the Equity Transfer Agreements entered into by the Group and CTC's subsidiaries on 20 June 2012, the Group completed acquisition on 30 June 2012 of (i) 100% equity interest in each of Ningxia Communications Constructions Co., Ltd. ("Ningxia Construction") and Ningxia Telecom Constructions Supervision Consultancy Co., Ltd. ("Ningxia Supervision"); and (ii) 100% equity interest in Xinjiang Communications Planning & Designing Institute Co., Ltd. ("Xinjiang Planning & Designing") (collectively the "Target Interests"), for a consideration of RMB51.07 million.

Pursuant to the Equity Transfer Agreements entered into by the Group and China Telecommunications Corporation Industrial Assets Management Centre (a directly wholly-owned subsidiary of CTC) on 20 June 2012, the Group completed acquisition on 26 July 2012 of 51% equity interest in Sino-British Submarine Systems Co., Ltd. ("SBSS") and all the associated rights and obligations for a total consideration of RMB264.60 million.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 2. SIGNIFICANT ACCOUNTING POLICIES

#### (a) Statement of compliance

These financial statements of the Company and 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. These financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

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 and the Company. Note 3 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.

#### (b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2014 comprise the Group and its interests in associates.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets and liabilities:

- Financial derivatives and available-for-sale financial assets listed in active market are measured at fair value.
- Liabilities for cash-settled share-based payment arrangements are measured at fair value.

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 43.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (c) Basis of consolidation

##### (i) Business combinations involving enterprises under common control

A business combination involving enterprises under common control is a business combination in which all of the combining enterprises are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory. The assets and liabilities obtained are measured at the carrying amounts as recorded by the enterprise being combined at the combination date. The difference between the carrying amount of the net assets obtained and the carrying amount of consideration paid for the combination (or the total face value of shares issued) is adjusted to capital reserve. The combination date is the date on which one combining enterprise effectively obtains control of the other combining enterprises.

##### (ii) Business combinations involving entities not under common control

A business combination involving entities not under common control is a business combination in which all of the combining entities are not ultimately controlled by the same party or parties before the business combination.

The acquirer, at the acquisition date, allocates the cost of the business combination by recognising the acquiree's identifiable asset, liabilities and contingent liabilities at their fair value at that date.

##### (iii) Subsidiaries and non-controlling interests

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- a. has power over the investee;
- b. is exposed, or has rights, to variable returns from its involvement with the investee; and
- c. has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another IFRS.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (c) Basis of consolidation (continued)

##### (iii) Subsidiaries and non-controlling interests (continued)

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment losses (see note 2(l)).

##### (iv) Associates

Associates are entities in which the Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating decisions.

Investments in associates are accounted for in the consolidated financial statements under the equity method. Under the equity method, the investments are initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investees' identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see note 2(l)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (c) Basis of consolidation (continued)

##### (iv) Associates (continued)

When the Group reduces its ownership interest in an associate but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

In the Company's statement of financial position, investments in associates are stated at cost less impairment losses (see note 2(l)).

#### (d) Goodwill

Goodwill represents the excess of

- (i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over
- (ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, which is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 2(l)).

On disposal of a cash-generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

#### (e) Investments in debt and equity securities

The Group's policies for investments in debt and equity securities, other than investments in subsidiaries and associate, are as follows:

Investments in debt and equity securities are initially stated at fair value, which is their transaction price unless fair value can be more reliably estimated using valuation techniques whose variables include only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification:

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the consolidated statement of financial position at cost less impairment losses (see note 2(l)).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (e) Investments in debt and equity securities (continued)

Investments in securities which do not fall into the above category are classified as available-for-sale securities. At each end of the reporting period the fair value is re-measured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve, except foreign exchange gains and losses resulting from changes in the amortised cost of monetary items such as debt securities which are recognised directly in profit or loss. Dividend income from these investments is recognised in profit or loss in accordance with the policy set out in note 2(w)(v) and, where these investments are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss in accordance with the policy set out in note 2(w)(vi). When these investments are derecognised or impaired (see note 2(l)), the cumulative gain or loss is reclassified from equity to profit or loss.

Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

#### (f) Investment properties

Investment properties are land or/and buildings which are owned to earn rental income and/or for capital appreciation.

Investment properties are stated in the consolidated statement of financial position at cost less accumulated depreciation and impairment losses (see note 2(l)). Depreciation is calculated to write off the cost less estimated residual value if applicable and is charged to profit or loss on a straight-line basis over the estimated useful lives ranging from 20 years to 30 years.

Rental income from investment properties is accounted for as described in note 2(w)(iv).

When an item of property, plant and equipment is transferred to investment property evidenced by end of owner-occupation or when an investment property commencement of owner-occupation and reclassified as property, plant and equipment, its costs at the date of reclassification becomes its cost for accounting purposes.

#### (g) Property, plant and equipment

Property, plant and equipment are initially recorded at cost, less subsequent accumulated depreciation and impairment losses (see note 2(l)). The cost of an asset comprises its purchase price, any directly attributable costs of bringing the asset to working condition and location for its intended use and the cost of borrowed funds used during the periods of construction. Expenditure incurred after the asset has been put into operation, including cost of replacing part of such an item, is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment and the cost can be measured reliably. All other expenditure is expensed as it is incurred.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is provided to write off the cost of items of property, plant and equipment, less their estimates residual value, if any, using the straight-line method over their estimates useful lives as follows:

Buildings	20-30 years
Building improvements	5 years
Motor vehicles	5-10 years
Furniture, fixtures and other equipment	3-20 years

Both the useful life of an asset and its residual value, if any, are reviewed annually.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (h) Construction in progress

Construction in progress is stated at cost less impairment losses (see note 2(l)). Cost comprises direct costs of construction and borrowing costs on related borrowed funds to the extent that they are regarded as an adjustment to interest charges, during the period of construction.

Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment and investment properties when substantially all the activities necessary to prepare the asset for its intended use are completed. No depreciation is provided in respect of construction in progress until it is completed and ready for its intended use.

#### (i) Lease prepayments

Lease prepayments represent payments for land use rights and lease to relevant PRC's institutes. Lease prepayments are carried at cost and are charged to profit or loss on a straight-line basis over the respective periods of the rights.

#### (j) Intangible assets (other than goodwill)

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- a. the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- b. the intention to complete the intangible asset and use or sell it;
- c. the ability to use or sell the intangible asset;
- d. how the intangible asset will generate probable future economic benefits;
- e. the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- f. the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The expenditure capitalised includes the costs of materials, direct labour and an appropriate proportion of overheads and borrowing costs, where applicable (see note 2(z)). Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see note 2(l)). Other development expenditure is recognised as an expense in the period in which it is incurred.

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 2(l)).

Amortisation of intangible assets with finite useful lives is charged to profit or loss from the date they are available for use on a straight-line basis over the assets' estimated useful lives.

Both the period and method of amortisation are reviewed annually.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (k) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

Assets that are held by Group under leases which do not transfer to the Group substantially all the risks and rewards of ownership are classified as being held under operating leases.

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal installments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

#### (l) Impairment of assets

##### (i) Impairment of investments in debt and equity securities and other receivables

Investments in debt and equity securities (other than investments in subsidiaries: see note 2(l)(ii)) and other current and non-current receivables that are stated at cost or amortized cost or are classified as available-for-sale securities are reviewed at each end of the reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events.

- Significant financial difficulty of the debtor;
- A breach of contract, such as default or delinquency in interest or principal payments;
- It becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- Significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

- For investment in associate recognised using the equity method (see note 2(c)(iv)), the impairment loss is measured by comparing the recoverable amount of the investment as a whole with its carrying amount in accordance with note 2(l)(i). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 2(l)(i).
- For unquoted equity securities carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (I) Impairment of assets (continued)

##### (i) Impairment of investments in debt and equity securities and other receivables (continued)

- For trade receivables and other financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

- For available-for-sale securities, the cumulative loss that has been recognised in the fair value reserve is reclassified to profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

Impairment losses recognised in profit or loss in respect of available for – sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised in other comprehensive income.

Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in profit or loss.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade debtors and bills receivable, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When trade debtors and bills receivable are considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

##### (ii) Impairment of other assets

Internal and external sources of information are reviewed at each end of the reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- investment properties;
- construction in progress;
- lease prepayments;
- goodwill;
- other intangible assets; and
- investments in subsidiaries.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (l) Impairment of assets (continued)

##### (ii) Impairment of other assets (continued)

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

##### – *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

##### – *Recognition of impairment losses*

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal, or value in use, if determinable.

##### – *Reversals of impairment losses*

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

#### (m) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversals occurs.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (n) Construction contracts

Construction contracts are contracts specifically negotiated with a customer for the construction of an asset or a group of assets, where the customer is able to specify the major structural element of the design.

The accounting policy for contract revenue is set out in note 2(w)(i). When the outcome of a construction contract can be estimated reliably, contract costs are recognised as an expense by reference to the stage of completion of the contract at the end of the reporting period. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. When the outcome of a construction contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred.

Construction contracts in progress at the end of the reporting period are recorded at the net amount of costs incurred plus recognised profit less recognised losses and progress billings, and are presented in the statement of financial position as the "Unbilled revenues for contract work" under "Accounts and bills receivable, net" (as an asset) or the "Amounts due to customers for contract work" (as a liability), as applicable. Progress billings not yet paid by the customer are included under "Accounts and bills receivable, net". Amounts received before the related work is performed are presented as "Receipts in advance for contract work".

#### (o) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortized cost using the effective interest method, less allowance for impairment of doubtful debts (see note 2(l)).

#### (p) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortized cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

Debt and equity instruments issued by the group are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

#### (q) Trade and other payables

Trade and other payables are initially recognised at fair value and thereafter stated at amortized cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

#### (r) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

#### (s) Derivative financial instruments

Derivative financial instruments are initially recognised at fair value. At each end of the reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is charged immediately to profit or loss, except where the derivative qualify for cash flow hedge accounting or hedge the net investment in a foreign operation.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (t) Employee benefits

##### (i) Short-term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

##### (ii) Share appreciation rights scheme

Compensation expense under the Group's share appreciation rights scheme is measured as the amount by which the quoted market price of the Company's H shares exceeds the exercise price. Compensation expense in respect of the share appreciation rights granted is accrued as a charge to profit or loss over the applicable vesting period based on the fair value of the stock appreciation rights. The liability of the accrued compensation expense is remeasured to fair value at each end of the reporting period with the effect of changes in the fair value of the liability is charged or credited to profit or loss. Further details of the Group's share appreciation rights scheme are set out in note 40.

##### (iii) Termination benefits

A liability for a termination benefit is recognised at the earlier of when the Group entity can no longer withdraw the offer of the termination benefit and when it recognised any related restructuring costs.

#### (u) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (u) Income tax (continued)

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination).

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each end of the reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

#### (v) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (w) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

##### (i) Construction contract revenue

When the outcome of a construction contract can be estimated reliably, revenue from a fixed price contract is recognised using the percentage of completion method.

When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable.

##### (ii) Services rendered

Revenue from design services rendered is recognised in profit or loss in proportion to the stage of completion of the transaction at the end of the reporting period.

Revenue from other services rendered is recognised upon the delivery or performance of the services.

##### (iii) Sales of goods

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

##### (iv) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal installments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

##### (v) Dividends

- Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.
- Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

##### (vi) Interest income

Interest income is recognised as it accrues using the effective interest method.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (x) Government grants

Government grants are recognised in the consolidated statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognised in profit or loss over the useful life of the asset by way of reduced depreciation expenses.

#### (y) Translation of foreign currencies

The functional and presentation currency of the Group's is Renminbi ("RMB"). Foreign currency transactions during the year are translated into RMB at the applicable rates of exchange quoted by the People's Bank of China ("PBOC") prevailing on the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into RMB at the applicable rates ruling at the end of the reporting period. Foreign currency differences, other than those capitalised as construction in progress (see note 2(h)), are recognised in profit or loss. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into RMB at the foreign exchange rates ruling at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve. On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

#### (z) Borrowing costs

Borrowing costs that directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (aa) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

The Group principally has one business segment and hence no segment information is provided (see note 45).

#### (bb) Dividends or profit distributions

Dividends or profit distributions are recognised as a liability in the period in which they are declared.

#### (cc) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

- (i) has control or joint control of the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

- (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
- (iii) Both entities are joint ventures of the same third party;
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) The entity is controlled or jointly controlled by a person identified in (a);
- (vi) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 3. CHANGES IN ACCOUNTING POLICIES

The IASB has issued several new or revised IFRSs that are first effective for the current year of the Group and the Company. Of these, the following development is relevant to the Group's financial statements:

Amendments to IFRS 10, IFRS 12, and IAS 27	Investment Entities
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities
Amendments to IAS 36	Recoverable Amount Disclosures for Non-Financial Assets
Amendments to IAS 39	Novation of Derivatives and Continuation of Hedge Accounting
IFRIC 21	Levies

#### Amendments to IFRS 10, IFRS 12 and IAS 27 Investment Entities

The Group has applied the amendments to IFRS 10, IFRS 12 and IAS 27 Investment Entities for the first time in the current year. The amendments to IFRS 10 define an investment entity and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its consolidated and separate financial statements.

To qualify as an investment entity, a reporting entity is required to:

- obtain funds from one or more investors for the purpose of providing them with investment management services;
- commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- measure and evaluate performance of substantially all of its investments on a fair value basis.

Consequential amendments have been made to IFRS 12 and IAS 27 to introduce new disclosure requirements for investment entities.

As the Company is not an investment entity (assessed based on the criteria set out in IFRS 10 as at 1 January 2014), the application of the amendments has had no impact on the disclosures or the amounts recognised in the Group's consolidated financial statements.

#### Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities

The Group has applied the amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities for the first time in the current year. The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realization and settlement'.

The amendments have been applied retrospectively. As the Group does not have any financial assets and financial liabilities that qualify for offset, the application of the amendments has had no impact on the disclosures or on the amounts recognised in the Group's consolidated financial statements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 3. CHANGES IN ACCOUNTING POLICIES (continued)

#### **Amendments to IAS 36 Recoverable Amount Disclosures for Non-Financial Assets**

The Group has applied the amendments to IAS 36 Recoverable Amount Disclosures for Non-Financial Assets for the first time in the current year. The amendments to IAS 36 remove the requirement to disclose the recoverable amount of a cash-generating unit (CGU) to which goodwill or other intangible assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU. Furthermore, the amendments introduce additional disclosure requirements applicable to when the recoverable amount of an asset or a CGU is measured at fair value less costs of disposal. These new disclosures include the fair value hierarchy, key assumptions and valuation techniques used which are in line with the disclosure required by IFRS 13 Fair Value Measurements.

The application of these amendments has had no material impact on the disclosures in the Group's consolidated financial statements.

#### **Amendments to IAS 39 Novation of Derivatives and Continuation of Hedge Accounting**

The Group has applied the amendments to IAS 39 Novation of Derivatives and Continuation of Hedge Accounting for the first time in the current year. The amendments to IAS 39 provide relief from the requirement to discontinue hedge accounting when a derivative designated as a hedging instrument is novated under certain circumstances. The amendments also clarify that any change to the fair value of the derivative designated as a hedging instrument arising from the novation should be included in the assessment and measurement of hedge effectiveness.

The amendments have been applied retrospectively. As the Group does not have any derivatives that are subject to novation, the application of these amendments has had no impact on the disclosures or on the amounts recognised in the Group's consolidated financial statements.

#### **IFRIC 21 Levies**

The Group has applied IFRIC 21 Levies for the first time in the current year. IFRIC 21 addresses the issue as to when to recognise a liability to pay a levy imposed by a government. The Interpretation defines a levy, and specifies that the obligating event that gives rise to the liability is the activity that triggers the payment of the levy, as identified by legislation. The Interpretation provides guidance on how different levy arrangements should be accounted for, in particular, it clarifies that neither economic compulsion nor the going concern basis of financial statements preparation implies that an entity has a present obligation to pay a levy that will be triggered by operating in a future period.

IFRIC 21 has been applied retrospectively. The application of this Interpretation has had no material impact on the disclosures or on the amounts recognised in the Group's consolidated financial statements.

The Group has not applied any new or revised IFRSs that is not yet effective for the current year.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 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:

	<b>2014</b> <b>RMB'000</b>	2013 RMB'000
Revenue from telecommunications infrastructure services	<b>34,008,077</b>	32,036,241
Revenue from business process outsourcing services	<b>31,215,423</b>	29,011,577
Revenue from applications, content and other services	<b>7,952,752</b>	7,411,278
	<b>73,176,252</b>	68,459,096

The Group's major customers are telecommunications operators which include CTC 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 2014 amount to RMB31,948 million and RMB13,279 million respectively (2013: RMB29,231 million and RMB11,906 million respectively), being 43.7% and 18.1% of the Group's total revenues respectively (2013: 42.7% and 17.4% respectively). In addition, the revenues derived from areas outside of Mainland China for the year ended 31 December 2014 amounts to RMB3,790 million (2013: RMB3,812 million).

### 5. COST OF REVENUES

	<b>2014</b> <b>RMB'000</b>	2013 RMB'000
Depreciation and amortisation	<b>450,741</b>	462,103
Direct personnel costs	<b>8,892,965</b>	9,251,872
Operating lease charges	<b>1,164,086</b>	1,103,242
Purchase of materials and telecommunications products	<b>20,190,921</b>	19,804,087
Subcontracting charges	<b>25,763,190</b>	21,873,785
Others	<b>6,032,646</b>	5,586,018
	<b>62,494,549</b>	58,081,107

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 6. OTHER OPERATING INCOME

	2014 RMB'000	2013 RMB'000
Interest income	94,605	90,435
Dividend income from listed securities	822	848
Dividend income from unlisted securities	62,261	54,042
Government grants	210,126	227,066
Gain on disposal of available-for-sale financial assets and interests in associates	69,411	50,090
Gain on disposal of property, plant and equipment and other intangible assets	6,421	8,957
Penalty income	1,909	3,717
Management fee income	286,403	319,701
Write-back of non-payable liabilities	23,889	17,232
Others	49,732	30,128
	<b>805,579</b>	802,216

### 7. OTHER OPERATING EXPENSES

	2014 RMB'000	2013 RMB'000
Impairment losses on property, plant and equipment and construction in progress	454	1,563
Loss on disposal of property, plant and equipment and other intangible assets	8,695	10,635
Donations	267	439
Penalty charge	14,852	20,100
Net foreign exchange loss	16,097	38,845
Others	44,273	45,042
	<b>84,638</b>	116,624



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 8. FINANCE COSTS

	2014 RMB'000	2013 RMB'000
Interest on bank and other borrowings wholly repayable within five years	10,096	11,232
Interest for convertible preference shares and preference shares (note i)	10,334	–
	<b>20,430</b>	11,232

For the years ended 31 December 2014 and 2013, no borrowing costs were capitalised in relation to construction in progress.

Note:

- (i) Details of convertible preference shares and preference shares are discussed in note 37.

### 9. PROFIT BEFORE TAX

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

	2014 RMB'000	2013 RMB'000
(a) Staff costs:		
Salaries, wages and other benefits	13,285,508	13,404,619
Contributions to defined contribution retirement schemes	1,138,305	1,087,269
	<b>14,423,813</b>	14,491,888
(b) Other items:		
Depreciation		
– Property, plant and equipment (note 17)	705,178	677,116
– Investment properties (note 18)	43,270	42,431
Amortisation		
– Lease prepayments (note 20)	27,525	28,517
– Other intangible assets (note 22)	64,769	50,634
Auditors' remuneration	33,800	32,320
Cost of inventories (note 28)	20,190,921	19,804,087
Write-down of inventories (note 28)	18,666	13,847
Reversal of write-down of inventories (note 28)	(1,057)	(3,437)
Impairment losses on accounts and bills and other receivables	371,645	157,963
Reversal of impairment losses on accounts and bills and other receivables	(42,076)	(37,374)
Changes in fair value of financial derivatives	1,969	(154)
Operating lease charges	1,451,817	1,367,171
Research and development costs	1,780,923	1,517,739

Research and development costs include RMB1,389 million (2013: RMB1,201 million) relating to staff costs, amount of which is also included in the staff cost disclosed in note 9(a).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 10. INCOME TAX

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

	2014 RMB'000	2013 RMB'000
<b>Current tax</b>		
PRC enterprise income tax	488,603	563,337
Overseas enterprise income tax	19,631	19,559
<b>Deferred tax</b>		
Origination and reversal of temporary differences (note 26)	(45,146)	(89,775)
Total income tax	463,088	493,121

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

	2014 RMB'000	2013 RMB'000
Profit before tax	2,630,886	2,778,501
Expected income tax expense at a statutory tax rate of 25% (2013: 25%) (note (i))	657,722	694,625
Differential tax rates on subsidiaries' income (note (i))	(195,847)	(223,815)
Non-deductible expenses (note (ii))	93,164	117,976
Non-taxable income	(46,940)	(31,740)
Tax losses not recognised	101,789	22,826
Utilisation of previously unrecognised tax losses	(6,604)	(10,425)
Over provision in respect of prior years	(29,516)	(5,417)
Effect of tax exemptions	(8,132)	(7,373)
Others (note (iii))	(102,548)	(63,536)
Income tax	463,088	493,121

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 2014 and 2013, 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 research and development expense deduction.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 11. OTHER COMPREHENSIVE INCOME

#### Available-for-sale securities

	2014 RMB'000	2013 RMB'000
Changes in fair value recognised during the year	10,233	7,069
Net deferred tax credited to other comprehensive income	(1,535)	1,238
Net movement in the fair value reserve during the year recognised in other comprehensive income	8,698	8,307

### 12. DIRECTORS' AND SUPERVISORS' EMOLUMENTS

The names of the directors and the supervisors of the Company and their remuneration for the year ended 31 December 2014 are as follows:

	Fee RMB'000	Salaries, allowances and other benefits in kind RMB'000	Discretionary bonus RMB'000	Pension scheme contribution RMB'000	Share appreciation rights RMB'000	2014 Total RMB'000
<b>Directors and supervisors</b>						
Sun Kangmin (appointed on 19 January 2015)	-	-	-	-	-	-
Li Ping (resigned on 19 January 2015)	-	-	-	-	-	-
Si Furong (appointed on 21 February 2014)	-	199	225	72	-	496
Hou Rui	-	139	466	66	-	671
Li Zhengmao	-	-	-	-	-	-
Zhang Junan	-	-	-	-	-	-
Wang Jun	200	-	-	-	-	200
Zhao Chunjun	150	-	-	-	-	150
Wei Leping	150	-	-	-	-	150
Siu Wai Keung, Francis	240	-	-	-	-	240
Xia Jianghua	-	-	-	-	-	-
Hai Liancheng	75	-	-	-	-	75
Si Jianfei	-	119	317	58	-	494
	815	457	1,008	196	-	2,476

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 12. DIRECTORS' AND SUPERVISORS' EMOLUMENTS (continued)

The names of the directors and the supervisors of the Company and their remuneration for the year ended 31 December 2013 are as follows:

	Fee RMB'000	Salaries, allowances and other benefits in kind RMB'000	Discretionary bonus RMB'000	Pension scheme contribution RMB'000	Share appreciation rights RMB'000	2013 Total RMB'000
<b>Directors and supervisors</b>						
Li Ping	-	-	-	-	-	-
Zheng Qibao (resigned on 19 December 2013)	-	198	541	67	938	1,744
Yuan Jianxing (resigned on 8 August 2013)	-	180	703	63	613	1,559
Hou Rui	-	139	487	61	813	1,500
Li Zhengmao	-	-	-	-	-	-
Zhang Junan	-	-	-	-	-	-
Wang Jun	200	-	-	-	-	200
Zhao Chunjun	150	-	-	-	-	150
Wei Leping	150	-	-	-	-	150
Siu Wai Keung, Francis	240	-	-	-	-	240
Xia Jianghua	-	-	-	-	-	-
Hai Liancheng	75	-	-	-	-	75
Yan Dong (resigned on 18 June 2013)	-	116	478	55	349	998
Si Jianfei (appointed on 18 June 2013)	-	119	450	55	349	973
	815	752	2,659	301	3,062	7,589

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 13. INDIVIDUALS WITH HIGHEST EMOLUMENTS AND SENIOR MANAGEMENT'S REMUNERATION

**(a) The five highest paid employees of the Group**

The five highest paid employees of the Group are as follows:

	2014	2013
Directors and supervisors	1	1
Non-director and non-supervisor employees	4	4
	<b>5</b>	5

The remuneration paid to the above highest paid employees are as follows:

	2014 RMB'000	2013 RMB'000
Salaries, allowances and other benefits in kind	1,353	897
Bonuses	2,728	3,353
Pension scheme contributions	255	506
	<b>4,336</b>	4,756
Share appreciation rights	-	3,440
	<b>4,336</b>	8,196

The number of these highest paid employees whose remuneration fell within the following bands:

	2014	2013
<b>RMB equivalent</b>		
Nil to 1,000,000	4	-
1,000,001 to 1,500,000	1	-
1,500,001 to 2,000,000	-	5

**(b) Senior management's remuneration**

The number of the senior management (not including non-director and non-supervisor employees presented in 13(a)) whose remuneration fell within the following bands:

	2014	2013
<b>RMB equivalent</b>		
Nil to 1,000,000	20	4
1,000,001 to 1,500,000	-	14

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 14. PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a profit of RMB863 million (2013: RMB1,234 million) which has been dealt with in the financial statements of the Company.

### 15. DIVIDENDS

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

	2014 RMB'000	2013 RMB'000
Final dividend proposed after the end of the reporting period RMB0.0931 per share (2013: RMB0.1293 per share)	<b>644,812</b>	895,534

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

	2014 RMB'000	2013 RMB'000
Final dividend in respect of the financial year ended 31 December 2013, approved during the year, of RMB0.1293 per share (2012: RMB0.1390 per share)	<b>895,534</b>	962,717

### 16. 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 2014 of RMB2,150,258 thousand (2013: RMB2,238,351 thousand) and number of shares in issue during the year ended 31 December 2014 of 6,926,018 thousand shares (2013: 6,926,018 thousand shares).

There was no diluted earnings per share as there were no dilutive potential shares outstanding for the years presented.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 17. PROPERTY, PLANT AND EQUIPMENT, NET

#### The Group

	Buildings RMB'000	Building improvements RMB'000	Motor vehicles RMB'000	Furniture, fixtures and other equipment RMB'000	Total RMB'000
<b>Cost:</b>					
As at 1 January 2014	3,159,042	466,298	1,593,643	3,400,234	8,619,217
Transfer to investment properties (note 18)	(35,563)	-	-	-	(35,563)
Transfer from investment properties (note 18)	52,875	-	-	-	52,875
Transfer from construction in progress (note 19)	38,406	8,640	2,875	116,564	166,485
Additions	17,444	20,451	144,714	221,369	403,978
Disposals	(1,392)	(6,692)	(97,445)	(165,175)	(270,704)
As at 31 December 2014	3,230,812	488,697	1,643,787	3,572,992	8,936,288
<b>Accumulated depreciation and impairment losses:</b>					
As at 1 January 2014	845,618	291,300	847,347	1,947,999	3,932,264
Transfer to investment properties (note 18)	(12,024)	-	-	-	(12,024)
Transfer from investment properties (note 18)	18,113	-	-	-	18,113
Depreciation charge	127,907	51,953	159,983	365,335	705,178
Depreciation written back on disposals	(1,085)	(5,969)	(87,444)	(150,799)	(245,297)
Impairment loss eliminated on disposals	-	-	(7)	(783)	(790)
As at 31 December 2014	978,529	337,284	919,879	2,161,752	4,397,444
<b>Net carrying value:</b>					
As at 31 December 2014	2,252,283	151,413	723,908	1,411,240	4,538,844
As at 1 January 2014	2,313,424	174,998	746,296	1,452,235	4,686,953

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 17. PROPERTY, PLANT AND EQUIPMENT, NET (continued)

#### The Group (continued)

	Buildings RMB'000	Building improvements RMB'000	Motor vehicles RMB'000	Furniture, fixtures and other equipment RMB'000	Total RMB'000
<b>Cost:</b>					
As at 1 January 2013	2,857,147	370,536	1,514,847	3,324,542	8,067,072
Transfer to investment properties (note 18)	(26,057)	–	–	–	(26,057)
Transfer from investment properties (note 18)	10,864	–	–	–	10,864
Transfer from construction in progress (note 19)	290,609	44,062	765	18,526	353,962
Additions	29,504	55,113	167,906	276,838	529,361
Disposals	(3,025)	(3,413)	(89,875)	(219,672)	(315,985)
As at 31 December 2013	3,159,042	466,298	1,593,643	3,400,234	8,619,217
<b>Accumulated depreciation and impairment losses:</b>					
As at 1 January 2013	729,446	247,195	779,294	1,793,383	3,549,318
Transfer to investment properties (note 18)	(5,263)	–	–	–	(5,263)
Transfer from investment properties (note 18)	1,376	–	–	–	1,376
Depreciation charge	121,983	46,333	148,208	360,592	677,116
Depreciation written back on disposals	(1,924)	(2,228)	(80,155)	(207,407)	(291,714)
Impairment loss	–	–	–	1,563	1,563
Impairment loss eliminated on disposals	–	–	–	(132)	(132)
As at 31 December 2013	845,618	291,300	847,347	1,947,999	3,932,264
<b>Net carrying value:</b>					
As at 31 December 2013	2,313,424	174,998	746,296	1,452,235	4,686,953
As at 1 January 2013	2,127,701	123,341	735,553	1,531,159	4,517,754

Impairment losses mainly in respect of furniture, fixtures and other equipment, amounted to RMB12 million, was recognised in previous years. These losses are attributable to greater than anticipated wear and tear. Those assets have been impaired in full and they belonged to Guangdong Communications Services Company Limited, Zhejiang Communications Services Company Limited, Shanghai Communications Services Company Limited, Anhui Communications Services Company Limited and Shaanxi Communications Services Company Limited of the Group.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 17. PROPERTY, PLANT AND EQUIPMENT, NET (continued)

#### The Company

	Furniture, fixtures and other equipment RMB'000
<b>Cost:</b>	
As at 1 January 2014	15,863
Additions	670
Transfer from construction in progress (note 19)	5,252
As at 31 December 2014	21,785
<b>Accumulated depreciation:</b>	
As at 1 January 2014	8,412
Charge for the year	2,959
As at 31 December 2014	11,371
<b>Cost:</b>	
As at 1 January 2013	15,556
Additions	307
As at 31 December 2013	15,863
<b>Accumulated depreciation:</b>	
As at 1 January 2013	5,515
Charge for the year	2,897
As at 31 December 2013	8,412
<b>Net carrying value:</b>	
As at 31 December 2014	10,414
As at 31 December 2013	7,451
As at 1 January 2013	10,041

- (a) All the Group's buildings are located in the PRC.
- (b) As at 31 December 2014, certain banking facilities and borrowings from banks of the Group were secured by property, plant and equipment with carrying amount of RMB356 million (2013: RMB385 million).
- (c) Up to the date of issue of these financial statements, the Group is still in the process of applying for or changing registration of the title certificates of certain of its properties with an aggregate carrying value of approximately RMB397 million as at 31 December 2014 (2013: RMB507 million). The directors of the Company are of the opinion that the Group is entitled to lawfully and validly occupy or use the above mentioned properties.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 18. INVESTMENT PROPERTIES

	The Group	
	2014 RMB'000	2013 RMB'000
<b>COST:</b>		
As at 1 January	1,081,013	1,065,649
Transfer from property, plant and equipment (note 17)	35,563	26,057
Transfer to property, plant and equipment (note 17)	(52,875)	(10,864)
Additions	3,081	171
As at 31 December	1,066,782	1,081,013
<b>ACCUMULATED DEPRECIATION:</b>		
As at 1 January	346,892	300,574
Transfer from property, plant and equipment (note 17)	12,024	5,263
Transfer to property, plant and equipment (note 17)	(18,113)	(1,376)
Depreciation charge	43,270	42,431
Others	420	–
As at 31 December	384,493	346,892
<b>NET CARRYING VALUE:</b>		
As at 31 December	682,289	734,121
As at 1 January	734,121	765,075
Fair value	2,130,704	2,022,296

All the Group's investment properties are located in the PRC with medium-term leases.

The fair value measurement of the Group's investment properties is categorized into Level 3 of fair value measurement. The fair value was determined based on the income approach, where the market rentals of all lettable units of the properties are assessed and discounted at the market yield expected by investors for this type of properties. The market rentals are assessed by reference to the rentals achieved in the lettable units of the properties as well as other lettings of similar properties in the neighbourhood. The discount rate is determined by reference to the yields derived from analysing the sales transactions of similar commercial properties in the PRC and adjusted to take into account the market expectation from property investors to reflect factors specific to the Group's investment properties.

The current use of the investment properties is their highest and best use.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 18. INVESTMENT PROPERTIES (continued)

The Group leases out its properties under operating leases. The leases typically run for period of one year to ten years, with an option to renew the lease after that date at which time all terms are renegotiated. None of the leases includes contingent rentals. At the end of the reporting period, the Group's total future minimum lease payments under non-cancellable operating leases were receivable as follows:

	The Group	
	2014 RMB'000	2013 RMB'000
Within 1 year	130,681	111,141
After 1 year but within 5 years	234,272	157,232
After 5 years	15,311	17,710
As at 31 December	<b>380,264</b>	286,083

During the year ended 31 December 2014, RMB149 million (2013: RMB132 million) has been recognised as rental income in the consolidated statement of profit or loss and RMB32 million (2013: RMB31 million) in respect of direct operating expenses relating to investment properties has been recognised as expenses in the consolidated statement of profit or loss.

Up to the date of these financial statements, the Group is still in the process of applying for or changing registration of the title certificates of certain of its properties with an aggregate carrying value of approximately RMB30 million as at 31 December 2014 (2013: RMB54 million). The directors of the Company are of the opinion that the Group is entitled to lawfully and validly occupy or use the above mentioned properties.

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### 19. CONSTRUCTION IN PROGRESS

	The Group		The Company	
	2014 RMB'000	2013 RMB'000	2014 RMB'000	2013 RMB'000
<b>Cost:</b>				
As at 1 January	207,111	387,190	5,794	3,503
Additions	229,553	188,133	14,071	3,491
Disposals	(913)	(512)	–	–
Transfer to other intangible assets (note 22)	(33,922)	(13,738)	(3,751)	(1,200)
Transfer to property, plant and equipment (note 17)	(166,485)	(353,962)	(5,252)	–
Impairment loss	(454)	–	–	–
As at 31 December	<b>234,890</b>	207,111	<b>10,862</b>	5,794

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 20. LEASE PREPAYMENTS

	The Group	
	2014 RMB'000	2013 RMB'000
<b>Cost:</b>		
As at 1 January	1,082,997	1,091,554
Additions	5,227	5,400
Others	(4,658)	(13,957)
As at 31 December	1,083,566	1,082,997
<b>Released to profit or loss:</b>		
As at 1 January	185,170	157,857
Amortisation charge	27,525	28,517
Others	(1,477)	(1,204)
As at 31 December	211,218	185,170
<b>Net carrying value:</b>		
As at 31 December	872,348	897,827
As at 1 January	897,827	933,697

Lease prepayments represent payments for land use rights and lease to the relevant PRC's institutes. The Group's land use right and lease are located in the PRC and are with remaining terms ranging from 13 to 65 years as at 31 December 2014.

The Group's prepaid lease payments comprise:

	2014 RMB'000	2013 RMB'000
Long lease	54,263	55,415
Medium-term lease	818,085	842,412
	872,348	897,827

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 21. GOODWILL

	The Group	
	2014 RMB'000	2013 RMB'000
Cost and carrying amount	103,005	103,005

	The Group	
	2014 RMB'000	2013 RMB'000
<b>Impairment tests for cash-generating units containing goodwill</b>		
China International Telecommunications Construction Corporation ("CITCC")	103,005	103,005

The recoverable amounts of goodwill arising from the acquisition of CITCC are determined based on value in use calculation. The calculation use cash flow projection based on financial budget approved by management covering a five-year period and pre-tax discount rates is 13.82% (2013: 14.79%).

Cash flows beyond the five-year period are maintained constant. Management believes any reasonably possible change in the key assumptions on which these entities' recoverable amount are based would not cause these entities' carrying amounts to exceed their recoverable amounts.

Key assumptions used for the value in use calculations for these entities are the gross margin and revenue. Management determined the budgeted gross margin based on the gross margin achieved in the period immediately before the budget period and its expectation of the trend of major telecommunication operators' capital expenditure. Revenue was based on the revenue in the period immediately before the budget period.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 22. OTHER INTANGIBLE ASSETS

	The Group		The Company	
	2014 RMB'000	2013 RMB'000	2014 RMB'000	2013 RMB'000
<b>Cost:</b>				
As at 1 January	458,856	380,435	18,906	17,706
Additions	80,513	66,993	–	–
Transfer from construction in progress (note 19)	33,922	13,738	3,751	1,200
Disposals	(10,769)	(2,310)	–	–
As at 31 December	562,522	458,856	22,657	18,906
<b>Accumulated amortisation:</b>				
As at 1 January	258,763	210,330	10,593	7,850
Amortisation charge	64,769	50,634	2,966	2,743
Written back on disposals	(10,628)	(2,201)	–	–
As at 31 December	312,904	258,763	13,559	10,593
<b>Net carrying value:</b>				
As at 31 December	249,618	200,093	9,098	8,313
As at 1 January	200,093	170,105	8,313	9,856

Other intangible assets mainly represent computer software used in telecommunications infrastructure projects.

### 23. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2014 RMB'000	2013 RMB'000
Unlisted investments, at cost	12,617,534	12,617,534

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 23. INVESTMENTS IN SUBSIDIARIES (continued)

The following list contains only the particulars of subsidiaries at 31 December 2014 which principally affected the results, assets or liabilities of the Group.

Name of company	Type of legal entity	Place of incorporation/ establishment	Proportion of ownership interest and voting rights held by the Company		Issued and fully paid up/ registered capital	Principal activities
			31 December 2014 Directly %	31 December 2013 Directly %		
Guangdong Communications Services Company Limited	Limited Liability Company	The PRC	100	100	RMB2,808 million	Provision of integrated telecommunications support services through its subsidiaries in Guangdong Province
Zhejiang Communications Services Company Limited	Limited Liability Company	The PRC	100	100	RMB1,098 million	Provision of integrated telecommunications support services through its subsidiaries in Zhejiang Province
Shanghai Communications Services Company Limited	Limited Liability Company	The PRC	100	100	RMB976 million	Provision of integrated telecommunications support services through its subsidiaries in Shanghai Municipality
Fujian Communications Services Company Limited	Limited Liability Company	The PRC	100	100	RMB311 million	Provision of integrated telecommunications support services through its subsidiaries in Fujian Province
Hubei Communications Services Company Limited	Limited Liability Company	The PRC	100	100	RMB317 million	Provision of integrated telecommunications support services through its subsidiaries in Hubei Province
Jiangsu Communications Services Company Limited	Limited Liability Company	The PRC	100	100	RMB678 million	Provision of integrated telecommunications support services through its subsidiaries in Jiangsu Province
Anhui Communications Services Company Limited	Limited Liability Company	The PRC	100	100	RMB420 million	Provision of integrated telecommunications support services through its subsidiaries in Anhui Province
Jiangxi Communications Services Company Limited	Limited Liability Company	The PRC	100	100	RMB200 million	Provision of integrated telecommunications support services through its subsidiaries in Jiangxi Province
Hunan Communications Services Company Limited	Limited Liability Company	The PRC	100	100	RMB886 million	Provision of integrated telecommunications support services through its subsidiaries in Hunan Province

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 23. INVESTMENTS IN SUBSIDIARIES (continued)

Name of company	Type of legal entity	Place of incorporation/ establishment	Proportion of ownership interest and voting rights held by the Company		Issued and fully paid up/ registered capital	Principal activities
			31 December 2014 Directly %	31 December 2013 Directly %		
Guangxi Communications Services Company Limited	Limited Liability Company	The PRC	100	100	RMB192 million	Provision of integrated telecommunications support services through its subsidiaries in Guangxi Zhuang Autonomous Region
Chongqing Communications Services Company Limited	Limited Liability Company	The PRC	100	100	RMB209 million	Provision of integrated telecommunications support services through its subsidiaries in Chongqing Municipality
Sichuan Communications Services Company Limited	Limited Liability Company	The PRC	100	100	RMB798 million	Provision of integrated telecommunications support services through its subsidiaries in Sichuan Province
Guizhou Communications Services Company Limited	Limited Liability Company	The PRC	100	100	RMB139 million	Provision of integrated telecommunications support services through its subsidiaries in Guizhou Province
Yunnan Communications Services Company Limited	Limited Liability Company	The PRC	100	100	RMB238 million	Provision of integrated telecommunications support services through its subsidiaries in Yunnan Province
Shaanxi Communications Services Company Limited	Limited Liability Company	The PRC	100	100	RMB145 million	Provision of integrated telecommunications support services through its subsidiaries in Shaanxi Province
Gansu Communications Services Company Limited	Limited Liability Company	The PRC	100	100	RMB129 million	Provision of integrated telecommunications support services through its subsidiaries in Gansu Province
Qinghai Communications Services Company Limited	Limited Liability Company	The PRC	100	100	RMB68 million	Provision of integrated telecommunications support services through its subsidiaries in Qinghai Province
Xinjiang Communications Services Company Limited	Limited Liability Company	The PRC	100	100	RMB195 million	Provision of integrated telecommunications support services through its subsidiaries in Xinjiang Uygur Autonomous Region



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 23. INVESTMENTS IN SUBSIDIARIES (continued)

Name of company	Type of legal entity	Place of incorporation/ establishment	Proportion of ownership interest and voting rights held by the Company		Issued and fully paid up/ registered capital	Principal activities
			31 December 2014 Directly %	31 December 2013 Directly %		
China International Telecommunication Construction Corporation	Limited Liability Company	The PRC	100	100	RMB550 million	Provision of integrated telecommunications support services through its subsidiaries in Northern China Provinces
China Communications Services (Hong Kong) International Limited	Limited Liability Company	Hong Kong	100	100	HKD846.87 million	Provision of integrated telecommunications support services through its subsidiaries in Hong Kong
Zhongshutong Information Co., Ltd.	Limited Liability Company	The PRC	60.38	60.38	RMB120 million	Provision of integrated telecommunications support services
China Comservice Software Tech. Co., Ltd	Limited Liability Company	The PRC	60	60	USD25 million	Provision of integrated telecommunications support services
Ningxia Hui Autonomous Region Communications Industrial Services Company Limited	Limited Liability Company	The PRC	100	100	RMB106 million	Provision of integrated telecommunications support services through its subsidiaries in Ningxia Hui Autonomous Region
Shandong Communications Services Company Limited	Limited Liability Company	The PRC	100	100	RMB100 million	Provision of integrated telecommunications support services in Shandong Province
Sino-British Submarine System Co., Ltd.	Limited Liability Company	The PRC	51	51	RMB327 million	Provision of submarine cable installation and other related services
Hainan Communications Services Company Limited	Limited Liability Company	The PRC	100	100	RMB141 million	Provision of integrated telecommunications support services through its subsidiaries in Hainan Province

Sino-British Submarine System Co., Ltd., China Comservice Software Tech. Co., Ltd., and Zhongshutong Information Co., Ltd. are non-wholly owned subsidiaries of the Group. The Group's cumulative non-controlling interest is RMB513 million as at 31 December 2014 (2013: RMB515 million). The non-controlling interests are individually and in aggregate not material to the Group's financial condition or results of operation for the current year.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 24. INTERESTS IN ASSOCIATES

	The Group		The Company	
	2014 RMB'000	2013 RMB'000	2014 RMB'000	2013 RMB'000
Share of net assets	67,211	71,581	–	–

As at 31 December 2014, the Group's associates are unlisted, established and operated in the PRC. The Group's interests in associates are individually and in aggregate not material to the Group's financial condition or results of operation for the year.

### 25. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	The Group	
	2014 RMB'000	2013 RMB'000
Unlisted equity securities, at cost	787,106	619,920
Listed equity securities, at quoted market price	51,672	41,439
	838,778	661,359

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### 26. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities are attributable to the following:

#### The Group

	Assets		Liabilities		Net balance	
	31 December 2014 RMB'000	31 December 2013 RMB'000	31 December 2014 RMB'000	31 December 2013 RMB'000	31 December 2014 RMB'000	31 December 2013 RMB'000
Impairment losses, primarily receivables and inventories	139,241	94,008	–	–	139,241	94,008
Revaluation of property, plant and equipment	–	–	(11,349)	(12,195)	(11,349)	(12,195)
Unused tax losses (note (i))	39,104	28,015	–	–	39,104	28,015
Change in fair value (note (ii))	–	–	(6,232)	(4,697)	(6,232)	(4,697)
Unpaid expenses	153,509	169,755	–	–	153,509	169,755
Others	–	–	4,224	–	4,224	–
Deferred tax assets and (liabilities)	331,854	291,778	(13,357)	(16,892)	318,497	274,886

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 26. DEFERRED TAX ASSETS AND LIABILITIES (continued)

Movements in deferred tax assets and liabilities for the year ended 31 December 2014 and 2013 are as follows:

#### The Group

	As at 1 January 2014 RMB'000	Recognised in profit or loss RMB'000 (note 10(a))	Recognised in other comprehensive income RMB'000	As at 31 December 2014 RMB'000
Impairment losses, primarily for receivables and inventories	94,008	45,233	–	139,241
Revaluation of property, plant and equipment	(12,195)	846	–	(11,349)
Unused tax losses (note (i))	28,015	11,089	–	39,104
Change in fair value (note (ii))	(4,697)	–	(1,535)	(6,232)
Unpaid expenses	169,755	(16,246)	–	153,509
Others	–	4,224	–	4,224
<b>Deferred tax assets and (liabilities)</b>	<b>274,886</b>	<b>45,146</b>	<b>(1,535)</b>	<b>318,497</b>

	As at 1 January 2013 RMB'000	Recognised in profit or loss RMB'000 (note 10(a))	Recognised in other comprehensive income RMB'000	As at 31 December 2013 RMB'000
Impairment losses, primarily for receivables and inventories	80,406	13,602	–	94,008
Revaluation of available-for-sale financial assets	(1,058)	1,058	–	–
Revaluation of property, plant and equipment	(13,937)	1,742	–	(12,195)
Unused tax losses (note (i))	13,818	14,197	–	28,015
Change in fair value (note (ii))	(5,935)	–	1,238	(4,697)
Unpaid expenses	110,579	59,176	–	169,755
<b>Deferred tax assets and (liabilities)</b>	<b>183,873</b>	<b>89,775</b>	<b>1,238</b>	<b>274,886</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 26. DEFERRED TAX ASSETS AND LIABILITIES (continued)

#### The Group (continued)

Notes:

- (i) Expiry of recognised tax losses

	2014 RMB'000	2013 RMB'000
Year of expiry		
2014	-	-
2015	-	-
2016	8,169	-
2017	75,487	88,731
2018	66,535	74,681
2019	94,273	-
	<b>244,464</b>	163,412

- (ii) As at 31 December 2014, the Group's deferred tax liability related to the change in fair value of available-for-sale financial assets reflects in the above table.

- (iii) As at 31 December 2014, the Group has not recognised deferred tax assets in respect of tax losses of RMB714.1 million (2013: RMB358.5 million) as it is not probable that future taxable profits against which the losses can be utilised will be available. The tax losses can be carried forward for five years from the year incurred and hence will be expired from 2015 to 2019.

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### 27. OTHER NON-CURRENT ASSETS

Other non-current assets mainly represent the long-term receivables arising from provision of telecommunications infrastructure services and prepaid rent for buildings and equipment.

### 28. INVENTORIES

	The Group	
	2014 RMB'000	2013 RMB'000
Construction materials	288,470	286,154
Finished goods	2,061,092	1,879,266
Spare parts and consumables	71,336	62,794
	<b>2,420,898</b>	2,228,214

The analysis of the amount of inventories recognised as costs and expenses is as follows:

	The Group	
	2014 RMB'000	2013 RMB'000
Carrying amount of inventories consumed and sold	20,190,921	19,804,087
Reversal of write-down of inventories	(1,057)	(3,437)
Write-down of inventories	18,666	13,847
	<b>20,208,530</b>	19,814,497

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 29. ACCOUNTS AND BILLS RECEIVABLE, NET

	The Group	
	2014 RMB'000	2013 RMB'000
Bills receivable	431,134	747,894
Unbilled revenues for contract work	7,856,102	6,980,370
Trade receivables	19,778,338	18,072,367
	<b>28,065,574</b>	25,800,631
Less: impairment losses	<b>(624,376)</b>	(372,576)
	<b>27,441,198</b>	25,428,055

- (a) Included in accounts and bills receivable are amounts due from CTC Group of RMB13,612 million (2013: RMB11,749 million) as at 31 December 2014. The amounts due from CTC Group are unsecured, interest-free and are expected to be recovered within one year.
- (b) In general, debts are due for payment upon billing. Subject to negotiation, credit terms within a range of one to three months are available for certain customers with well-established trading and payment records.
- (c) The ageing analysis of accounts and bills receivable (net of impairment losses) based on the invoice date is as follows:

	The Group	
	2014 RMB'000	2013 RMB'000
Current (note)	13,536,273	11,130,426
Within 1 year	11,228,501	12,144,551
After 1 year but less than 2 years	1,938,198	1,682,667
After 2 years but less than 3 years	648,426	384,019
After 3 years	89,800	86,392
Amount past due	13,904,925	14,297,629
	<b>27,441,198</b>	25,428,055

Note: Including unbilled revenues for contract work.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 29. ACCOUNTS AND BILLS RECEIVABLE, NET (continued)

#### (d) 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 (see note 2(l)(i)).

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

	The Group	
	2014 RMB'000	2013 RMB'000
At 1 January	372,576	475,439
Impairment loss recognised	295,706	132,457
Reversal of impairment loss previously recognised	(34,208)	(36,432)
Uncollectible amounts written off	(9,698)	(198,888)
At 31 December	624,376	372,576

At 31 December 2014, the Group's accounts and bills receivable of RMB2,152 million (2013: RMB2,169 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 RMB317 million (2013: RMB164 million) were recognised. The Group does not hold any collateral over these balances.

#### (e) 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:

	The Group	
	2014 RMB'000	2013 RMB'000
Neither past due nor impaired	13,536,273	11,130,426
Within 1 year	10,127,135	10,467,514
After 1 year but less than 2 years	938,591	956,992
After 2 years but less than 3 years	245,510	208,349
After 3 years	39,114	67,372
At 31 December	24,886,623	22,830,653

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 30. CONSTRUCTION CONTRACTS

The aggregate amounts of costs incurred plus recognised profit less recognised losses to date, included in the gross amount due from/to customers for contract work at 31 December 2014 are RMB12,661 million (2013: RMB10,757 million).

In respect of construction contracts in progress at the end of the reporting period, the amounts of retentions held by customers for contract work, recorded within "Accounts and bills receivable, net" at 31 December 2014 are RMB26 million (2013: RMB26 million).

### 31. PREPAYMENTS AND OTHER CURRENT ASSETS

	The Group		The Company	
	2014 RMB'000	2013 RMB'000	2014 RMB'000	2013 RMB'000
Advances to staff	224,602	227,837	64	–
Amounts due from CTC Group and an associate of the Group	1,468,131	1,600,326	51,927	37,158
Amounts due from subsidiaries	–	–	451,173	710,443
Prepayments in connection with construction work and equipment purchases	2,271,376	1,861,759	–	–
Prepaid expenses and deposits	590,965	447,342	–	455
Dividends receivable	112	–	913,200	1,196,773
Others	1,278,001	890,141	7,846	3,401
	<b>5,833,187</b>	<b>5,027,405</b>	<b>1,424,210</b>	<b>1,948,230</b>

The amounts due from CTC Group and an associate of the Group are unsecured, interest-free and are expected to be recovered within one year.

### 32. RESTRICTED DEPOSITS

Restricted deposits represent cash in bank pledged as deposits for bills payable and cash held in dedicated bank accounts for certain construction projects, and deposits with maturity over three months.

### 33. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2014 RMB'000	2013 RMB'000	2014 RMB'000	2013 RMB'000
Cash at bank and in hand	6,331,789	6,027,934	630,092	387,674
Deposits at bank with maturity less than three months	981,726	732,303	632,001	285,125
Cash and cash equivalents	<b>7,313,515</b>	<b>6,760,237</b>	<b>1,262,093</b>	<b>672,799</b>

RMB is not a freely convertible currency and the remittance of funds out of the PRC is subject to the exchange restrictions imposed by the PRC government.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 34. INTEREST-BEARING BORROWINGS

The Group's short-term interest-bearing borrowings comprise:

	2014 RMB'000	2013 RMB'000
<b>RMB denominated</b>		
Loan from CTC Group		
– unsecured	13,280	13,280
<b>USD denominated</b>		
Borrowings from banks		
– secured	17,378	17,315
– unsecured	216,160	23,306
	<b>246,818</b>	53,901

The Group's short-term borrowings bearing fixed interest rate per annum are as follows:

	2014	2013
<b>RMB denominated</b>		
Loan from CTC Group		
– unsecured	2.39%	2.39%
<b>USD denominated</b>		
Borrowings from banks		
– secured	5.30%	5.30%
– unsecured	2.06%-4.70%	1.77%-3.80%

The Group's long-term interest-bearing borrowings comprise:

	2014 RMB'000	2013 RMB'000
<b>USD denominated</b>		
Borrowings from banks		
– secured	34,389	51,580
– unsecured	4,319	–
	<b>38,708</b>	51,580

The Group's long-term borrowings' interest rates per annum are as follows:

	2014	2013
<b>USD denominated</b>		
Borrowings from banks		
– secured (fixed interest rate)	5.30%	5.30%
– unsecured (floating interest rate)	Libor+4.00%	–



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 34. INTEREST-BEARING BORROWINGS (continued)

The Group's borrowings were repayable as follows:

	<b>2014</b> <b>RMB'000</b>	2013 RMB'000
Within 1 year	<b>246,818</b>	53,901
After 1 year but within 2 years	<b>17,378</b>	17,315
After 2 years but within 5 years	<b>21,330</b>	34,265
	<b>285,526</b>	105,481

As at 31 December 2014, certain borrowings from banks of the Group were secured by property, plant and equipment with carrying amount of RMB356 million (2013: RMB379 million). Such banking facilities amounted to RMB131 million (2013: RMB131 million). The facilities were utilised to the extent of RMB52 million (2013: RMB69 million).

As at 31 December 2014, no borrowings from bank were subject to financial covenants.

### 35. ACCOUNTS AND BILLS PAYABLE

Accounts and bills payable comprise:

	<b>The Group</b>	
	<b>2014</b> <b>RMB'000</b>	2013 RMB'000
Accounts payable	<b>16,366,810</b>	14,651,217
Bills payable	<b>2,448,758</b>	2,429,567
	<b>18,815,568</b>	17,080,784

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

	<b>The Group</b>	
	<b>2014</b> <b>RMB'000</b>	2013 RMB'000
Within 1 year	<b>17,370,714</b>	15,862,539
After 1 year but less than 2 years	<b>994,309</b>	793,208
After 2 years but less than 3 years	<b>237,301</b>	214,060
After 3 years	<b>213,244</b>	210,977
	<b>18,815,568</b>	17,080,784

Included in accounts and bills payable are amounts due to CTC Group and an associate of the Group of RMB2,239 million (2013: RMB1,794 million) as at 31 December 2014. 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 36. ACCRUED EXPENSES AND OTHER PAYABLES

	The Group		The Company	
	2014 RMB'000	2013 RMB'000	2014 RMB'000	2013 RMB'000
Wages and welfare payable	<b>1,506,835</b>	1,482,876	<b>15,683</b>	20,905
Amounts due to CTC Group and an associate of the Group (note i)	<b>689,210</b>	692,804	<b>821</b>	280
Advances received	<b>1,128,593</b>	715,214	–	–
Other taxes payable	<b>841,579</b>	715,852	<b>2,590</b>	4,064
Special dividend and profit distribution payable to CTC Group (note ii)	<b>91,426</b>	110,062	–	–
Dividend payable	<b>30,051</b>	39,578	–	–
Payables for construction and purchase of fixed assets	<b>95,756</b>	202,465	–	–
Others (note iii)	<b>3,041,516</b>	3,167,646	<b>2,573</b>	1,593
	<b>7,424,966</b>	7,126,497	<b>21,667</b>	26,842

Notes:

- (i) 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.
- (ii) Special dividend and profit distribution payable to CTC Group

As disclosed in the Prospectus of the Company dated 27 November 2006, in accordance with the "Provisional Regulation relating to Corporate Restructuring of Enterprises and Related Management of State-owned Capital and Financial Treatment" which was issued by the PRC Ministry of Finance and a resolution passed on 1 November 2006, the directors proposed and the shareholders approved the distribution of profit of the Group for the period from 1 April 2006 to 29 August 2006, being the calendar day immediately preceding the date of incorporation of the Company. In the same resolution, the directors proposed and the shareholders approved the distribution of profit of the Group for the period from 30 August 2006 to the calendar day immediately preceding the date of its listing on the Stock Exchange (i.e. 7 December 2006) (together, the "2006 special dividend").

Pursuant to a resolution passed at directors' meeting on 17 April 2007, the directors resolved to pay the 2006 special dividend to CTC and its subsidiaries amounting to RMB535 million in total, out of which RMB117 million was directly distributed at the subsidiary level. The Group has paid RMB520 million special dividend to CTC and its subsidiaries by 31 December 2014.

As disclosed in the Circular of the Company dated 20 June 2007, in line with the principles set out in the "Notice of the Forwarding the Implementation Opinions of the state-owned Assets Supervision and Administration Commission about Further Standardisation of the Work Relating to the Reconstruction of State-owned Enterprise" issued by the General Office of the State Council of the PRC, the changes in net assets between the period from 1 February 2007 to 31 August 2007 of the Target Business should be distributed in form of cash to CTC and its subsidiaries amounting to RMB197 million in total, of which RMB122 million has been paid to CTC and its subsidiaries by 31 December 2014.

Pursuant to the Equity Transfer Agreements entered into by the Group and CTC and its subsidiaries on 20 June 2012 in relation to the acquisitions of the Target Interests and SBSS, the net profit or loss made by the Target Interests and SBSS between the period from the respective valuation dates (31 October 2011 for Ningxia Construction and Ningxia Supervision and 30 June 2011 for Xinjiang Planning & Designing and SBSS) to 30 June 2012 (for the Target Interests) and 26 July 2012 (for SBSS) should be distributed in form of cash to CTC and its subsidiaries amounting to RMB26 million in total, of which RMB25 million has been paid to CTC and its subsidiaries by 31 December 2014.

- (iii) The amount consists of commissioned collections and pledged deposits mostly.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 37. OTHER NON-CURRENT LIABILITIES

	The Group	
	2014 RMB'000	2013 RMB'000
Convertible preference shares and preference shares (note (i))	611,900	–
Others (note (ii))	175,742	154,379
	<b>787,642</b>	154,379

Notes:

- (i) On 25 July 2014, a subsidiary of the Company has placed 66,670,000 convertible preference shares and 33,330,000 preference shares to an independent third party at par value of US\$1 for each of the convertible preference share and preference share. According to the agreement, the subsidiary of the Company has the right, at its discretion, to defer the interest payment and also the redemption of the convertible preference share and preference share eight years after the delivery date. However, the Group has obligation to pay the amount if the subsidiary of the Company defer the payment. Therefore, the management considers that the Group does not have an unconditional right to avoid delivering cash or another financial asset to settle a contractual obligation arising from this agreement. Moreover, according to the agreement, the preference shareholder has the option to convert the convertible preference shares into ordinary shares from 2017 onwards. In the opinion of the directors, the number of ordinary shares can be converted, from the Group's perspective, is subject to negotiation between the Group and the preference shareholder at a fair value basis. Therefore, in the consolidated statement of financial position of the Group, this is recognized as a financial liability.

The annual interest rate is 3.7% plus the average six-month dollar interest rate of Libor for six months before each interest payment date, and should be adjusted on the first interest payment eight years after the settlement date. The adjusted interest rate should not be less than 8%, and will automatically increase 1% every year after then.

- (ii) Others represent the deferred revenue arising from government grants and warranty provisions.

### 38. SHARE CAPITAL

	2014 RMB'000	2013 RMB'000
<b>Registered, issued and fully paid:</b>		
4,534,598,160 (31 December 2013: 4,534,598,160) domestic shares of RMB1.00 each	4,534,598	4,534,598
2,391,420,240 (31 December 2013: 2,391,420,240) H shares of RMB1.00 each	2,391,420	2,391,420
	<b>6,926,018</b>	6,926,018
	<b>2014 Thousand shares</b>	2013 Thousand shares
At 1 January and 31 December	<b>6,926,018</b>	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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 38. SHARE CAPITAL (continued)

#### (a) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by strengthening their leading position as integrated service provider to the telecommunications industry and achieving economies of scale in the market.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital using a gearing ratio which is total debts divided by the sum of total debts and total equity. For this purpose, the Group defines total debt as the sum of short-term interest bearing borrowings and long-term interest bearing borrowings. The Group aims to maintain the gearing ratio at a reasonable level. The Group's ratio as at 31 December 2014 was 3.8% (2013: 0.5%). In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt.

### 39. RETIREMENT BENEFIT OBLIGATIONS

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In accordance with the labour regulations of the PRC, the Group participates in various defined contribution retirement schemes organised by the municipal and provincial governments for its employees. The Group is required to make contributions to the retirement schemes at rates ranging from 18% to 22% (2013: 20% to 22%) of the salaries, bonuses and certain allowances of the employees.

The Group has no other material obligation for the payment of pension benefits associated with these schemes beyond the annual contributions described above.

### 40. SHARE APPRECIATION RIGHTS SCHEME

The Group implemented a share appreciation rights scheme for members of its management to provide incentives to them. Under this plan, share appreciation rights are granted in units with each unit representing one H share. No shares will be issued under the share appreciation rights scheme. Upon exercise of the share appreciation rights, a recipient will receive, subject to any applicable withholding tax, a cash payment in RMB, translated from the Hong Kong dollars amount equal to the product of the number of share appreciation rights exercised and the difference between the exercise price and market price of the Company's H shares at the date of exercise based on the applicable exchange rate between RMB and Hong Kong dollars at the date of the exercise. The Company recognises compensation expense of the share appreciation rights over the applicable vesting period.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 40. SHARE APPRECIATION RIGHTS SCHEME (continued)

In April 2007, the Company's remuneration committee approved the granting of 38.3 million share appreciation right units to eligible employees (first batch of first phase share appreciation rights). Under the terms of this grant, all share appreciation rights had a contractual life of seven years from date of grant and an exercise price of HKD4.92 per unit.

In April 2009, the Company's remuneration committee approved the granting of 49.8 million share appreciation right units to eligible employees (second batch of first phase share appreciation rights). Under the terms of this grant, all share appreciation rights had a contractual life of five years from date of grant and an exercise price of HKD4.53 per unit.

In August 2011, the Company's remuneration committee approved the granting of share appreciation right units to new eligible employees (second batch of first phase share appreciation rights). Under the terms of this grant, 22.6 million share appreciation right units were granted to the employees who became eligible of this incentive plan since April 2009.

In January 2012, the Company's remuneration committee approved the granting of 198.3 million share appreciation right units to eligible employees (the second phase share appreciation rights). Under the terms of this grant, all share appreciation rights have a contractual life of five years from date of grant and an exercise price of HKD3.41 per unit.

A recipient of share appreciation rights cannot exercise the rights in the first 24 months after the date of grant. As at each of the third, fourth and fifth anniversary of the date of grant, the total number of share appreciation rights exercisable cannot in aggregate exceed one-third, two-third and 100%, respectively, of the total share appreciation rights granted to such person.

In March 2012, the Company's Board of Directors approved the adjustment of the exercise price of the first batch of the first phase share appreciation rights from HKD4.92 per unit to HKD4.66 per unit and of the granted amount to 39.3 million share appreciation right units, and approved the adjustment of the exercise price of the second batch of the first phase share appreciation rights from HKD4.53 per unit to HKD4.28 per unit and of the granted amount to 74.1 million share appreciation right units.

During the year ended 31 December 2014, RMB74 million was credited (2013: RMB131 million charged) to profit or loss arising from the fair value remeasurement of the accrued compensation liability at the end of the reporting period. At 31 December 2014, the Group has recorded liabilities of RMB66 million (2013: RMB140 million).

The total of 113.4 million share appreciation right units of the first phase share rights have been exercised in 2013. During the year ended 31 December 2014, only 66.1 million share appreciation right units of the second phase share appreciation rights can be exercised but not vested yet, the rest of the second phase share appreciation rights are not vested and have not been fully granted to each eligible employee. As such, compensation expense of the second phase share appreciation rights over the applicable vesting period recognised has not been fully allocated to each eligible employees.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 41. COMMITMENTS AND CONTINGENT LIABILITIES

#### (a) Capital commitments

As at 31 December 2014, the Group and the Company had capital commitments for acquisition and construction of property, plant and equipment and other assets as follows:

	The Group		The Company	
	2014 RMB'000	2013 RMB'000	2014 RMB'000	2013 RMB'000
Authorised and contracted for	<b>118,586</b>	283,654	<b>4,863</b>	4,851
Authorised but not contracted for	<b>331,339</b>	334,807	–	–

#### (b) Operating lease commitments

As at 31 December 2014, the Group's total future minimum lease payments under non-cancellable operating leases were payable as follows:

	The Group	
	2014 RMB'000	2013 RMB'000
Within 1 year	<b>304,985</b>	276,463
After 1 year but within 5 years	<b>370,586</b>	317,779
After 5 years	<b>111,339</b>	94,851
	<b>786,910</b>	689,093

The Group leases a number of properties under operating leases. The leases typically run for period of 1 year to 20 years, with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

#### (c) Contingent liabilities

As at 31 December 2014, the Group had no material contingent liabilities and no material financial guarantees issued.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 42. FINANCIAL RISK MANAGEMENT AND FAIR VALUES

Exposure to credit, interest rate, liquidity and currency risks arises in the normal course of the Group's business. The Group is also exposed to equity price risk arising from its equity investments in other entities and movements in its own equity share price.

The Group's exposure to these risks and the financial risk management policies and practices used by the group to manage these risks are described below.

#### (a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposure to credit risks is monitored on an ongoing basis. Normally, the Group does not obtain collateral from customers.

The Group's major customers are CTC Group and CM Group. The Group has a certain concentration of credit risk as the Group's major customers accounted for 66% of the total accounts and bills receivable as at 31 December 2014 (2013: 66%). The Group has no significant credit risk with any of these customers since they are large State-owned companies in the telecommunications industry.

The credit risk on cash at banks and restricted bank deposits is limited because the counterparties are banks with high credit rankings, mainly the four large state-owned banks.

The credit risk on available-for-sale financial assets arises from loss in value through corporate failure. The Group mitigate the credit risk on available-for-sale financial assets by closely monitor its portfolio and minimize investments on these assets. The Group's available-for-sale financial assets are less than 2% of its total assets for both 2014 and 2013.

The amounts of cash and cash equivalents, restricted deposits, accounts and bills receivable, other receivables and available-for-sale financial assets in the statement of financial position after deducting impairment allowance represent the Group's and the Company's maximum exposure to the credit risk in relation to financial assets.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 42. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

#### (b) Interest rate risk

The Group's interest rate risk exposure primarily from its short-term and long-term debts carrying interests at fixed rates exposed the Group to fair value interest rate risk. The Group manages its exposure to interest rate risk by maintaining high proportion of fixed rate debts with maturity within one year. Details of the interest rates are disclosed in note 34.

#### (c) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the Company's board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor its liquidity requirements, to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following tables show the remaining contractual maturities at the end of the reporting period of the Group's and the Company's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group and the Company can be required to pay:

#### The Group

	2014		2013	
	Contractual undiscounted cash outflow within 1 year or on demand RMB'000	Statement of financial position carrying amount RMB'000	Contractual undiscounted cash outflow within 1 year or on demand RMB'000	Statement of financial position carrying amount RMB'000
Short-term interest-bearing borrowings (note 34)	250,287	246,818	57,636	53,901
Account and bills payable (note 35)	18,815,568	18,815,568	17,080,784	17,080,784
Receipt in advance for contract work	1,578,088	1,578,088	1,164,029	1,164,029
Accrued expenses and other payables (note 36)	7,424,966	7,424,966	7,126,497	7,126,497
	<b>28,068,909</b>	<b>28,065,440</b>	25,428,946	25,425,211



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 42. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

#### (c) Liquidity risk (continued) The Company

	2014		2013	
	Contractual undiscounted cash outflow within 1 year or on demand RMB'000	Statement of financial position carrying amount RMB'000	Contractual undiscounted cash outflow within 1 year or on demand RMB'000	Statement of financial position carrying amount RMB'000
Accrued expenses and other payables (note 36)	21,667	21,667	26,842	26,842

#### (d) Currency risk

Foreign currency exchange rate risk arises on financial instruments that are denominated in a currency other than the respective functional currencies of Group entities. The Group's foreign currency risk exposure relates to the bank deposits and borrowings denominated primarily in United States dollars, Hong Kong dollars, Nigerian Naira, Saudi Arabian Riyal and Ethiopian Birr. 89.1% (2013: 93.4%) of the Group's cash and cash equivalents and 4.7% (2013: 12.6%) of the Group's short-term debt and long-term debt as at 31 December 2014 are denominated in RMB.

The following table details the Group's and the Company's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they related. For presentation purposes, the amounts of the exposure are shown in RMB, translated using the spot rate at the year-end date.

#### Exposure to currency risk

The Group

	Exposure to foreign currencies (expressed in RMB)					
	2014					
	United States dollars RMB'000	Hong Kong dollars RMB'000	Nigerian Naira RMB'000	Saudi Arabian Riyal RMB'000	Ethiopian Birr RMB'000	Others RMB'000
Cash and cash equivalents	547,515	16,183	82,261	26,819	4,165	123,437
Accounts receivable	283,008	64,894	30,676	123,516	80,337	277,477
Accounts payable	(162,803)	(38,896)	(25,587)	(73,255)	(53,936)	(207,899)
Short-term interest-bearing borrowings	(233,538)	-	-	-	-	-
Long-term interest-bearing borrowings	(38,708)	-	-	-	-	-
Convertible preference shares and preference shares	(611,900)	-	-	-	-	-
Overall net exposure	(216,426)	42,181	87,350	77,080	30,566	193,015

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 42. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

#### (d) Currency risk (continued)

##### Exposure to currency risk (continued)

The Group (continued)

	Exposure to foreign currencies (expressed in RMB)					
	2013					
	United States dollars RMB'000	Hong Kong dollars RMB'000	Nigerian Naira RMB'000	Saudi Arabian Riyal RMB'000	Ethiopian Birr RMB'000	Others RMB'000
Cash and cash equivalents	165,371	29,924	69,938	24,711	4,988	151,957
Accounts receivable	388,265	58,657	49,007	166,127	76,451	726,394
Accounts payable	(161,406)	(30,673)	(37,827)	(45,943)	(22,073)	(457,609)
Short-term interest-bearing borrowings	(40,621)	–	–	–	–	–
Long-term interest-bearing borrowings	(51,580)	–	–	–	–	–
Overall net exposure	300,029	57,908	81,118	144,895	59,366	420,742

The Company

##### Exposure to foreign currencies (expressed in RMB)

	2014		2013	
	United States dollars RMB'000	Hong Kong dollars RMB'000	United States dollars RMB'000	Hong Kong dollars RMB'000
	Cash and cash equivalents	–	–	11

The following significant exchange rates applied during the year:

The Group

	Average rate		Spot rate	
	2014	2013	2014	2013
United States dollars	<b>6.11</b>	6.19	<b>6.12</b>	6.10
Hong Kong dollars	<b>0.79</b>	0.80	<b>0.79</b>	0.79
Nigerian Naira	<b>0.04</b>	0.04	<b>0.04</b>	0.04
Saudi Arabian Riyal	<b>1.63</b>	1.65	<b>1.63</b>	1.62
Ethiopian Birr	<b>0.31</b>	0.33	<b>0.31</b>	0.32

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 42. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

#### (d) Currency risk (continued)

##### Sensitivity analysis

The following table indicates the instantaneous change in the Group's profit after tax (and retained profits) and other components of consolidated equity that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant.

*The Group*

	2014			2013		
	Increase/ (decrease) in foreign exchange rate	Effect on profit after tax and retained profits RMB'000	Effect on other components of equity RMB'000	Increase/ (decrease) in foreign exchange rate	Effect on profit after tax and retained profits RMB'000	Effect on other components of equity RMB'000
United States dollars	5% (5)%	(8,116) 8,116	- -	5% (5)%	11,251 (11,251)	- -
Hong Kong dollars	5% (5)%	1,582 (1,582)	- -	5% (5)%	2,172 (2,172)	- -
Nigerian Naira	5% (5)%	3,276 (3,276)	- -	5% (5)%	3,042 (3,042)	- -
Saudi Arabian Riyal	5% (5)%	2,891 (2,891)	- -	5% (5)%	2,226 (2,226)	- -
Ethiopian Birr	5% (5)%	1,146 (1,146)	- -	5% (5)%	5,434 (5,434)	- -

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group's entities' profit after tax and equity measured in the respective functional currencies, translated into RMB at the exchange rate ruling at the end of the reporting period for presentation purpose.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to remeasure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period, include inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis is performed on the same basis for 2013.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 42. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

#### (e) Equity price risk

The Group is exposed to equity price changes arising from listed equity investments classified as available-for-sale securities (see note 25). Other than unquoted securities held for strategic purpose, all of these investments are listed.

The Group's listed investments are listed on the Shanghai Stock Exchange and Shenzhen Stock Exchange. Listed investments held in the available-for-sale portfolio have been chosen based on their longer term growth potential and are monitored regularly for performance against expectations.

The Group is also exposed to equity price risk arising from changes in the Company's own share price to the extent that the Company's own equity instruments underlie the fair values of other financial liabilities of the Group. As at the end of the reporting period the Group is exposed to this risk through the share appreciation rights scheme issued by the Company as disclosed in note 40.

At 31 December 2014, it is estimated that an increase/(decrease) of 5% (2013: 5%) in the relevant share price (for listed investments) or the Company's own share price (for the share appreciation rights scheme) as applicable, with all other variables held constant, would have (decreased)/increased the Group's profit after tax (and retained profits) and other components of consolidated equity as follows:

#### The Group

	<b>2014</b>		<b>2013</b>			
	<b>Increase/ (decrease) in equity price</b>	<b>Effect on profit after tax and retained profits RMB'000</b>	<b>Effect on other components of equity RMB'000</b>	<b>Increase/ (decrease) in equity price</b>	<b>Effect on profit after tax and retained profits RMB'000</b>	<b>Effect on other components of equity RMB'000</b>
Changes in the relevant equity price risk variable:						
Increase	<b>5%</b>	<b>(12,273)</b>	<b>1,938</b>	5%	(13,333)	1,554
Decrease	<b>(5%)</b>	<b>9,946</b>	<b>(1,938)</b>	(5)%	12,852	(1,554)

The sensitivity analysis indicates the instantaneous change in the Group's profit after tax (and retained profits) and other components of consolidated equity that would arise assuming that the changes in the share price or other relevant risk variables had occurred at the end of the reporting period and had been applied to remeasure those financial instruments held by the Group which expose the Group to equity price risk at the end of the reporting period. It is also assumed that the fair values of the Group's equity investments would change in accordance with the historical correlation with the relevant risk variables, that none of the Group's available-for-sale financial assets would be considered impaired as a result of the decrease in the share price or other relevant risk variables, and that all other variables remain constant. The analysis is performed on the same basis for 2013.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 42. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

#### (f) Fair value

##### (i) Financial instruments carried at fair value

Some of the Group's financial instruments are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial instruments are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1: fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2: fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	The Group			Total RMB'000
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	
<b>Assets</b>				
Available-for-sale securities				
– Listed equity securities	51,672	–	–	51,672
Trading financial assets				
– Foreign currency forward contract	–	143	–	143
<b>Liabilities</b>				
Trading financial liabilities				
– Foreign currency forward contract	–	1,574	–	1,574

##### (ii) Fair values of financial instruments carried at other than fair value

The fair values of cash and cash equivalents, accounts and bills receivable, other current assets, accounts and bills payable and accrued expenses and other payables are not materially different from their carrying amounts.

The fair values of Group's unquoted available-for-sale financial assets could not be reasonably estimated without incurring excessive costs, since there are no listed market prices for such interest in the PRC.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 42. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

#### (g) Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments.

##### (i) Available-for-sale financial assets

The fair value of available-for-sale financial assets traded in active markets is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price.

##### (ii) Interest-bearing borrowings

The fair values of the Group's interest-bearing borrowings are estimated to approximate to their carrying amount.

##### (iii) Share appreciation rights

The fair value of share appreciation rights is measured using the Black-Scholes formula. Measurement inputs include stock price on measurement date, exercise price of the instrument, expected volatility, weight average expected life of the instruments, expected dividends and risk-free interest rate. Service and non-market performance conditions attached to the transactions are not taken into account in determine the fair value.

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### 43. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

In determining the carrying amounts of certain assets and liabilities, the Group makes assumptions of the effects of uncertain future events on those assets and liabilities at the end of the reporting period. These estimates involve assumptions about such items as risk adjustment to cash flows or discount rates used, future changes in salaries and future changes in prices affecting other costs. The Group's estimates and assumptions are based on historical experience and expectations of future events and are reviewed periodically. In addition to assumptions and estimations of future events, judgements are also made during the process of applying the Group's accounting policies. In addition to those disclosed in note 21, other significant accounting estimates and judgements were summarised as follows:

#### (a) Construction contracts

As explained in notes 2(n) and 2(w)(i) revenue and profit recognition on an uncompleted project is dependent on estimating the total outcome of the construction contract, as well as the work done to date. Based on the Group's recent experience and the nature of the construction activity undertaken by the Group, the Group makes estimates of the point at which it considers the work is sufficiently advanced such that the costs to complete and revenue can be reliably estimated. As a result, until this point is reached the amounts due from customers for contract work as disclosed in note 30 will not include profit which the Group may eventually realise from the work done to date. In addition, actual outcomes in terms of total cost or revenue may be higher or lower than that estimated at the end of the reporting period, which would affect the revenue and profit recognised in future years as an adjustment to the amounts recorded to date.

#### (b) Impairment for trade and other receivables

The Group estimates impairment losses for trade and other receivables resulting from the inability of the customers to make the required payments. The Group bases the estimates on the ageing of the accounts receivable customer credit-worthiness, and historical write-off experience. If the financial condition of the customers were to deteriorate, actual write-offs would be higher than estimated.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 43. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

#### (c) Impairment of long-lived assets other than goodwill

If circumstances indicate that the carrying amount of a long-lived asset may not be recoverable, the asset may be considered "impaired", and an impairment loss may be recognised in accordance with accounting policy for impairment of long-lived assets as described in note 2(l). The carrying amounts of long-lived assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the fair value less costs of disposal and the value in use. In determining the value in use, expected future cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of revenue and amount of operating costs. Changes in these estimates could have a significant impact on the carrying value of the assets and could result in additional impairment charge or reversal of impairment in future periods.

#### (d) Depreciation and amortisation

Property, plant and equipment and intangible assets with finite useful lives are depreciated/amortised on a straight-line basis over the estimated useful lives of the assets, after taking into account their estimated residual value. The Group reviews the estimated useful lives and residual values of the assets annually in order to determine the amount of depreciation/amortisation expense to be recorded during any reporting period. The useful lives and residual values are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation and amortisation expense for future periods is adjusted if there are significant changes from previous estimates.

#### (e) Deferred tax assets

The recognition of deferred tax assets requires assessment of the temporary differences which arise as a consequence of different accounting and tax treatments. These temporary differences result in deferred tax assets are included within the statement of financial position. Deferred tax assets are measured using substantially enacted tax rates expected to apply when the temporary differences reverse. Deferred tax assets are not recognised where it is more likely than not that the asset will not be realised in the future. This evaluation requires judgements to be made including the forecast of future taxable income. Recognition therefore, involves management's judgement regarding the future financial performance of the particular legal entity in which the deferred tax asset has been recognised and interpretation of country specific tax law and the likelihood of settlement. However the actual tax assets could differ from the provision and in such event the group would be required to make an adjustment in a subsequent period which could have a material impact on the group's profit and loss.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 44. RELATED PARTIES

The Group is part of a larger group of companies under CTC and has significant transactions and relationships with members of CTC. Apart from the transactions and balances disclosed in the financial statements set out above, there are the following related party transactions:

#### (a) Transactions with CTC Group and other related parties

Companies are considered to be related if one company has the ability, directly or indirectly, to control or jointly control the other company or have significant influence over the other company in making financial and operating decisions. Companies are also considered to be related if they are subject to common control.

Because of the relationships between the Group, CTC and members of the CTC, it is possible that the terms of those transactions are not the same as those that would result from transactions among unrelated parties.

The principal transactions with CTC Group and other related parties which were carried out in the ordinary course of business are as follows:

	2014 RMB'000	2013 RMB'000
<i>Income from related parties:</i>		
Engineering related services (note (i))	<b>15,582,389</b>	14,436,240
IT application services (note (ii))	<b>1,847,913</b>	1,637,462
Provision of ancillary telecommunications services (note (iii))	<b>7,548,455</b>	6,639,560
Provision of operation support services (note (iv))	<b>2,402,396</b>	2,271,582
Supplies procurement service (note (v))	<b>4,472,320</b>	4,162,827
Property leasing (note (vi))	<b>97,491</b>	83,858
Management fee income (note (vii))	<b>286,403</b>	319,701
<i>Expenses paid to related parties:</i>		
Property leasing charges (note (viii))	<b>155,410</b>	148,867
IT application service charges (note (ix))	<b>242,470</b>	247,582
Operation support service charges (note (x))	<b>662,565</b>	614,845
Supplies procurement service charges (note (xi))	<b>2,662,675</b>	2,995,688
Interest paid (note (xii))	<b>317</b>	147

Notes:

- (i) The amount represents the engineering related services, such as design, construction and project management for telecommunications infrastructure project provided to CTC Group.
- (ii) The amount represents the telecommunications network support services, software and hardware development and other IT related services provided to CTC Group.
- (iii) The amount represents ancillary telecommunications services such as maintenance of network facilities (including optical ducts and cables, exchange buildings and base stations), operation of distribution channels, fixed line and wireless value-added service, internet contents and information services provided to CTC Group.
- (iv) The amount represents the facilities management, advertising, conferencing services and certain repair and leasing of equipment services provided to CTC Group and other related parties.
- (v) The amount represents supplies procurement service such as supplies procurement service, management of warehousing, transportation and installation services provided to CTC Group and other related parties.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 44. RELATED PARTIES (continued)

#### (a) Transactions with CTC Group and other related parties (continued)

Notes: (continued)

- (vi) The amount represents rental income in respect of premises leased to CTC Group and other related parties.
- (vii) The amounts represent management fee income in respect of Centralised Services provided to CTC Group.
- (viii) The amount represents operating leases in respect of business premises paid and payable to CTC Group and other related parties.
- (ix) The amount represents basic telecommunications service, value-added service and information application service charged by CTC Group and other related parties.
- (x) The amount represents the charge paid and payable to CTC Group and an associate of the Group for logistics, labor resources, cultural, educational, hygiene and other supporting services.
- (xi) The amount represents the charge paid and payable to CTC Group for supplies procurement services, warehousing, transportation and installation services.
- (xii) Interest paid represents the interest paid/payable to CTC Group in respect of the loans from CTC Group.

Amounts due from/to CTC Group and other related parties included in respective balances are summarised as follows:

	2014 RMB'000	2013 RMB'000
Accounts and bills receivable, net	13,612,267	11,748,984
Prepayments and other current assets	1,468,131	1,600,326
Total amounts due from CTC Group and other related parties	15,080,398	13,349,310
Interest-bearing borrowings	13,280	13,280
Accounts and bills payable	2,238,518	1,793,968
Receipts in advance for contract work	81,079	42,612
Accrued expenses and other payables	780,636	802,866
Total amounts due to CTC Group and other related parties	3,113,513	2,652,726

As at 31 December 2014, the Group has recognised impairment losses of RMB26 million (2013: RMB8 million) for bad and doubtful debts in respect of amounts due from CTC Group.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 44. RELATED PARTIES (continued)

#### (a) Transactions with CTC Group and other related parties (continued)

As at 31 December 2014, the Group has capital commitments to CTC Group for acquisition and construction of property, plant and equipment and other assets as follows:

	2014 RMB'000	2013 RMB'000
Authorised and contracted for	4,863	5,032

As at 31 December 2014, the Group total future minimum lease payments to CTC Group under non-cancellable operating leases were payable as follows:

	2014 RMB'000	2013 RMB'000
Within 1 year	90,095	58,618
After 1 year but within 5 years	160,735	101,576
After 5 year	89,141	70,504
	339,971	230,698

The directors are of the opinion that the above transactions with related parties were conducted on normal commercial terms in the ordinary course of business and the terms are fair and reasonable so far as the shareholders of the Company are concerned.

In connection with the Restructuring, the Company and CTC entered into a number of agreements effective as at November 16, 2006 to take up the existing agreements signed between the Predecessor Operations and CTC as set out in items (i), (ii) and (iii) below, together with a new agreement governing the provision of headquarter management function by the Company as set out in item (iv). After the Company acquired the Target Business in 2007, these agreements were amended by way of the 2008 Supplemental Agreement, pursuant to which the terms of the Agreements were renewed to 31 December 2010. On 29 October 2009, the Company entered into the Supplies Procurement Services Framework Agreement as set out in item (v) below. On 9 November 2010, these agreements were amended by way of 2010 Supplement Agreement, pursuant to which the terms of the Agreements were renewed to 31 December 2012. On 14 November 2011, the Company announced to propose the increase of annual caps for service charges payable to CTC Group under the Supplies Procurement Services Framework Agreement to RMB2,100 million and RMB2,600 million respectively, for the two years ending 31 December 2011 and 2012. On 20 September 2012, the Company announced to propose the increase of annual caps for the service charges receivable by the Company from CTC Group and the service charges payable by the Company to CTC Group under Operation Support Services Framework Agreement for the year ending 31 December 2012 to RMB2,300 million and to RMB600 million, respectively, and the annual cap for the service charges receivable by the Company from CTC Group under the Supplies Procurement Services Framework Agreement for the year ending 31 December 2012 to RMB4,400 million, and signed Supplement Agreements which extended the expiry date of all agreements to 31 December 2015 and increased annual caps of several framework agreements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 44. RELATED PARTIES (continued)

#### (a) Transactions with CTC Group and other related parties (continued)

According to these Supplement Agreements for the year ended 31 December 2013, (i) the annual cap for the service charges receivable by the Company from CTC Group under the Engineering Related Services Framework Agreement was RMB17,000 million; (ii) the annual cap for the service charges receivable by the Company from CTC Group under the Ancillary Telecommunications Services Framework Agreement was RMB9,000 million; (iii) the annual caps for the service charges receivable by the Company from CTC Group and the service charges payable by the Company to CTC Group under the Operation Support Services Framework Agreement wear RMB2,800 million and RMB650 million; (iv) the annual caps for the service charges receivable by the Company from CTC Group and the service charges payable by the Company to CTC Group under the IT Application Services Framework Agreement wear 2,000 million and RMB430 million; (v) the annual cap for the service charges receivable by the Company from CTC Group under the Centralised Services Framework Agreement was RMB400 million; (vi) the annual caps for the service charges receivable by the Company from CTC Group and the service charges payable by the Company to CTC Group under the Property Leasing Services Framework Agreement wear RMB166 million and RMB160 million; (vii) the annual caps for the service charges receivable by the Company from CTC Group and the service charges payable by the Company to CTC Group under the Supplies Procurement Services Framework Agreement wear RMB4,600 million and RMB3,100 million. The terms of the principal agreements impacting the results of operations of the Group are summarised as follows:

- (1) The Group has entered into agreements with CTC pursuant to which the Group provides CTC Group with construction, design and project supervision and management for telecommunications infrastructure projects. In addition, the Group has entered into information technology service agreements with CTC pursuant to which the Group provides CTC Group with telecommunications network support service, software and hardware development and other IT related services. The amounts charged for these services are determined by reference to market rates as reflected in prices obtained through a tender.
- (2) The Group has entered into facilities leasing agreements with CTC pursuant to which the Group leases certain premises and other facilities to CTC Group, and vice versa. The rental charges are based on market rate, with reference to amounts stipulated by local price bureau.
- (3) The Group has entered into operation support services agreements for facilities management, advertising, conferencing, logistics, cultural, educational, hygiene and other community services with CTC. In addition, the Group has entered into ancillary services agreements with CTC. The ancillary services provided to CTC Group include repairs and maintenance of telecommunications equipment and facilities and certain customer services. Pursuant to these agreements, the Group charges CTC Group, and vice versa, for these services in accordance with the following terms:
  - government prescribed price;
  - where there is no government prescribed prices but where there is a government guided price, the government guided price will apply;
  - where there is neither a government prescribed price nor a government guided price, the market price will apply; and
  - where none of the above is available, the price is to be agreed between the relevant parties, which shall be based on the cost incurred in providing the services plus a reasonable profit margin.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 44. RELATED PARTIES (continued)

#### (a) Transactions with CTC Group and other related parties (continued)

- (4) The Group has entered into agreement with CTC pursuant to which the Group takes up the role as headquarter management function to manage assets of the telecommunications support business of provinces, municipalities and autonomous regions ("Centralised Services") including Ningxia, Tibet and any assets retained by CTC after the Restructuring and acquisition of Target Business. The aggregate administrative costs incurred by the Group for the provision of the Centralised services are apportioned pro rata between the Group and CTC Group according to the net asset ratio of each of the relevant party.
- (5) The Group has entered into Supplies Procurement Services Framework agreement for procurement of telecommunication and non-telecommunication supplies, agency services of supplies procurement, sales of telecommunication supplies and management of biddings, verification of technical specifications, warehousing transportation and installation service. Pursuant to the agreement, the Group charges CTC Group for these services in accordance with the following terms:
- maximum 1% of the contract value for procurement services on imported telecommunication supplies;
  - maximum 3% of the contract value for procurement services on domestic telecommunication and non-telecommunication supplies and materials;
  - government prescribed price;
  - where there is no government prescribed prices but where there is a government guided price, the government guided price will apply;
  - where there is neither a government prescribed price nor a government guided price, the market price will apply; and
  - where none of the above is available, the price is to be agreed between the relevant parties, which shall be based on the cost incurred in providing the services plus a reasonable profit margin.

#### (b) Transactions with other government-related entities in the PRC

The Group is a state-controlled enterprise and operates in an economic regime currently dominated by entities directly or indirectly controlled by the People's Republic of China through government authorities, agencies, affiliations and other organisations (collectively referred to as "government-related entities").

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 44. RELATED PARTIES (continued)

#### (b) Transactions with other government-related entities in the PRC (continued)

Apart from transactions with parent company and its affiliates (note 45(a)), the Group has collectively, but not individually significant transactions with other government-related entities, which include but are not limited to the following:

- Rendering and receiving services, including but not limited to telecommunications services
- Sales and purchases of goods, properties and other assets
- Lease of assets
- Depositing and borrowing money
- Use of public utilities

These transactions are conducted in the ordinary course of the Group's business on terms comparable to the terms of transactions with other entities that are not government-related. The Group prices its telecommunications services and products based on government-regulated tariff rates, where applicable, or based on commercial negotiations. The Group has also established its procurement policies and approval processes for purchases of products and services, which do not depend on whether the counterparties are government-related entities or not.

The directors believe the above information provides meaningful disclosure of related party transactions.

#### (c) Transactions with key management personnel

Remuneration for key management personnel, including amounts paid to the Company's directors and supervisors as disclosed in note 12 and certain of the highest paid employees as disclosed in note 13, is as follows:

	2014 RMB'000	2013 RMB'000
Salaries and other emoluments	4,278	5,325
Retirement benefits	1,519	3,111
Bonuses	9,068	16,373
Share appreciation rights	–	16,804
	<b>14,865</b>	41,613

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 44. RELATED PARTIES (continued)

#### (d) Contributions to defined contribution retirement plans

In accordance with the labour regulations of the PRC, the Group participates in various defined contribution retirement schemes organised by the municipal and provincial governments for its employees. The Group is required to make contributions to the retirement schemes at rates ranging from 18% to 22% of the salaries, bonuses and certain allowances of the employees. A member of the scheme is entitled to a pension equal to a fixed proportion of the salary prevailing at his or her retirement date. The Group has no other material obligation for the payment of pension benefits associated with these schemes beyond the annual contributions described above.

As at 31 December 2014 and 2013, there was no material outstanding contribution to post-employment benefit plans.

The directors believe the above information provides meaningful disclosure of related party transactions.

#### (e) Applicability of the Listing Rules relating to connected transactions

The related party transactions with CTC Group disclosed in note 44(a) above constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules. The applicable disclosures required by Chapter 14A of the Listing Rules are provided in the "Continuing Connected Transactions" section of the report of the directors on pages 61 to 66.

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### 45. 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 reportable segment has been presented. Additional information about major customers and geographical areas of the Group has been disclosed in note 4.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 46. DISTRIBUTABLE RESERVES

The movements of shareholders' equity of the Company for 2014 are as follows:

	<b>Share capital</b>	<b>Share premium</b>	<b>Capital reserve</b>	<b>Statutory surplus reserve</b>	<b>Retained earnings</b>	<b>Total</b>
	RMB'000 (note 38)	RMB'000 (note i)	RMB'000 (note ii)	RMB'000 (note iii)	RMB'000	RMB'000
At 1 January 2014	6,926,018	4,529,310	1,966,293	664,801	1,513,128	15,599,550
Profit for the year	-	-	-	-	862,833	862,833
Distribution of dividend (see note 15(b))	-	-	-	-	(895,534)	(895,534)
Appropriation	-	-	-	86,283	(86,283)	-
At 31 December 2014	6,926,018	4,529,310	1,966,293	751,084	1,394,144	15,566,849

According to the Company's Articles of Association, the amount of retained earnings available for distribution to equity shareholders of the Company is the lower of the amount determined in accordance with the PRC Accounting Rules and Regulations and the amount determined in accordance with IFRSs after the appropriation to statutory surplus reserve as detailed in notes to the consolidated statement of changes in equity.

	<b>2014 RMB'000</b>	2013 RMB'000
At 31 December	<b>704,140</b>	572,401

The above amount was determined in accordance with the PRC Accounting Rules and Regulations.

Notes:

- (i) The share premium represents the difference between the total amount of the par value of shares issued and the amount of the net proceeds received from the initial public offering in 2006 and subsequent share issuance in 2008 and 2012 (see note 38) respectively.
- (ii) The capital reserve mainly represents the difference between the total amount of the par value of shares issued and the amount of the net assets transferred from CTC, Guangdong Telecom Industry Group Corporation and Zhejiang Telecom Industry Corporation upon the formation of the Company.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 46. DISTRIBUTABLE RESERVES (continued)

Notes: (continued)

- (iii) According to the Company's Article of Association, the Company is required to transfer 10% of its net profit as determined in accordance with the PRC Accounting Rules and Regulations to its statutory surplus reserve until the reserve balance reaches 50% of the registered capital.

The transfer to this reserve must be made before distribution of a dividend to shareholders. Statutory surplus reserve can be used to make good previous years' losses, if any, or to expand the Company's business, and may be converted into share capital by the issuance or by increasing the par value of the share currently held by them, provided that the balance after such issue is not less than 25% of the registered capital.

### 47. POSSIBLE IMPACT OF AMENDMENT TO STANDARDS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING YEAR ENDED 31 DECEMBER 2014

Up to the date of issue of these financial statements, the IASB has issued a number of amendments to standards, new standards and interpretation which are not yet effective for the year ended 31 December 2014 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group:

IFRS 9	Financial Instruments <sup>1</sup>
IFRS 14	Regulatory Deferral Accounts <sup>2</sup>
IFRS 15	Revenue from Contracts with Customers <sup>3</sup>
Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations <sup>5</sup>
Amendments to IAS 1	Disclosure Initiative <sup>5</sup>
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation <sup>5</sup>
Amendments to IAS 19	Defined Benefit Plans: Employee Contributions <sup>4</sup>
Amendments to IFRSs	Annual Improvements to IFRSs 2010-2012 Cycle <sup>6</sup>
Amendments to IFRSs	Annual Improvements to IFRSs 2011-2013 Cycle <sup>4</sup>
Amendments to IFRSs	Annual Improvements to IFRSs 2012-2014 Cycle <sup>5</sup>
Amendments to IAS 16 and IAS 41	Agriculture: Bearer Plants <sup>5</sup>
Amendments to IAS 27	Equity Method in Separate Financial Statements <sup>5</sup>
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>5</sup>
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation Exception <sup>5</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2018

<sup>2</sup> Effective for first annual IFRS financial statements beginning on or after 1 January 2016

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2017

<sup>4</sup> Effective for annual periods beginning on or after 1 July 2014

<sup>5</sup> Effective for annual periods beginning on or after 1 January 2016

<sup>6</sup> Effective for annual periods beginning on or after 1 July 2014, with limited exceptions

Except for IFRS 9 and IFRS 15, the directors of the Company do not anticipate that the application of the new and revised IFRSs above will have a material effect on the Group's consolidated financial statements.

#### IFRS 9 Financial Instruments

IFRS 9 issued in 2009 introduced new requirements for classification and measurement of financial assets. IFRS 9 was subsequently amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement category for certain simple debt instruments.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 47. POSSIBLE IMPACT OF AMENDMENT TO STANDARDS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING YEAR ENDED 31 DECEMBER 2014 (continued)

#### IFRS 9 Financial Instruments (continued)

Key requirements of IFRS 9 are:

- (i) All recognized financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at fair value through other comprehensive income. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- (ii) With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.
- (iii) In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.
- (iv) The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The directors of the Company anticipate that the application of IFRS 9 in the future may have a material impact on amounts reported in respect of the Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until the Group undertakes a detailed review.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 47. POSSIBLE IMPACT OF AMENDMENT TO STANDARDS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING YEAR ENDED 31 DECEMBER 2014 (continued)

#### IFRS 15 Revenue from Contracts with Customers

In 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers; IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specially, the Standard introduces a 5-step approach to revenue recognition.

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e., when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

The directors of the Company anticipate that the application of IFRS 15 in the future may have an impact on the amounts reported and disclosures made in the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until the Group performs a detailed review.

### 48. IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At 31 December 2014, the directors of the Company consider the immediate and ultimate controlling party of the Group to be CTC, a stated-owned enterprise established in the PRC. CTC does not produce financial statements available for public use.

# FINANCIAL SUMMARY

(Amounts in thousands, except per share data)

	2014 RMB	For the five years ended 31 December			
		2013 RMB	2012 RMB	2011 RMB (Note2)	2010 RMB (Note1&2)
<b>Results</b>					
Revenue from telecommunications infrastructure services	<b>34,008,077</b>	32,036,241	28,413,360	25,377,847	21,881,864
Revenue from business process outsourcing services	<b>31,215,423</b>	29,011,577	26,304,137	22,325,184	18,508,424
Revenue from applications, content and other services	<b>7,952,752</b>	7,411,278	6,799,878	6,077,096	5,272,263
<b>Total Revenues</b>	<b>73,176,252</b>	68,459,096	61,517,375	53,780,127	45,662,551
Depreciation and amortization	<b>(450,741)</b>	(462,103)	(439,095)	(430,290)	(397,591)
Direct personnel costs	<b>(8,892,965)</b>	(9,251,872)	(9,229,460)	(8,517,004)	(7,502,935)
Purchase of materials and telecommunications products	<b>(20,190,921)</b>	(19,804,087)	(17,645,654)	(16,253,237)	(13,560,958)
Subcontracting charges	<b>(25,763,190)</b>	(21,873,785)	(18,447,867)	(14,528,052)	(11,887,623)
Operating lease charges and others	<b>(7,196,732)</b>	(6,689,260)	(5,969,932)	(5,470,054)	(4,854,272)
<b>Cost of revenues</b>	<b>(62,494,549)</b>	(58,081,107)	(51,732,008)	(45,198,637)	(38,203,379)
<b>Gross profit</b>	<b>10,681,703</b>	10,377,989	9,785,367	8,581,490	7,459,172
Other operating income	<b>805,579</b>	802,216	851,336	684,821	631,825
Selling, general and administrative expenses	<b>(8,777,028)</b>	(8,288,163)	(7,514,881)	(6,464,571)	(5,674,824)
Other operating expenses	<b>(84,638)</b>	(116,624)	(69,258)	(64,408)	(71,983)
Finance costs	<b>(20,430)</b>	(11,232)	(26,030)	(64,556)	(57,803)
Share of profits of associates	<b>25,700</b>	14,315	4,844	(2,600)	3,126
<b>Profit before tax</b>	<b>2,630,886</b>	2,778,501	3,031,378	2,670,176	2,289,513
Income tax	<b>(463,088)</b>	(493,121)	(585,514)	(538,778)	(461,750)
<b>Profit for the year</b>	<b>2,167,798</b>	2,285,380	2,445,864	2,131,398	1,827,763
<b>Attributable to:</b>					
Equity shareholders of the Company	<b>2,150,258</b>	2,238,351	2,406,792	2,129,212	1,820,506
Non-controlling interests	<b>17,540</b>	47,029	39,072	2,186	7,257
<b>Profit for the year</b>	<b>2,167,798</b>	2,285,380	2,445,864	2,131,398	1,827,763
<b>Basic and diluted earnings per share (RMB)</b>	<b>0.310</b>	0.323	0.353	0.358	0.306

## FINANCIAL SUMMARY

(Amounts in thousands, except per share data)

	2014 RMB	At 31 December			
		2013 RMB	2012 RMB	2011 RMB (Note2)	2010 RMB (Note1&2)
<b>Financial position</b>					
Property, plant and equipment, net	<b>4,538,844</b>	4,686,953	4,517,754	4,495,582	4,223,420
Other non-current assets	<b>4,014,077</b>	3,408,183	3,306,161	3,093,541	3,012,928
Inventories	<b>2,420,898</b>	2,228,214	1,894,825	1,705,641	1,839,009
Accounts and bills receivable, net	<b>27,441,198</b>	25,428,055	21,321,955	17,323,211	12,943,390
Prepayments and other current assets	<b>5,833,187</b>	5,027,405	4,773,469	4,636,968	3,975,362
Cash and cash equivalents	<b>7,313,515</b>	6,760,237	8,879,491	7,380,435	8,570,349
Restricted deposits	<b>1,199,411</b>	712,259	266,979	320,039	269,099
<b>Total assets</b>	<b>52,761,130</b>	48,251,306	44,960,634	38,955,417	34,833,557
Interest-bearing borrowings	<b>246,818</b>	53,901	409,805	998,335	1,780,523
Accounts and bills payable	<b>18,815,568</b>	17,080,784	14,843,934	12,780,549	9,809,836
Receipts in advance for contract work	<b>1,578,088</b>	1,164,029	1,386,805	1,166,285	1,089,174
Accrued expenses and other payables	<b>7,424,966</b>	7,126,497	6,763,252	6,853,292	6,597,266
Income tax payable	<b>312,796</b>	315,222	309,761	305,717	285,618
Non-current liabilities	<b>839,707</b>	222,851	244,918	215,015	54,333
<b>Total liabilities</b>	<b>29,217,943</b>	25,963,284	23,958,475	22,319,193	19,616,750
Equity attributable to equity shareholders of the Company	<b>23,029,873</b>	21,772,763	20,502,739	16,284,108	14,864,494
Non-controlling interests	<b>513,314</b>	515,259	499,420	352,116	352,313
<b>Total equity</b>	<b>23,543,187</b>	22,288,022	21,002,159	16,636,224	15,216,807
<b>Total liabilities and equity</b>	<b>52,761,130</b>	48,251,306	44,960,634	38,955,417	34,833,557

Note 1: As a result of the amendment to IFRS 1, the Group has retrospectively adjusted the amounts reported for previous periods in the respective IFRS financial statements to be consistent with the retrospective recognition of property, plant and equipment, investment properties, lease prepayment, other intangible assets and other investments assumed during the Restructuring and acquired during the acquisition of Target Business at their deemed cost in the respective first IFRS financial statements based on the results of valuations, with consequential adjustments for depreciation and amortisation charged in subsequent periods.

Note 2: On 30 June 2012 and 26 July 2012, the Group acquired the Target Interests and SBSS from CTC. Since the Group, the Target Interests and SBSS are under common control of CTC, the Target Interests and SBSS have been accounted for as a combination of entities under common control in manner similar to pooling-of-interests. Accordingly, the assets and liabilities of the Target Interests and SBSS have been accounted for at historical costs and the consolidated financial statements of the Company prior to the acquisition of the Target Interests and SBSS have been restated to include the results of operations and assets and liabilities of the Target Interests and SBSS on a combined basis. Our financial summary from 2010 to 2011 have been restated to include the results and financial condition of the Target Interests and SBSS in the relevant period.



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