中国通信服务
CHINA COMSERVICE

China Communications Services Corporation Limited

Stock code : 552

Value-Driven
Leading **SUSTAINABLE** »
Innovative Development

Annual Report 2015

DIVERSIFIED
Businesses and Customers »

Concept of Design

Featured by arrows, this design presents the readers with China Comservice's philosophies of "value-driven, diversified development and sustainable advancement" through the organic combination of "dots" and "lines". This design draws inspiration from the logo of the Company and selects six dots out of the original nine dots, representing the three key business segments and three key customer groups of the Company, respectively. It enables the readers to associate it with China Comservice while sufficiently construing the Company's positioning as an integrated services provider for the informatization sector. The six closely interconnected dots represent the integrated service model of the Company while embedding the win-win and synergy directed ideologies. Two sets of orderly organized arrows, made up by evenly distributed dots connected by lines, pointing to the right, metaphor the endless extension of telecommunications network and symbolize the visions of the Company to fully leverage on the advantages of service diversification while marching forward as the time passes by as well as pioneering and innovating, thus achieving continuous, steady and healthy development.

Profit Attributable to Equity Shareholders:
2,334
(RMB million)
+8.6%

Revenues:
80,960
(RMB million)
+10.6%

Free Cash Flow:
3,573
(RMB million)
+328.8%

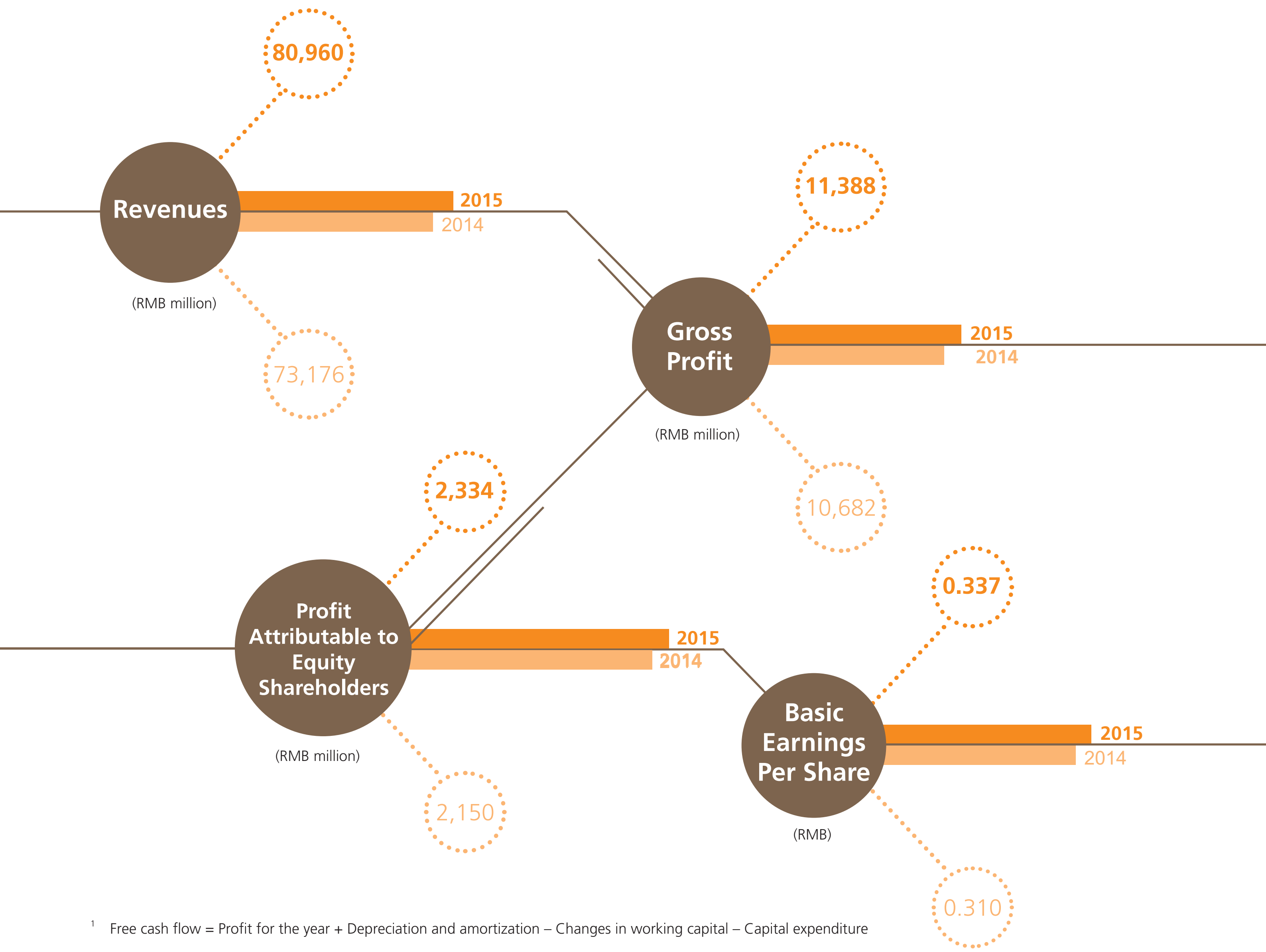
Dividend per Share:
0.1112
(RMB)
+19.4%

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

CONTENTS

FINANCIAL HIGHLIGHTS

	2014	2015	Change
Revenues (RMB million)	73,176	**80,960**	10.6%
Gross profit (RMB million)	10,682	**11,388**	6.6%
Profit attributable to equity shareholders (RMB million)	2,150	**2,334**	8.6%
Basic earnings per share (RMB)	0.310	**0.337**	8.6%
Free cash flow[1] (RMB million)	833	**3,573**	328.8%
Final dividend per share (RMB)	0.0931	**0.1011**	8.6%
Special dividend per share (RMB)	—	**0.0101**	—
Total dividend per share (RMB)	0.0931	**0.1112**	19.4%



[1] 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 informatization sector in the PRC, in commitment of "building world-class networks for the informatization services", providing integrated support services in the informatization 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 and China Tower Corporation Limited 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 2015, the aggregate share capital of the Company was 6,926,018,400, of which 2,391,420,240 were H shares.

In 2015, the Company ranked 78th in the "2015 FORTUNE China 500" and awarded "The Best Risk Management Company" in the first list of "Best Listed Companies" released by *Fortune China*. The Company was honoured the "Leadership 100 Awards in 2015" by *International Finance Magazine,* a British financial magazine. The Company received "Best CFO" award at the 5th "Asian Excellence Recognition Awards 2015", and won "The Best of Asia — Icon on Corporate Governance" award again at the 11th "Corporate Governance Asia Recognition Awards in 2015" by *Corporate Governance Asia*. The Company was also recognised as "The Best Listed Company in Corporate Governance" by *Tai Kung Pao* at the 5th 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. Siu Wai Keung, Francis
Mr. Lv Tingjie
Mr. Wu Taishi

BOARD COMMITTEES

Audit Committee

Mr. Siu Wai Keung, Francis
(Committee Chairman)
Mr. Zhao Chunjun
Mr. Lv Tingjie

Remuneration Committee

Mr. Siu Wai Keung, Francis
(Committee Chairman)
Mr. Lv Tingjie
Mr. Wu Taishi

Nomination Committee

Mr. Zhao Chunjun
(Committee Chairman)
Mr. Lv Tingjie
Mr. Wu Taishi

Non-Competition Undertaking Review Committee

Mr. Lv Tingjie
(Committee Chairman)
Mr. Zhao Chunjun
Mr. Wu Taishi

Right of First Refusal and Priority Right Committee

Mr. Zhao Chunjun
(Committee Chairman)
Mr. Wang Jun
Mr. Siu Wai Keung, Francis

SUPERVISORY COMMITTEE

Ms. Han Fang
(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

LEGAL REPRESENTATIVE

Mr. Sun Kangmin

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Mr. Chung Wai Cheung, Terence

INTERNATIONAL AUDITORS

Deloitte Touche Tohmatsu

LEGAL ADVISORS

Freshfields Bruckhaus Deringer
King & Wood Mallesons

REGISTERED OFFICE

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

BUSINESS ADDRESS

No. 19 Chaoyangmen Beidajie
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

Telephone: (852) 3699 0000
Facsimile: (852) 3699 0120
Address: Room 3203–3205
32/F, Great Eagle Centre
23 Harbour Road
Wanchai
Hong Kong
Email: ir@chinaccs.com.hk

Office of Board of Directors

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

WEBSITE

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.

MILESTONES

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..

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.

MILESTONES

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 Furong 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.

MILESTONES

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.

APRIL

The Company was awarded "5A" logistics qualification certificate by China Federation of Logistic & Purchasing and became the only enterprise with such qualification in the domestic telecommunications industry.

JULY

The Company established China Comservice Supply Chain Management Company Ltd.

DECEMBER

The Company attended 2015 China-Africa Forum, organized "China-Africa ICT Partnership Forum" in South Africa and facilitated the signing of the *Memorandum of Understanding on the Joint Partnership and Cooperation on the Acceleration of Development of Infrastructure for Information and Communications Technologies in East Africa* among Ministry of Industry and Information Technology of PRC, International Telecommunication Union and Ministry of Communications of five East African countries.

Telecommunications Infrastructure Services

Overseas Customers

6.4% *

Domestic Telecommunications Operator Customers

80.7% *

Domestic Non-operator Customers

12.9% *

* representing the proportion of revenue from the respective customer in the Telecommunications Infrastructure services

CHAIRMAN'S STATEMENT

Sun Kangmin
Chairman

In 2015, the Group upheld the management philosophy of "value-driven, seeking steady yet progressive growth and efficient development". We firmly captured the opportunities in the domestic telecommunications operator market, continued to focus on the development of the two new markets — domestic non-operator market and overseas market, and achieved remarkable operating results and a gradual enhancement in corporate value.

Dear Shareholders,

In 2015, facing the complicated and ever-changing economic landscape, the Group upheld the management philosophy of "value-driven, seeking steady yet progressive growth and efficient development". We firmly captured the opportunities such as 4G network construction and optimization of the quality and speed of broadband in the domestic telecommunications operator market, continued to focus on the development of the two new markets — domestic non-operator market and overseas market, and achieved synchronous growth in revenue and profit with free cash flow increased substantially to a historical high, which shows a gradual enhancement in corporate value. In consideration of the outstanding performance of the Group, the Board has proposed to distribute a special dividend for 2015 to enhance shareholders' return.

CHAIRMAN'S STATEMENT

ENHANCEMENT IN OPERATING PERFORMANCE

In 2015, the Group recorded total revenues of RMB80,960 million, representing a year-on-year growth of 10.6%. Profit attributable to equity shareholders of the Company amounted to RMB2,334 million, representing a year-on-year growth of 8.6%. The gap between growth in revenue and profit was narrowed down. The cash conversion ratio[1] was 2.0, representing an increase of 1.7 times compared to the corresponding period last year and showing a substantial improvement in the quality of profit. Free cash flow[2] was RMB3,573 million, reaching a historical high. The overall improvement in operating efficiency and sufficient funding resources provided strong endogenous power for the subsequent development of the Group.

INCREASE IN DIVIDEND DISTRIBUTION

The Board has proposed to distribute a final dividend of RMB0.1011 per share for the financial year ended 31 December 2015, representing a dividend payout ratio of 30%. Moreover, in view of the Group's outstanding operating results and free cash flow for the year and its confidence in future development, the Board has proposed to distribute a special dividend of RMB0.0101 per share for 2015. Taking into consideration the above factors, the Company's total dividend for 2015 is RMB0.1112 per share, representing a year-on-year growth of 19.4%.

INNOVATIVE DEVELOPMENT

In 2015, the Group adhered to its diversification strategy in customer base, business scope and regional presence, continued to expand into new areas, optimize its business structure and enhance its quality of development.

The Group has leveraged on both "CAPEX and OPEX-driven" businesses[3] as the dual growth drivers to accelerate the development of domestic telecommunications operator market. The Group captured the vital opportunities of LTE FDD license issuance, upgrade and capacity expansion of telecommunications backbone network, broadband end-to-end speed upgrade and realized a year-on-year revenue growth of 16.3% from domestic telecommunications operator customers[4], accounted for 67.7% of total revenues and represented an increase of 3.3 percentage points compared to the corresponding period of last year. Meanwhile, the Group reinforced its efforts in expanding the OPEX-driven business, and its network maintenance revenue from domestic telecommunications operator customers increased by 17.9% year-on-year, which maintained a favourable growth trend and optimized the overall revenue structure. The Group fully capitalized on the preferential treatment and non-competition arrangements with China Tower Corporation Limited (the "Tower Company") and proactively undertook businesses from the Tower Company. The Tower Company was the second largest contributor to the Group's revenue increase among the overall incremental revenue from all customers (the largest contributor was China Telecom).

1 Cash conversion ratio = net cash generated from operating activities/profit attributable to equity shareholders of the Company

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

3 CAPEX and OPEX refer to the capital expenditure and operating expenditure of domestic telecommunications operators, respectively.

4 From 2015 onwards, the revenue from China Tower Corporation Limited is classified under the aggregate revenues of domestic telecommunications operator customers.

CHAIRMAN'S STATEMENT

The Group has expanded into the two new markets in a steady yet optimized manner. Revenue from domestic non-operator market for the year recorded a year-on-year growth of 3.0%, and accounted for 28.3% of total revenues. Among that, revenue from key businesses[5] exceeded RMB10 billion, representing a double-digit growth and accounted for more than 50% of the revenue from domestic non-operator market. Meanwhile, the Group took the initiative to reallocate its resources in overseas market and continued to optimize business structure, in pursuit of steady development in overseas market. Revenue from overseas market accounted for 4.0% of total revenues. The Group also utilized various financial instruments, such as accounts receivable factoring and forward foreign exchange rate lock-in to hedge against overseas funding and exchange rate risk. The Group closely monitored opportunities from national "One Belt, One Road" Initiative, proactively mapped out a plan for overseas development, initiated and promoted its "China-Africa Partnership Program in Trans Africa Information Superhighway" Project, which has become a key Sino-foreign cooperative project supported by the PRC government.

DEEPENING REFORM

In 2015, the Group kept making new attempts in organizational optimization, professional integration and mixed ownership scheme reform to enhance vitality and capability, so as to adapt to the changing demands of markets and customers. The Group set up Inner Mongolia Autonomous Region Communications Services Company Limited to further enhance its marketing and delivery capability in the domestic telecommunications operator market in northern China. The Group established the sales and marketing mechanism for domestic non-operator market which further enhanced its capability in market expansion. In 2015, the Group received the "5A" logistics qualification certificate, being the only enterprise in the domestic telecommunications industry which has obtained such certificate, and set up and operated China Comservice Supply Chain Management Company Ltd., which represented a promising start for the synergistic operation of high value business. The Group has fostered internal mixed ownership scheme reform and proactively explored the practicability of the establishment of joint ventures as a non-controlling shareholder, project-based operation and start-up businesses by way of team work. Meanwhile, the Group incentivized and retained core employees by setting up a remuneration allocation system with reference to prevailing market rates.

FULFILLING SOCIAL RESPONSIBILITIES

In 2015, the Group attached much importance to fulfilling its social responsibilities. After the natural disasters occurred in Tibet, Zhejiang, Fujian and other places, the Group proactively assisted local telecommunications operator customers and promptly repaired and restored communications lines to ensure a smooth communications network. Further to our own reduction of integrated energy consumption, we strengthened our energy consumption control, continuously promoted energy saving products and services, and assisted the domestic telecommunications operator customers to dispose redundant and obsolete assets for cost saving. The Group cares about its employees and procured additional production equipment and daily necessities for front-line employees, with a view to effectively resolve practical problems encountered by the employees and improve the work environment of front-line production.

STRENGTHENING CORPORATE GOVERNANCE

The Group has placed great emphasis on maintaining sound corporate governance standard, attached much importance to risk management and continuously enhanced its transparency. We continue to improve our systems and procedures, strengthen internal review so as to enhance fundamental management, and upgrade the IT system to enhance operation efficiency. At the same time, we make use of the regular communication mechanism of the Board to proactively listen to and adopt the advice and recommendations from the independent non-executive directors, so as to enhance the management of the Group.

Mr. Si Furong, our President, was honoured the "Leadership 100 Awards in 2015" by *International Finance Magazine,* a British financial magazine. Ms. Hou Rui, our Chief Financial Officer, received the "Best CFO" award in the 5th Asian Excellence Recognition Awards 2015 by *Corporate Governance Asia*, an authoritative journal on corporate governance in Asia.

5 Key businesses of domestic non-operator market are Telecommunications Infrastructure Services, key businesses within the Business Process Outsourcing Services (including network maintenance, general facilities management and supply chain services of distribution business), and Applications, Content and Other Services.

CHAIRMAN'S STATEMENT

The Group was also honoured "The Best Listed Company in Corporate Governance" in the 5th China Securities "Golden Bauhinia Awards" hosted by *Tai Kung Pao*, "The Best of Asia — Icon on Corporate Governance" once again in the 11th "Corporate Governance Asia Recognition Awards in 2015" held by the *Corporate Governance Asia*, and was recognized as "The Best Risk Management Company" by *FORTUNE China* in their first list of Best Listed Companies. The Group ranked 78th in the "2015 FORTUNE China 500" list released by *FORTUNE China* (ranked 82nd in 2014).

PROSPECTS

Although we are facing challenges arising from the slow down in macro-economic growth, slow growth in the communications sector, decrease in service charges for certain services and changes in regulatory policies, our future development is still promising. The PRC government is accelerating the supply-side structural reform which is going to unleash the benefits of reform gradually and bring new momentum for corporate development. The PRC government's initiatives of Cyberpower, Broadband China, Internet+, "One Belt, One Road" and Infrastructure Construction in New Form are offering enormous space for business development. The domestic telecommunications operators' 4G network optimization and construction, broadband network upgrade in quality and speed, continuous growth in OPEX and ongoing demands in maintenance outsourcing, acquisition of tower asset of domestic telecommunications operators by the Tower Company, as well as new cooperation relationship among operators, will all provide new opportunities for our market expansion.

The Group will adhere to its existing strategies and build on the continuous success it has achieved in the diversification of its customer base, business scope and regional presence, and continue to explore new market space and cultivate new growth momentum. The Group will focus on the development of high value businesses and pursue scale development of the two new markets — domestic non-operator market and overseas market with the support of product and services innovation, and professional integration. We will focus on the development of both "CAPEX and OPEX-driven" businesses and accelerate the expansion of OPEX-driven business to make it our fundamental business, with a view to strengthening our leading position in the domestic telecommunications operator market. The Group will apply new technology to traditional services for cross-sector service provision and strive to strengthen integrated service delivery capabilities for the entire industrial chain. The Group will optimize its operation and management system to achieve further innovation in establishing mechanisms adaptable to corporate development. With the continuous efforts in cultivating new growth momentum, the Group will achieve continuous and stable development, and create greater value for its shareholders and customers.

Finally, on behalf of the Board, I would like to take this opportunity to express my sincere gratitude to the shareholders and customers of the Group and all sectors of society for their longstanding care and support to the Group, and sincerely thank all the employees for their dedication over the years. And I would like to express my sincere gratefulness to Mr. Wei Leping, a former Independent Non-executive Director, as well as Ms. Xia Jianghua, the former Chairperson of the Supervisory Committee, for their contribution to the development of the Group during their tenure. I would also like to express my sincere welcome to Mr. Lv Tingjie and Mr. Wu Taishi for joining the Board and Ms. Han Fang for joining the Supervisory Committee.

Sun Kangmin
Chairman

Beijing, PRC
31 March 2016

PRESIDENT'S STATEMENT

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

Si Furong
President

Dear Shareholders,

I am very pleased to present the operating results of the Group in 2015.

FINANCIAL PERFORMANCE

In 2015, the Group pursued development with full confidence and achieved scale development through value enhancement. Total revenues exceeded RMB80 billion and reached RMB80,960 million, representing a year-on-year growth of 10.6%. The Group leveraged on its edge of integrated service capability, kept enhancing service quality and customer satisfaction, and effectively preserved value in its business. The overall gross profit margin in 2015 was 14.1%, indicating a moderate slow down of the decrease in gross profit margin[1]. Benefited from the economies of scale in business development and effective cost

[1] For 2013, 2014 and 2015, the decrease in gross profit margin compared to the corresponding period of previous year was 0.7 percentage point, 0.6 percentage point and 0.5 percentage point, respectively.

PRESIDENT'S STATEMENT

control, the selling, general and administrative expenses for the year accounted for 11.5% of total revenues, representing a year-on-year decrease of 0.5 percentage point. Profit attributable to equity shareholders of the Company amounted to RMB2,334 million, representing a year-on-year increase of 8.6%. Net profit margin was 2.9% which remained stable compared to the corresponding period of last year. In 2015, the basic earnings per share of the Group was RMB0.337. We emphasized the "value-driven" appraisal principle and continued to enhance our effective management of accounts receivable, and the accounts receivable turnover days was 124 days, representing a year-on-year decrease of 8 days. Our free cash flow increased substantially to RMB3,573 million, representing a year-on-year increase of 328.8% and reached a historical high.

BUSINESS DEVELOPMENT

In 2015, the overall business structure of the Group was further optimized. Telecommunications infrastructure ("TIS") services, our traditional service with sound competitive edge, achieved satisfactory development and recorded a year-on-year increase of 15.3%. The network maintenance business under the business process outsourcing ("BPO") services achieved rapid development and grew by 19.8%, which accounted for 20.7% of the Group's incremental revenues and continued to be the second largest contributor to the Group's overall incremental revenues for two consecutive years. Revenue from applications, content and other ("ACO") services also maintained favourable growth with a year-on-year increase of 9.9%.

Revenue from TIS services amounted to RMB39,209 million, representing a year-on-year growth of 15.3% and accounted for 48.4% of the total revenues. Among that, the revenue of TIS services from China Telecom recorded a rapid year-on-year growth of 33.7%. Besides, revenue of TIS services from domestic telecommunications operator customers other than China Telecom remained relatively stable as the Group innovated its traditional sales and marketing model, fully captured the new business opportunities from the Tower Company and the new cooperation relationship and tender model of domestic telecommunications operator customers and increased its market share. The Group also continued to expand the domestic non-operator market, and TIS revenue from such customers recorded a year-on-year increase of 12.9%.

Revenue from BPO services amounted to RMB33,014 million, representing a year-on-year growth of 5.8% and accounted for 40.8% of the total revenues. The Group continued to optimize business structure and identified new drivers for future development while controlling the growth of businesses with low efficiency. The Group intensified its efforts in expanding network maintenance business and the revenue of such business grew by over 18% for two consecutive years. We leveraged on the opportunity of the establishment of China Comservice Supply Chain Management Ltd. to capitalize on the potential sub-business within the distribution business, and revenue from supply chain services[2] recorded a year-on-year growth of 10.9%.

Revenue from ACO services amounted to RMB8,737 million, representing a year-on-year growth of 9.9% and accounted for 10.8% of the total revenues. The Group focused on customers' demand in informatization services and dedicated in the promotion of six major group-level products[3], and revenue from the key businesses under ACO services[4] achieved a year-on-year growth of 9.5%. We took initiatives for innovation in the ACO segment and achieved breakthroughs in projects such as information security, e-commerce, big data and cloud computing, etc.

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

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

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

PRESIDENT'S STATEMENT

CUSTOMER DEVELOPMENT

In 2015, revenue from the domestic telecommunications operator customers amounted to RMB54,793 million, representing a year-on-year growth of 16.3% and accounted for 67.7% of the total revenues. Among that, the revenue from China Telecom was RMB39,130 million, representing a year-on-year growth of 22.5% and accounted for 48.3% of the total revenues. The Group's enlarged market share, its active expansion into the OPEX-driven business of domestic telecommunications operators and the revenue contribution from the Tower Company alleviated the impact of the decline in the network construction investment by certain operator customer. The revenue from operator customers other than China Telecom amounted to RMB15,663 million, representing a year-on-year growth of 3.3% and accounted for 19.4% of the total revenues.

In 2015, the revenue from the Group's domestic non-operator customers amounted to RMB22,942 million, representing a year-on-year growth of 3.0% and accounted for 28.3% of the total revenues. With a focus on key sectors such as government, transportation, internet and information technology, construction and property as well as electricity, the Group intensified its efforts in promoting the six major group-level products, such as the construction of data centres for a renowned PRC insurance company and other organizations, as well as turnkey projects on the informatization solution for Tangshan World Horticultural Exposition and other events. The Group cooperated with a top-tier domestic smart surveillance equipment provider and undertook 56 "smart security" projects with a total amount of RMB0.56 billion. We captured the business opportunities arising from the pioneer businesses and won the tender of a quantum communication demonstrative project with an amount of RMB50 million. We successfully provided overall network planning, restructuring, system commissioning and communications security for the communications network of the "Second World Internet Conference" held in Wuzhen, and received high recognition from the PRC government and operator customers.

In 2015, the revenue from the Group's overseas customers amounted to RMB3,225 million, representing a year-on-year decrease of 14.9% and accounted for 4.0% of the total revenues. We proactively reallocated our resources in overseas market, continued to optimize business structure of overseas market, and further increased the proportion of overseas revenue generated from turnkey projects. We closely monitored the national "One Belt, One Road" Initiative and the "10 Major Plans of Sino-African Cooperation", initiated and promoted the "China-Africa Partnership Program in Trans Africa Information Superhighway" Project to become a key Sino-foreign cooperative project supported by the PRC government, which offered a new opportunity for breakthrough in scale development in overseas business.

MANAGEMENT INNOVATION

In 2015, the Group continued to facilitate its development through effective management, and optimize resources allocation to enhance efficiency. We set up an innovation fund and a development fund for business expansion in the domestic non-operator market, with a view to allocate resources to businesses with high efficiency and cultivate new growth drivers for the Group. After the establishment of its supply chain management company, the Group actively explored professional integration among businesses including design, facilities management and proprietary distribution, and promoted synergistic operation of business and standardized services. We adopted various financial instruments in our conventional businesses, including accounts receivable factoring and supply chain financing, so as to accelerate the settlement of accounts receivable. We commenced our internal credit rating system, fully leveraged on our own funding pool for the allocation and utilization of funds, and promoted the efficiency of utilization of funds.

PRESIDENT'S STATEMENT

PROSPECTS

In 2016, the Group will adhere to the core principle of enhancing enterprise value, place stronger emphasis on "Optimizing Structure, Sustaining Growth and Enhancing Efficiency", achieve innovation in market development and strengthen cost control, with a view to creating greater value for shareholders and customers.

The Group will firmly leverage on the opportunities such as the construction and optimization of 4G network as well as the upgrade of broadband network, so as to lay a solid foundation for its operation. Meanwhile, we will focus on the operating expenditure of the domestic telecommunications operator customers and devote in the expansion in high value businesses such as integrated maintenance and logistics services, with a view to cultivate new growth momentum. We will leverage on the new cooperation relationship between the domestic telecommunications operator customers and capitalize on the preferential and non-competition arrangements with the Tower Company, strive to enhance our delivery capacity, service quality and service standard, so as to maintain existing competitive advantages and further enlarge our market share.

In respect of our domestic non-operator market, we will keep abreast of the pace of investment by the PRC government and focus on the informatization demand from customers in key sectors including government, transportation, electricity and construction. We will adhere to our "three-step"[5] strategy, focus on opportunities of mobile internet, cloud computing, big data, internet of things and industrial internet of things, promote our six major group-level products and continue to acquire high value large turnkey projects. We will intensify our efforts in strengthening our marketing and collaboration mechanism to enhance our capability in market expansion and project delivery, and also pursue innovation in group-level products and external cooperation to enhance our market competitiveness.

The Group will focus on the informatization demands in regions such as Africa, the Middle East and South East Asia, and strengthen its cooperation with domestic telecommunications operators, "Going Abroad" state-owned enterprises, local governments and equipment vendors to embark on large scale "EPC+" projects. We will closely monitor the implementation of the "One Belt, One Road" Initiative and capture the opportunity arising from our "China-Africa Partnership Program in Trans Africa Information Superhighway" Project and accelerate our market expansion, with a view to excel and strengthen our overseas operation.

The Group will continue to promote reform and innovation, accelerate professional integration of logistics, facilities management and retail outlets, unify its brand and business model, so as to realize synergistic business operation. We will apply new technologies to our traditional businesses and continue to extend our service scope to enhance capability in integrated service provision. We will explore the utilization of government and social funds for market expansion. We will also explore mixed ownership and project-based joint ventures to achieve breakthroughs in the business segment such as ACO. At the same time, we will continue to promote sub-divided performance evaluation units and establish market-oriented employment and remuneration mechanism, with a view to incentivize organization vitality and employee initiatives.

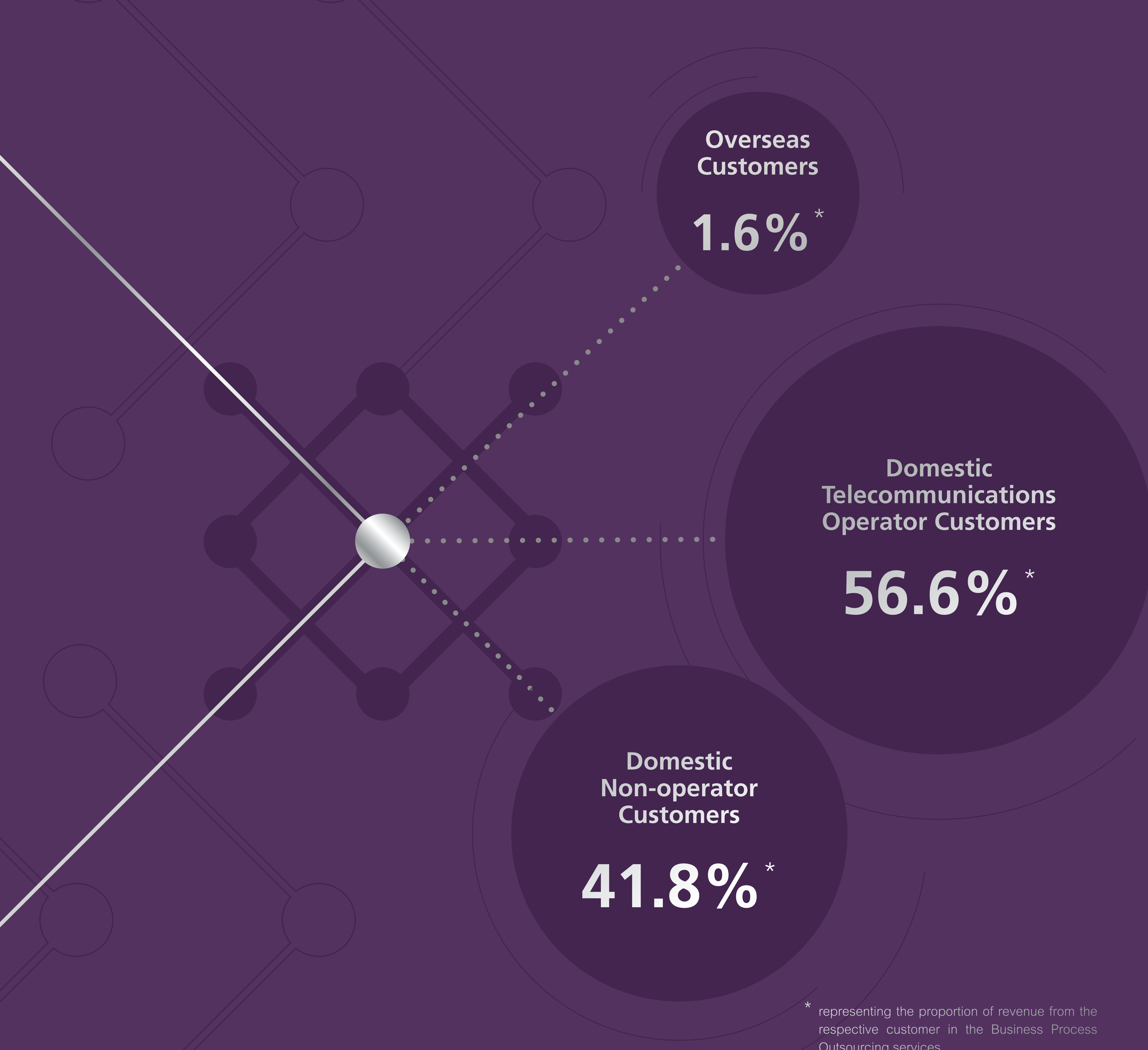
The Group will always assume the responsibilities of enhancing corporate value and shareholders' return by leveraging on its advantages, capitalizing on opportunities and promoting innovative development, with a view to becoming a competitive and influential service provider in the global ICT sector.

Si Furong
President

Beijing, PRC
31 March 2016

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

Business Process Outsourcing Services

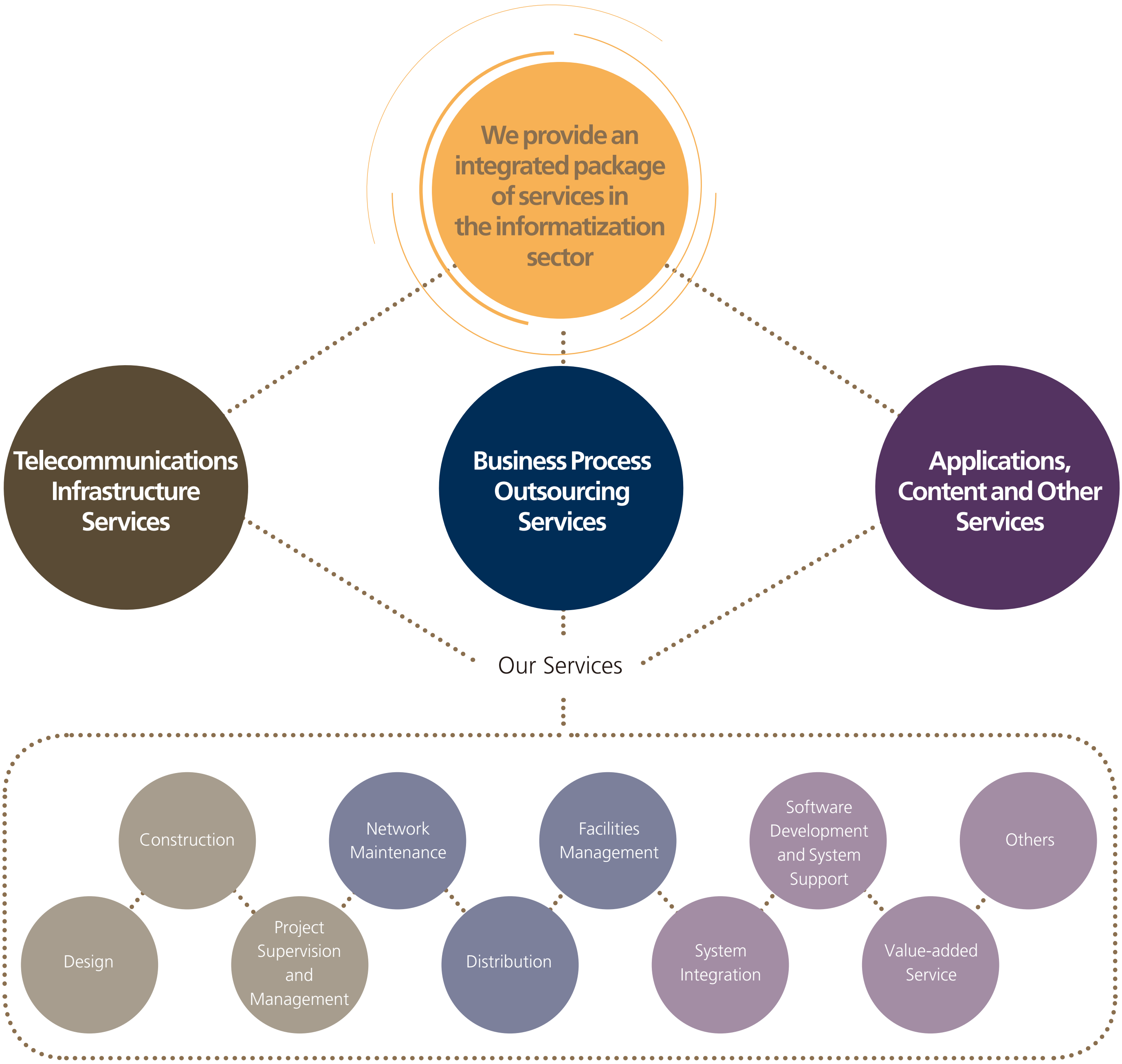


* representing the proportion of revenue from the respective customer in the Business Process Outsourcing services

BUSINESS OVERVIEW

The Group is a leading service provider in the PRC that provides integrated support services in the informatization 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 as well as government agencies, industrial customers and small-and-medium enterprises ("SMEs").

The Group's business spans across China and dozens of countries and regions globally, with overseas customers mainly located in Africa, the Middle East and Southeast Asia.



BUSINESS OVERVIEW

(In RMB million except percentages)	**2015** Revenue	**2015** Percentage to total revenues	2014 Revenue	2014 Percentage to total revenues	Changes over 2014
Domestic telecommunications operator customers	**54,793**	**67.7%**	47,117	64.4%	16.3%
Domestic non-operator customers	**22,942**	**28.3%**	22,269	30.4%	3.0%
Overseas customers	**3,225**	**4.0%**	3,790	5.2%	–14.9%
Total	**80,960**	**100.0%**	73,176	100.0%	10.6%

MARKET EXPANSION

In 2015, the Group adhered to the value-driven principle and continued to consolidate its development in the domestic telecommunications operator market. While capturing the opportunities arising from the domestic telecommunications operators on 4G construction and upgrade of fiber optic broadband network, the Group also focused on the OPEX-driven business of the domestic telecommunications operators. Meanwhile, the Group accelerated its expansion in the domestic non-operator market and proactively optimized and cultivated its overseas market. The results performance of the Group enhanced remarkably in 2015, with total revenues amounted to RMB80,960 million, representing a year-on-year growth of 10.6%.

The Group attended an overseas communications business exhibition

BUSINESS OVERVIEW

In 2015, the Group continued to follow the strategy to allocate resources adaptively in developing the three customer markets and firmly captured the opportunity of increasing investment by domestic telecommunications operators, which became the major contributor to our revenue growth. In 2015, revenue from domestic telecommunications operator customers (including China Tower Corporation Limited ("The Tower Company")) amounted to RMB54,793 million, representing a year-on-year increase of 16.3% and accounted for 67.7% of the total revenues. Revenue from domestic non-operator customers amounted to RMB22,942 million, representing an increase of 3.0% and accounted for 28.3% of the total revenues. Revenue from overseas customers amounted to RMB3,225 million, representing a decrease of 14.9% and accounted for 4.0% of the total revenues.

In 2015, the Group focused on the development of both "CAPEX and OPEX-driven" businesses[1]. Leveraged on the opportunities of LTE FDD license issuance, upgrading and capacity ramp-up of telecommunications backbone network and fiber optic broadband, the Group intensified its efforts in expanding the domestic telecommunications operator market. Of which, revenue from China Telecom amounted to RMB39,130 million, representing a year-on-year growth of 22.5% and accounted for 48.3% of the total revenues. China Telecom was the largest contributor to the incremental revenue. During the year, supported by the enlarged market share, proactive expansion in OPEX-driven business of the domestic telecommunications operators and the revenue contributions from the Tower Company, we overcame the impact from the decline of network construction investment of respective operator customer. Aggregate revenues from operator customers other than China Telecom maintained stable growth and amounted to RMB15,663 million, representing a year-on-year growth of 3.3% and accounted for 19.4% of the total revenues. The Tower Company became an important new customer and made obvious contribution to the revenue growth of the Group. The Group has strengthened its market expansion in the domestic telecommunications operator market in northern China and established Inner Mongolia Autonomous Region Telecommunications Services Company Limited, striving for enhancement in the revenue contribution from the northern region. In 2015, the Group made remarkable progress in the development of OPEX-driven business of domestic telecommunications operators, of which growth of maintenance business maintained approximately 18% for two consecutive years, showing a rapid and steady growth momentum.

In 2015, the Group proactively expanded the domestic non-operator customers market and achieved satisfactory results. Sales and marketing mechanism was initially established and overall revenue growth from such market remained stable. Among that, development of key businesses such as construction of informatization projects and data centres achieved satisfactory growth with further optimization in revenue structure, laying a solid foundation for subsequent development. The Group strengthened

The Group signed the cooperation agreement with the Tower Company

The Group obtained the award of excellent partner from the Tower Company

The Group undertook tower projects

[1] CAPEX and OPEX refer to the capital expenditure and operating expenditure of domestic telecommunications operators, respectively.

BUSINESS OVERVIEW

its promotion of the six major group-level products including smart city, smart security, smart industrial park, intelligent building, cloud computing construction services and e-certification, with a view to continuously enhancing the value of the projects. The Group has been devoted in the expansion of customers in sectors such as government, transportation, internet and information technology, construction and property, and electricity, and won certain high value projects, including overall integrated network planning, construction and commissioning for "Second World Internet Conference" in Wuzhen, highway informatization system development in Hunan Province, smart security project in Binjiang District of Zhejiang Province and construction of data centre for Tangshan World Horticultural Exposition. Currently, annual contracted revenue generated from customers in sectors such as government, transportation, electricity, construction and property sectors exceeded RMB1 billion.

In 2015, the Group proactively reallocated its resources in overseas market and continued to optimize business structure to improve the quality of revenue. Meanwhile, the Group reinforced its overseas risk management by utilizing various financial instruments, such as accounts receivable factoring and forward foreign exchange lock-up to hedge against overseas funding and exchange rate risks. The Group closely monitored national "One Belt, One Road" Initiative and the "10 Major Plans of Sino-African Cooperation", and organized "China-Africa ICT Partnership Forum" in South Africa and facilitated the signing of the Memorandum of Understanding on the Joint Partnership and Cooperation on the Acceleration of Development of Infrastructure for Information and Communications Technologies in East Africa among Ministry of Industry and Information Technology of PRC ("MIIT"), International Telecommunication Union ("ITU") and Ministry of Communications of five East African countries and proactively initiated and pushed ahead the "China-Africa Partnership Program in Trans Africa Information Superhighway" Project. This project has become a key Sino-foreign cooperative project supported by the PRC government and has been marked as the 2016 key project of MIIT.

The Group organized "China-Africa ICT Partnership Forum" in South Africa, initiated the "China-Africa Partnership Program in Trans Africa Information Superhighway" Project and facilitated the signing of the memorandum on cooperation among MIIT, ITU and Ministry of Communications of five East African countries

BUSINESS OVERVIEW

BUSINESS DEVELOPMENT

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. In 2015, revenue from telecommunications infrastructure services amounted to RMB39,209 million, representing a year-on-year growth of 15.3%.

The Group has the capabilities to provide worldwide telecommunications operators with comprehensive telecommunications infrastructure services including planning, design, construction and project supervision for fixed-line, mobile, broadband networks and supporting systems. In 2015, the Group fully supported the network construction of customers including the three major domestic telecommunications operators and the Tower Company and maintained our solid market leading position. In 2015, revenue of telecommunications infrastructure services from domestic telecommunications operator customers achieved a year-on-year growth of 19.1%.

The Group also provides construction services of ancillary communications networks, and integrated solutions for informatization and intelligent buildings to domestic non-operator customers, such as government agencies, financial institutions, broadcasting and television enterprises, construction enterprises, transportation and electricity sectors as well as overseas customers. The Group continuously achieves breakthroughs in the construction projects for smart city, intelligent building, data centre and electricity project. In 2015, revenue of telecommunications infrastructure services from domestic non-operator customers achieved a year-on-year growth of 12.9% and growth momentum has been strengthened gradually.

The Group firmly believes that, the construction of communications infrastructure network driven by "Cyberpower" and "Broadband China" strategies, the infrastructure construction of informatization system driven by big data, cloud computing and Internet+, the informatization business including "smart city" and "safe city" brought about by acceleration of national policies in urbanization and informatization, the new overseas opportunities brought about by "One Belt, One Road" initiative, and the demand from integrated construction and maintenance services from the Tower Company will altogether create new space for growth for the Group in the area of telecommunications infrastructure services.

The Group provided communication network consulting and design services to overseas clients


The Group undertook 4G network construction projects

BUSINESS OVERVIEW

Business Process Outsourcing Services

The Group is the largest integrated provider of business process outsourcing services in the communications industry in China. We kept extending our business scope along the communications business value chain, providing major services include management of infrastructure for information technology ("Network Maintenance"), distribution of telecommunications services and products ("Distribution") and general facilities management. The targets of our services include domestic and overseas telecommunications operator customers, government agencies and enterprises customers. In 2015, the Group focused on the OPEX-driven business of domestic telecommunications operators, and strengthened the synergistic operation and brand building of OPEX-driven business, whilst controlling the development of businesses with low efficiency. Revenue from business process outsourcing services amounted to RMB33,014 million, representing a year-on-year growth of 5.8%.

The Group undertook data centre project

Optical network restoration project

The Group provides Network Maintenance services for telecommunications operators covering fiber optic cables, electric cables, base stations, network equipment and user terminals. The market space of maintenance services continues to expand along with the growth of network scale, increasing volume of maintenance outsourcing business and new demands of maintenance business from domestic telecommunications operators. In 2015, the Group proactively undertook on-site integrated maintenance services from domestic telecommunications operators, facilitated the organization optimization of maintenance business and continuously improved efficiency and effectiveness. The Group realized revenue of RMB9,756 million from the Network Maintenance business, representing a rapid increase of 19.8%, and maintaining a growth rate of over 18% for two consecutive years and was the second largest contributor to the total incremental revenues.

BUSINESS OVERVIEW

The Distribution service of the Group includes telecommunications business marketing agency, basic logistics and value-added logistics, sale of telecommunications equipment, retail and distribution of mobile terminals. The customers comprised telecommunications operators, telecommunications equipment manufacturers, government agencies and SMEs. In 2015, the Group received the "5A" logistics qualification certificate from China Federation of Logistic & Purchasing, being the only enterprise in the domestic telecommunications industry which has obtained such certificate, and set up and operated China Comservice Supply Chain Management Company Ltd. It indicated a promising start for the synergistic operation of high value businesses and obtained relatively large market share from China Telecom's "E surfing" terminals logistic distribution business. In 2015, the Group adhered to the principle of "efficient development" to expand its Distribution business and to control the development of businesses with low efficiency. Revenue from Distribution business amounted to RMB19,489 million, representing a year-on-year decrease of 0.6%. Nonetheless, revenue from supply chain service, being the key Distribution businesses, achieved a growth of 10.9%.

The Group provides general facilities management services to domestic telecommunications operators and domestic non-operator customers for their data centres, cloud computing centres, commercial buildings, high-end residential buildings, high-speed railway stations and airports, including their property, equipment, assets and energy-saving management. The Group proactively promoted intelligent building and smart community, and is proactively building up brands for its business. In 2015, revenue from the general facilities management business of the Group was RMB3,769 million, representing a year-on-year growth of 8.6%.

The Group believes that the OPEX business of domestic telecommunications operators have enormous room and potential to grow, whilst the domestic non-operator customers also have strong demands in business process outsourcing services. The business process outsourcing business is characterized by high customer loyalty, low accounts receivable turnover days and good cash flow. The Group will further focus its resources on key business sectors for professional operation to realize scale and efficient development.

The Group's logistics park and motorcade

BUSINESS OVERVIEW

Applications, Content and Other Services

The Group provides system integration, software development and system support as well as value-added services to customers including domestic telecommunications operators, government, industrial customers and SMEs. In 2015, revenue from the applications, content and other services amounted to RMB8,737 million, representing a year-on-year increase of 9.9%.

In 2015, the Group reinforced the promotion of its competitive products and solutions including smart city, smart industrial park, e-certification and information security and achieved initial success in brand building of products.

The Group will accelerate product innovation and promotion by fully capitalizing on its existing products and customer base, intensifying efforts in research and external cooperation in key areas such as information security, internet of things and cloud computing, and enhancing the vitality and capabilities of professional subsidiaries and core staff members through innovation in mechanism. The Group will further strengthen the driving force of applications, content and other services on the telecommunications infrastructure services and business process outsourcing services, and pursue technology advancement and business innovation for the sustainable development of the Company.

The Group undertook the project of application platform for smart security command centre

The Group undertook informatization construction projects for customs

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

OVERVIEW

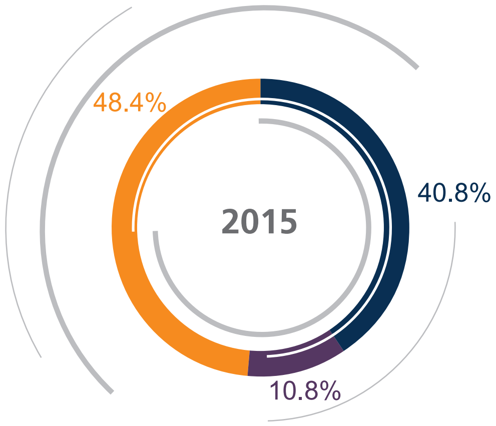
In 2015, the Group upheld the management philosophy of "value-driven, seeking steady yet progressive growth and efficient development", firmly captured the opportunities in the domestic telecommunications operator market for 4G network construction, optimization of broadband quality and speed, continued to focus on the two new markets — domestic non-operator market and overseas market, and achieved synchronal growth in revenue and profit. Total revenues for the year amounted to RMB80,960 million, representing an increase of 10.6% compared to 2014. Profit attributable to equity shareholders of the Company was RMB2,334 million, representing an increase of 8.6% compared to RMB2,150 million in 2014. Basic earnings per share were RMB0.337. Free cash flow amounted to RMB3,573 million, representing a substantial increase of 328.8% as compared to RMB833 million in the corresponding period last year.

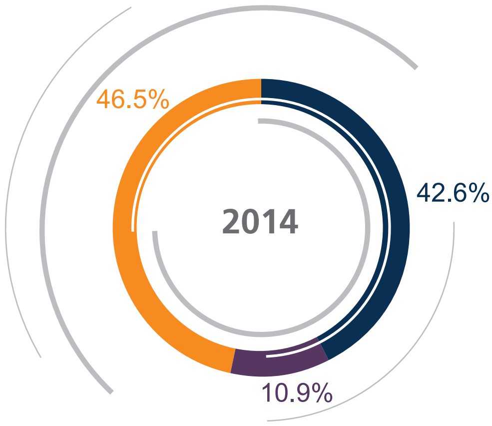
TOTAL REVENUES

The Group's total revenues in 2015 amounted to RMB80,960 million, representing an increase of 10.6% compared to 2014. Among our businesses, the revenue from telecommunications infrastructure ("TIS") services was RMB39,209 million, representing a year-on-year growth of 15.3%; the revenue from business process outsourcing ("BPO") services was RMB33,014 million, representing a year-on-year growth of 5.8%, the revenue from applications, content and other ("ACO") services was RMB8,737 million, representing a year-on-year growth of 9.9%. As to business structure, construction services, management of infrastructure for information technology ("Network Maintenance") and design services were the three major businesses that contributed to the Group's overall incremental revenues. As to customer structure, the revenue from the domestic telecommunications operators (including the Tower Company) in 2015 amounted to RMB54,793 million, representing a year-on-year growth of 16.3% and accounted for 67.7% of the total revenues. The aggregate revenues from the domestic non-operator customers and overseas customers amounted to RMB26,167 million, representing a year-on-year growth of 0.4%; accounted for 32.3% of the total revenues. In 2015, the Group adopted a market-oriented approach and allocated its resources adaptively to capture the opportunities from both the CAPEX investment after the issuance of 4G licenses and OPEX-driven business in the domestic telecommunications operator market. The Group achieved favourable business development in the domestic telecommunications operator market and the incremental revenue from such market accounted for 98.6% of the total incremental revenues, and this market was the major driving force of growth for the Group's total revenues.

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

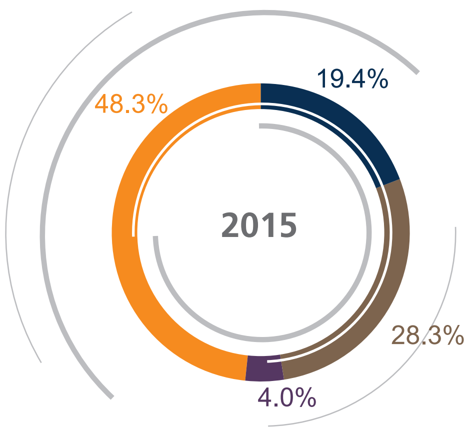
BUSINESS REVENUE MIX

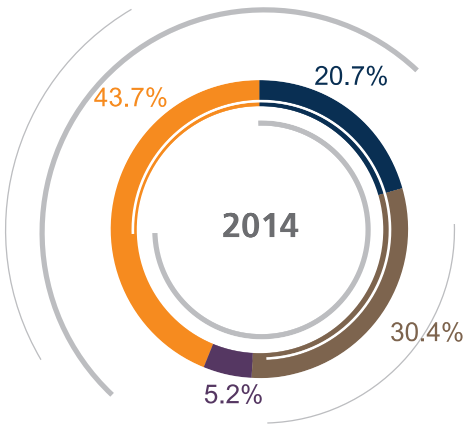




- Telecommunications Infrastructure Services
- Business Process Outsourcing Services
- Applications, Content and Other Services

CUSTOMER REVENUE MIX





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

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

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

	2015 RMB'000	2014 RMB'000	Percentage Change
Telecommunications Infrastructure Services			
Design services	7,638,658	6,664,097	14.6%
Construction services	28,783,754	24,875,087	15.7%
Project supervision and management services	2,786,855	2,468,893	12.9%
	39,209,267	34,008,077	15.3%
Business Process Outsourcing Services			
Management of infrastructure for information technology ("Network Maintenance")	9,755,886	8,146,213	19.8%
Distribution of telecommunications services and products ("Distribution")	19,489,410	19,599,256	–0.6%
General facilities management	3,768,734	3,469,954	8.6%
	33,014,030	31,215,423	5.8%
Applications, Content and Other Services			
System integration	3,916,704	3,574,294	9.6%
Software development and system support	1,493,757	1,447,777	3.2%
Value added services	1,497,005	1,285,250	16.5%
Others	1,829,183	1,645,431	11.2%
	8,736,649	7,952,752	9.9%
Total	80,959,946	73,176,252	10.6%

Telecommunications Infrastructure Services

In 2015, the Group's revenue from TIS services amounted to RMB39,209 million, representing an increase of 15.3% compared to RMB34,008 million in 2014. TIS services were the primary source of revenue and accounted for 48.4% of our total revenues, representing an increase of 1.9 percentage points from 46.5% in 2014. As to the customer structure of the TIS services, the Group's TIS revenue from the domestic telecommunications operator customers amounted to RMB31,624 million and accounted for 80.7% of the total TIS revenues, representing an increase of 2.6 percentage points from the corresponding period of last year. The aggregate TIS revenues from domestic non-operator customers and overseas customers amounted to RMB7,585 million and accounted for 19.3% of the total TIS revenues, representing a decrease of 2.6 percentage points from the corresponding period of last year.

In 2015, the Group firmly captured the opportunities arising from the domestic telecommunications operators' 4G network construction and upgrade on optic fiber broadband, the TIS revenue from domestic telecommunications operator customers increased by 19.1% over 2014. The aggregate TIS revenues from domestic non-operator customers and overseas customers increased by 1.7% over 2014, among which the TIS revenue from domestic non-operator customers recorded a year-on-year growth of 12.9%, showing an increasing growth momentum.

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

Business Process Outsourcing Services

In 2015, the Group's revenue from BPO services amounted to RMB33,014 million, representing an increase of 5.8% compared to RMB31,215 million in 2014. The revenue from BPO services accounted for 40.8% of the total revenues, representing a decrease of 1.8 percentage points from 42.6% in 2014. As to the customer structure of BPO services, the Group's BPO revenue from the domestic telecommunications operator customers amounted to RMB18,699 million, representing an increase of 12.8% compared to 2014, and accounted for 56.6% of the total BPO revenues, representing an increase of 3.5 percentage points from the corresponding period of last year. The aggregate BPO revenues from domestic non-operator customers and overseas customers amounted to RMB14,315 million, representing a decrease of 2.2% from 2014 and accounted for 43.4% of total BPO revenues, representing a decrease of 3.5 percentage points from the corresponding period of last year.

In 2015, the Group's revenue from Network Maintenance business amounted to RMB9,756 million, representing an increase of 19.8% compared to 2014. The Group focused and captured the opportunities arising from OPEX spending and continuous maintenance outsourcing from domestic telecommunications operators, and therefore Network Maintenance business achieved rapid growth of over 18% for two consecutive years and was the second largest contributor to total incremental revenues among all businesses. Besides, the Group's revenue from the Distribution business amounted to RMB19,489 million, representing a decrease of 0.6% compared to 2014, which was mainly attributable to the Group's principle of efficient development and proactively controlled the development of certain Distribution business with low efficiency. However, key businesses among the Distribution business, such as supply chain business, achieved favourable development with revenue amounted to RMB4,082 million, representing an increase of 10.9% compared to 2014. The Group's revenue from general facilities management amounted to RMB3,769 million, representing an increase of 8.6% compared to 2014, and maintaining favourable growth momentum.

Applications, Content and Other Services

In 2015, the Group's revenue from ACO services amounted to RMB8,737 million, representing an increase of 9.9% compared to RMB7,953 million in 2014. The revenue from ACO services accounted for 10.8% of the total revenues, which basically remained stable compared to 2014. As to the customer structure of ACO services, the Group's ACO revenue from domestic telecommunications operator customers amounted to RMB4,470 million and accounted for 51.2% of the total ACO revenues, representing an increase of 1.0 percentage point from the corresponding period of last year. Aggregate ACO revenues from domestic non-operator customers and overseas customers amounted to RMB4,267 million, and accounted for 48.8% of the total ACO revenues, representing a decrease of 1.0 percentage point from the corresponding period of last year.

In 2015, the Group continued to pursue innovative development and proactively capitalized on the domestic opportunities of "Internet +" and informatization construction. The Group has strengthened its resources integration and product development and continued to promote competitive products and solutions focusing on key areas such as industrial applications, mobile applications, cloud computing, big data and information securities. The Group's ACO revenue from domestic telecommunications operator customers increased by 12.1% over 2014, while aggregate ACO revenues from domestic non-operator customers and overseas customers increased by 7.6% over 2014.

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

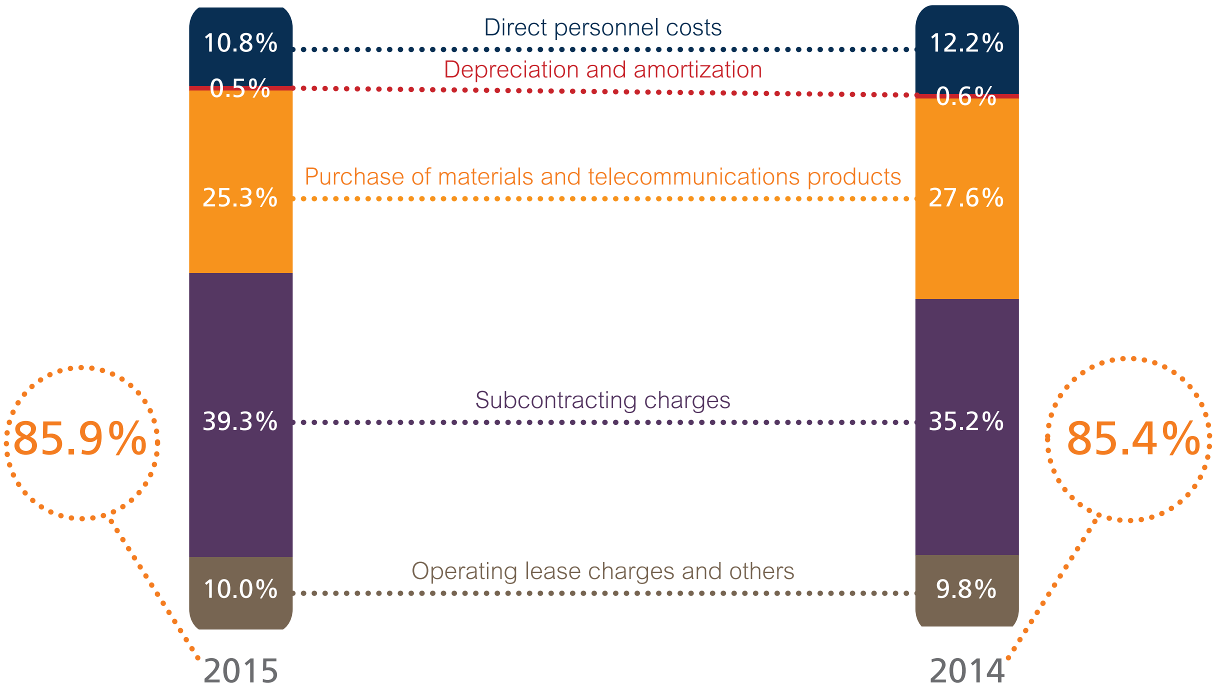
COST OF REVENUES

The Group's cost of revenues in 2015 was RMB69,572 million, representing an increase of 11.3% from 2014 and accounting for 85.9% of the total revenues.

The following table sets out a breakdown of the Group's cost of revenues in 2014 and 2015 and their respective changes:

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

COST OF REVENUES AS A % OF TOTAL REVENUES



Direct Personnel Costs

In 2015, direct personnel costs was RMB8,731 million, representing a decrease of 1.8% from RMB8,893 million in 2014. Direct personnel costs as a proportion to our total revenues was 10.8%, representing a decrease of 1.4 percentage points from 2014. With the growth in business volume in 2015, the Group consistently applied reasonable control over its total headcount and subcontracted its low-end businesses, and thereby minimized the staff costs. The Group also strictly complied with the newly-amended Labour Contract Law and employed dispatch workers in accordance with the relevant regulations to avoid related risks.

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

Depreciation and Amortisation

In 2015, depreciation and amortisation were RMB447 million, representing a decrease of 0.8% from RMB451 million in 2014. Depreciation and amortisation as a proportion to our total revenues was 0.5%, which remained generally stable compared to 2014.

Purchase of Materials and Telecommunications Products

In 2015, the cost of purchase of materials and telecommunications products was RMB20,453 million, representing an increase of 1.3% compared to RMB20,191 million in 2014. Purchase of materials and telecommunications products as a proportion to our total revenues was 25.3%, representing a decrease of 2.3 percentage points from 2014. Costs of materials and telecommunications products covers project materials related to infrastructure construction projects and costs for the procurement of products related to Distribution business. The decrease in the growth rate of costs of materials and telecommunications products from last year was mainly because the Group effectively controlled the development of certain low-end Distribution business, thus reducing the cost of relevant telecommunications products.

Subcontracting Charges

In 2015, subcontracting charges were RMB31,812 million, representing an increase of 23.5% compared to RMB25,763 million in 2014. Subcontracting charges as a proportion to our total revenues was 39.3%, representing an increase of 4.1 percentage points over 2014. The increase in subcontracting charges was mainly derived from the TIS services and Network Maintenance business. Having considered its strategic development, effectiveness and efficiency, the Group continued to focus on high-end businesses and outsource certain low-end tasks. Besides, as a result of the rapid growth in Network Maintenance business, which is labour-intensive in nature and demands for more subcontracts, subcontracting charges grew rapidly during the year. As the scale of the Group's business continued to expand, the engagement of subcontractors enabled a more flexible utilization of external resources for the Group, and at the same time will led to a more rapid growth in the Group's subcontracting charges.

Operating Lease Charges and Others

In 2015, operating lease charges and others were RMB8,129 million, representing an increase of 13.0% over RMB7,197 million in 2014. Operating lease charges and others as a proportion to our total revenues was 10.0%, representing an increase of 0.2 percentage point over 2014.

GROSS PROFIT

The Group achieved a gross profit of RMB11,388 million in 2015, representing an increase of 6.6% over RMB10,682 million in 2014. The Group's gross profit margin in 2015 was 14.1%, representing a decrease of 0.5 percentage point from 14.6% in 2014. In 2015, the decrease in gross profit margin of the Group was due to various factors, including the decrease in service charge in certain businesses, higher subcontracting charges, and low profit margin in the initial stage of expansion into new markets. At the same time, the Group also strived to optimize the business and customer structure and to control costs, thereby gross profit margin showed a moderate declining trend as compared to the previous years.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

The selling, general and administrative expenses of the Group in 2015 were RMB9,306 million, representing an increase of 6.0% compared to RMB8,777 million in 2014. Benefited from the economics of scale in business development and effective cost control, the selling, general and administrative expenses as a proportion of the total revenues was 11.5%, representing a decrease of 0.5 percentage point from 2014.

FINANCE COSTS

In 2015, the Group's finance costs were RMB51 million, representing an increase of 151.6% compared to RMB20 million in 2014. In the second half of 2014, the Group introduced a strategic investor for overseas business expansion. With the enhanced financial resources to support business development, finance costs also increased accordingly.

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

INCOME TAX

The income tax of the Group in 2015 was RMB487 million and our effective tax rate was 17.3%, representing a decrease of 0.3 percentage point from 17.6% of 2014. The difference between the Group's effective tax rate and the statutory tax rate was mainly due to the preferential income tax rate treatment enjoyed by certain subsidiaries, which are classified as new and high-technology enterprises, and the preferential policy of tax deduction before income tax for research and development expenses. In 2015, certain subsidiaries of the Group that fall under the scope of new and high-technology enterprises were entitled to a preferential income tax rate of 15%. Certain enterprises in the western parts of China were entitled to the preferential policies for Western Development Program. Apart from these subsidiaries, the Company and other domestic subsidiaries of the Group were mainly subject to an income tax rate of 25%. The overseas subsidiaries of the Group were subject to different tax rates in various countries.

PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY AND BASIC EARNINGS PER SHARE

In 2015, profit attributable to equity shareholders of the Company was RMB2,334 million, representing an increase of 8.6% over RMB2,150 million in 2014. Profit attributable to equity shareholders of the Company accounted for 2.9% of our total revenues, which remained stable compared to 2014. Basic earnings per share of the Company were RMB0.337 (2014: RMB0.310).

CAPITAL EXPENDITURE

The Group implemented stringent budget management over capital expenditure, and made adjustments according to changes in market condition. In 2015, capital expenditure amounted to RMB712 million, representing an increase of 10.2% over RMB646 million in 2014. The capital expenditure in 2015 accounted for 0.9% of the total revenues and remained relatively stable as compared to 2014. The capital expenditure of the Group included the purchases of production facilities and equipment, machinery and meters, plant and office buildings, intangible assets and other operating assets.

CASH FLOW

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

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

	2015 RMB'000	2014 RMB'000
Net cash generated from operating activities	4,687,811	1,608,854
Net cash used in investing activities	(1,686,164)	(876,674)
Net cash used in financing activities	(792,831)	(156,051)
Net increase in cash and cash equivalents	2,208,816	576,129

In 2015, net cash generated from operating activities was RMB4,688 million, representing an increase of RMB3,079 million from RMB1,609 million in 2014. The increase in net cash generated from operating activities was mainly attributable to the Group's "value-driven" principle and appraisal system, the strengthening of management of cash flow and accounts receivable, and effective accounts receivable settlement and collection work during the course of business expansion.

In 2015, net cash used in investing activities was RMB1,686 million, representing an increase of RMB809 million from RMB877 million in 2014 which were mainly term deposits for over three months.

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

In 2015, net cash used in financing activities was RMB793 million, representing an increase of RMB637 million from RMB156 million in 2014. The change in cash flow from financing activities was mainly due to the increase in debt financing from the introduction of strategic investor for overseas business expansion in 2014.

WORKING CAPITAL

As at the end of 2015, the Group's working capital (i.e. current assets net of current liabilities) was RMB17,580 million, increased by RMB1,750 million from RMB15,830 million in 2014. The increase in working capital was mainly due to the expansion of the Group's business and effective management of accounts receivable which led to an increase in cash.

INDEBTEDNESS

As at the end of 2015, total indebtedness of the Group was RMB861 million, decreased by RMB36 million from RMB897 million as at the end of 2014. Indebtedness of the Group were mainly denominated in US dollar, of which Renminbi loan accounted for 5.4%, US dollar loan accounted for 94.1% and South African Rand loan accounted for 0.5%, and of which 24% was fixed interest rate loans and 76% was floating interest rate loans.

As at the end of 2015, our gearing ratio[1] was 3.4%, representing a decrease of 0.4 percentage point from 3.8% as at the end of 2014.

CONTRACTUAL OBLIGATIONS

The following table sets out our contractual commitments as at 31 December 2015:

	Total RMB'000	**2016** RMB'000	**2017** RMB'000	**2018** RMB'000	**2019** RMB'000	**2020 and after** RMB'000
Short-term debt	177,005	177,005	—	—	—	—
Long-term debt	34,455	—	18,221	16,234	—	—
Convertible preference shares and preference shares	649,360	—	—	—	—	649,360
Operating lease commitments	782,787	308,106	180,052	83,664	53,001	157,964
Capital commitments	522,101	522,101	—	—	—	—
Of which:						
Authorized and contracted for	317,445	317,445	—	—	—	—
Total of contractual obligations	2,165,708	1,007,212	198,273	99,898	53,001	807,324

EXCHANGE RATE

Most of the Group's revenues and expenses are denominated in Renminbi. As at the end of 2015, the balance of our cash and cash equivalents in foreign currencies accounted for 7.8% of the Group's total cash and cash equivalents, of which 4.7% and 0.3% were denominated in US dollars and Hong Kong dollars, respectively.

1 Gearing ratio equals to total interest-bearing debts at the end of the financial year divided by the sum of equity attributable to equity shareholders of the Company and interest-bearing debts.

Applications Content and Other Services

Overseas Customers

2.1%*

Domestic Telecommunications Operator Customers

51.2%*

Domestic Non-operator Customers

46.7%*

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

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

HONORARY CHAIRMAN

Mr. WANG Xiaochu

age 58, is the Honorary Chairman[1] of our Company. Mr. Wang is currently the Chairman of China United Network Communications Group Company Limited and an Executive Director, Chairman and Chief Executive Officer of China Unicom (Hong Kong) Limited. Prior to that, Mr. Wang was the Chairman of China Telecommunications Corporation, and an Executive Director, Chairman and Chief Executive Officer of China Telecom Corporation Limited (until August 2015). Mr. Wang was also the Chairman and Non-Executive Director of the Company.

EXECUTIVE DIRECTORS

Mr. SUN Kangmin

age 58, 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 32 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 55, 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 radio communications. 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 31 years of operational and managerial experience in the telecommunications industry in China.

Ms. HOU Rui

age 46, 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 21 years experience in telecommunications industry and financial management.

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

NON-EXECUTIVE DIRECTORS

Mr. LI Zhengmao

age 54, 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 59, 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 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 75, 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 and an Executive Director and Chairman of the Board of Directors of CITIC 21CN Company Limited.

Mr. ZHAO Chunjun

age 75, is an Independent Non-Executive Director of our Company. Mr. Zhao is an Independent Director of China United Network Communications Limited and an Independent Non-Executive Director of China ZhengTong Auto Services Holdings 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, and an Independent Non-Executive Director of Dongfang Electric Corporation Limited. Mr. Zhao graduated from Tsinghua University in the PRC. He was Dean of the School of Economics and Management of Tsinghua University, and previously served as Executive/First Vice Dean.

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. SIU Wai Keung, Francis

age 62, is an Independent Non-Executive Director of our Company. Mr. Siu is currently an Independent Non-Executive Director of GuocoLand Limited, a company listed on the Singapore Exchange, and also the Independent Non-Executive Director of CITIC Limited, CGN Power Co., Limited and China International Capital Corporation Limited, all of which are listed on The Stock Exchange of Hong Kong Limited, and also an Independent Non-Executive Director of Beijing Gao Hua Securities Company Limited and BHG Retail Trust Management Pte. Ltd.. Mr. Siu previously acted as the Independent Non-Executive Director of Hua Xia Bank Co., Limited, Beijing Hualian Hypermarket Company Limited, Hop Hing Group Holdings Limited, Shunfeng International Clean Energy Limited and China Huishan Dairy Holdings Co. Ltd.

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. He was previously a Senior Partner of KPMG Shanghai Office, 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.

Mr. LV Tingjie

age 61, is an Independent Non-Executive Director of our Company. Mr. Lv graduated from Beijing University of Posts and Telecommunications with a master's degree, and obtained a doctorate degree from Kyoto University of Japan. Mr. Lv is now a professor and doctoral tutor at the School of Economics and Management of Beijing University of Posts and Telecommunications. Mr. Lv also serves as the Director of the Teaching and Research Centre for E-commerce in Beijing University of Posts and Telecommunications and the Director of the Academic Committee of "Information Management and Information Economics Key Laboratory" of the Ministry of Education. Mr. Lv is currently an Independent Non-executive Director of Global Link Communications Holdings Limited and Beijing Digital Telecom Co., Ltd., both of which are listed on The Stock Exchange of Hong Kong Limited. He is currently an Independent Director of Gohigh Data Networks Technology Co., Ltd., BOE Technology Group Co., Ltd. and Shenzhen Aisidi Co., Ltd., all of which are listed on Shenzhen Stock Exchange. Mr. Lv is also a member of the Technology Committee and a member of Telecommunication Economics Expert Committee of the Ministry of Industry and Information Technology, a Deputy Director of the E-commerce Instruction Advisory Committee of the Ministry of Education, a member of the Technology Committee of China Post Group Corporation, a Standing Director of the International Telecommunications Society and a Standing Vice Chairman of China Information Economics Society. Mr. Lv used to serve as a consultant for the business management and strategic development in many telecommunication enterprises and provide advice and solutions to their development and reform. Mr. Lv has a deep insight in the development of China's communication industry and the management of telecommunication enterprises with extensive management experience.

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. WU Taishi

age 69, is an Independent Non-Executive Director of our Company. Mr. Wu graduated from Department of Management of Fudan University with a bachelor degree in Economics, majoring in Industrial Economics. Mr. Wu is a certified public accountant in the PRC and a senior accountant at researcher level. Mr. Wu is now an Independent Director of Power Construction Corporation of China, Ltd. and an External Director of China Energy Conservation and Environmental Protection Group. Mr. Wu used to serve as a Deputy Chief Economist and Chief Accountant of Shanghai Carrier Rocket Assembly Plant, Director of Finance Bureau of Aviation Industry Corporation of China, General Manager of the Research & Development Department and Director of Postdoctoral work station of the Head Office of Bank of Communication, and an Independent Non-executive Director of China Railway Construction Corporation Limited. Mr. Wu has extensive experience in financial management.

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

SUPERVISORS

Ms. HAN Fang

age 43, is the Chairperson of our Supervisory Committee. Ms. Han is the Vice President of the Audit Department of China Telecommunications Corporation. Ms. Han graduated from the Beijing University of Posts and Telecommunications with a bachelor's degree in Engineering Management in 1995. She obtained a master degree in business administration at the Norwegian School of Management in 2007. Ms. Han is an international internal auditor, a qualified accountant in PRC and a senior accountant. She worked as a Supervisor of the Supervisory Committee of China Telecom Corporation Limited, the Chief Accountant of China Telecom Global Limited and a Divisional Director of the General Audit Division of China Telecommunications Corporation's Audit Department. Ms. Han has 20 years of finance and audit experience in the telecommunications industry.

Mr. HAI Liancheng

age 71, 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. 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 served as consultant of PICC Property and Casualty Co. Ltd., Chairman of Zhong Peng Certified Public Accountants Ltd. and senior advisor of China PnR Co., Ltd..

Mr. SI Jianfei

age 53, 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 24 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 55, 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 32 years of operational and managerial experience in telecommunications industry.

Mr. XU Chuguo

age 52, 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 27 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 46, 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 Informatization Department. Mr. Liang has 24 years experience in telecommunications and IT industry.

Mr. YAN Dong

age 44, 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 42, is the Company Secretary, Deputy Chief Financial Officer and Qualified Accountant of the Company. Mr. Chung graduated from Melbourne University, Australia in 1996, with a bachelor of commerce degree 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. Mr. Chung previously worked in an international accounting firm, China Mobile Limited and China Telecom Corporation Limited, and has nearly 20 years of extensive experience in auditing, company secretary and financial management of 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 2015.

PRINCIPAL BUSINESSES

The Group is a leading service provider in the PRC that provides integrated support services in the field of informatization. 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 ("distribution") 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 operator customers, 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 2015 and the financial position of the Group as at that date are set out in the audited financial statements on page 94 to page 170 in this annual report.

BUSINESS REVIEW

A fair review of the business, business outlook and the key financial performance indicators of the Group are provided in the "Chairman's Statement", "President's Statement", "Business Overview" and "Management Discussion and Analysis of Financial Conditions and Results of Operations" of this annual report. Description of the principal risks and uncertainties faced by the Group has been disclosed in this section. Particulars of important events affecting the Group that have occurred since the end of the financial year of 2015, if applicable, can also be found in the aforesaid sections.

In addition, more details regarding the Group's performance in relation to environmental and social-related policies, an account of the Group's relationships with its key stakeholders, as well as compliance with relevant laws and regulations which have a significant impact on the Group, are provided in the "Environmental, Social and Governance Report" of this annual report.

The above discussion forms part of this Directors' Report.

REPORT OF THE DIRECTORS

DIVIDENDS

The Board proposes a final dividend of RMB0.1011 per share and a special dividend of RMB0.0101 per share, and the total dividend is RMB0.1112 per share (pre-tax) for the year ended 31 December 2015. The dividend proposal will be submitted for consideration at the annual general meeting to be held on 24 June 2016 (the "AGM").

Dividends will be denominated and declared in Renminbi. Dividends will be paid in Renminbi for holders of domestic shares and holders of H shares (including enterprises and individuals) who invest in the H shares of the Company listed on the Hong Kong Stock Exchange through the Shanghai Stock Exchange ("the Southbound Trading Link") (the "Southbound Shareholders"), and dividends for H share shareholders other than the Southbound Shareholders 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 approval of declaration of dividends by the AGM. The record date for entitlement to the shareholders' rights and the relevant arrangements of dividend distribution for Southbound Shareholders are the same as those for the Company's H share shareholders. The proposed dividends are expected to be paid on or about 18 August 2016 upon approval at the AGM.

Further details in respect of the dividends and distribution by the Company are set out in note 14 of the audited financial statements on page 128 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 the Southbound Shareholders of the Company, 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.

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:

Name	Position in the Company	Date of the first appointment
Wang Xiaochu	Honorary Chairman[1]	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
Siu Wai Keung, Francis	Independent Non-executive Director	28 June 2012
Lv Tingjie	Independent Non-executive Director	26 June 2015
Wu Taishi	Independent Non-executive Director	26 June 2015
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, Deputy Chief Financial Officer and Qualified Accountant	16 October 2006

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.

On 26 June 2015, the term of office of the third session of the Board expired. Except for Mr. Wei Leping who retired as an independent non-executive director of the Company, the remaining directors of the third session of the Board were re-elected as directors of the fourth session of the Board at the annual general meeting held on the same day, and Mr. Lv Tingjie and Mr. Wu Taishi were newly appointed as independent non-executive directors of the Company. On 29 September 2015, Mr. Chung Wai Cheung, Terence was appointed as Deputy Chief Financial Officer.

REPORT OF THE DIRECTORS

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
Han Fang	Chairperson of the Supervisory Committee	11 December 2015
Hai Liancheng	Independent Supervisor	3 August 2006
Si Jianfei	Employee Representative Supervisor	18 June 2013

On 26 June 2015, the term of office of the third session of the members of the Supervisory Committee expired. Upon the re-election by shareholders in the annual general meeting on the same day, Ms. Xia Jianghua and Mr. Hai Liancheng continued to hold office in the fourth session of the Supervisory Committee. Upon the election by employees, Mr. Si Jianfei continues to serve as the Employee Representative Supervisor in the fourth session of the Supervisory Committee. On 11 December 2015, Ms. Xia Jianghua resigned as the chairperson and a supervisor of the Supervisory Committee. On the same day, Ms. Han Fang was elected as a supervisor upon the approval by shareholders in the extraordinary general meeting, and was elected as the chairperson of the Supervisory Committee at the second meeting of the fourth session of the Supervisory Committee.

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 of 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.

REPORT OF THE DIRECTORS

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.

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 2015, 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:

Shares	**Number of shares**	**Approximate percentage of issued share capital (%)**
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%
Total	**6,926,018,400**	**100.00%**

REPORT OF THE DIRECTORS

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

As at 31 December 2015, 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	171,441,092 (L)	7.17	2.48
JPMorgan Chase & Co.	H Shares	13,829,843 shares as beneficial owner; 1,923,600 shares as investment manager and 127,955,567 shares as custodian corporation/approved lending agent	143,709,010 (L)	6.00	2.07
		Beneficial owner	5,052,343 (S)	0.21	0.07
		Custodian corporation/approved lending agent	127,955,567 (P)	5.35	1.85
Citigroup Inc.	H Shares	729,800 shares as interest of corporation controlled by the substantial shareholder; 142,460,622 shares custodian corporation/approved lending agent	143,190,422 (L)	5.98	2.07
		Interest of corporation controlled by the substantial shareholder	724,297 (S)	0.03	0.01
		Custodian corporation/approved lending agent	142,460,622 (P)	5.95	2.06

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

Save as stated above, as at 31 December 2015, 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 2015, 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 2015, 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 38 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 2015.

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.

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 Ms. Han Fang. 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). Ms. Han Fang was appointed for a term commencing from the date of the extraordinary general meeting approving her appointment on 11 December 2015 to the date of annual general meeting of the Company for the year 2017 to be held in 2018.

PERMITTED INDEMNITY PROVISION

The Company has maintained appropriate directors and officers liability insurance cover for the directors, supervisors and senior management of the Company during the course of the financial year ended 31 December 2015 and remained in force as of the date of this report.

DIRECTORS' AND SUPERVISORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save for the transactions, arrangements or contracts set out in the "Management Discussion and Analysis of Financial Conditions and Results of Operations" section and "Directors' and Supervisors' Service Contracts", "Major Customers and Suppliers", "Preferential Treatment and Non-competition Arrangement with China Tower Corporation Limited" and "Continuing Connected Transactions" in the "Report of the Directors" section of this annual report and note 42 to the Consolidated Financial Statements, no other transaction, arrangement or contract that is significant in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a person who at any time in 2015 was a Director or Supervisor of the Company or his or her connected entity had, directly or indirectly, a material interest subsisted during the year ended 31 December 2015.

REPORT OF THE DIRECTORS

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 2015.

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 171 to 172 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 2015.

BANK LOANS AND OTHER BORROWINGS

Please refer to note 32 to the audited financial statements for details of bank loans and other borrowings of the Group.

PROPERTY, PLANT AND EQUIPMENT

Please refer to note 16 to the audited financial statements for movements in the fixed assets of the Group for the year ended 31 December 2015.

DISTRIBUTABLE RESERVES

Please refer to note 45 to the audited financial statements for details of the movements in the reserves of the Group for the year ended 31 December 2015.

DONATIONS

For the year ended 31 December 2015, the Group made charitable and other donations of a total amount of RMB0.36 million.

SUBSIDIARIES AND ASSOCIATED COMPANIES

Please refer to note 44 and note 22 to the audited financial statements for details of the Company's subsidiaries and the Company's associated companies as at 31 December 2015.

CHANGES IN EQUITY

Please refer to the consolidated statement of changes in equity contained in the audited financial statements (pages 98 to 99 of this annual report).

PLAN OF EMPLOYEES' RETIREMENT BENEFITS

Please refer to note 37 to the audited financial statements for details of the retirement benefits provided by the Group.

REPORT OF THE DIRECTORS

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 revenue from sales of goods or rendering of services to the five largest customers (including China Telecom, China Mobile, China Unicom and China Tower Corporation Limited) of the Group represented 68.3% of the total revenues of the Group; of which, the revenue from the largest customer of the Group represented 48.3% of the total revenues of the Group. The purchases from the five largest suppliers of the Group accounted for less than 5.3% of the total annual purchases of the Group.

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) and Mr. Sun Kangmin, Mr. Si Furong, Mr. Li Zhengmao and Mr. Zhang Junan (positions of them setting out in the "Profiles of Directors, Supervisors and Senior Management" section of this annual report), none of the directors of the Company, their close associates, or any shareholder (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 CHINA TOWER CORPORATION LIMITED ("THE TOWER COMPANY")

In July 2014, China Telecom Corporation Limited, a subsidiary of China Telecom, 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 Telecom 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.

REPORT OF THE DIRECTORS

CONTINUING CONNECTED TRANSACTIONS

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

The Company revised the annual caps of engineering related services provided to China Telecom Group and operation support services provided by China Telecom Group in 2015, which were approved by the independent shareholders of the Company at the extraordinary general meeting held on 11 December 2015. The following table sets out the annual caps and actual amounts of the continuing connected transactions of the Group during the year ended 31 December 2015:

Unit: RMB million

	Year ended 31 December 2015		Year ending 31 December 2016	Year ending 31 December 2017	Year ending 31 December 2018
	Annual Caps	**Actual Amounts**	**Annual Caps**	**Annual Caps**	**Annual Caps**
Engineering related services provided to China Telecom Group	24,000	20,829	24,000	24,000	24,000
Ancillary telecommunications services provided to China Telecom Group	11,000	8,448	12,100	13,300	15,600
Operations support service provided to/by China Telecom Group					
Revenue	3,000	2,411	3,200	3,400	3,600
Expenditure	800	650	900	1,000	1,100
IT application services provided to/by China Telecom Group					
Revenue	2,300	2,056	2,500	2,700	2,900
Expenditure	490	303	490	490	490
Centralized services provided to China Telecom Group	420	297	430	440	450
Property leasing provided to/by China Telecom Group					
Revenue	166	109	200	210	220
Expenditure	180	169	200	220	240
Supplies procurement services provided to/by China Telecom Group					
Revenue	5,600	5,277	6,700	8,100	10,000
Expenditure	4,100	2,736	4,900	5,900	7,000

REPORT OF THE DIRECTORS

CONTINUING CONNECTED TRANSACTIONS AGREEMENTS BETWEEN THE COMPANY AND CHINA TELECOM

The Company and China Telecom entered into seven continuing connected transactions agreements on 29 September 2015 to govern the continuing connected transactions between the Group and China Telecom Group. These agreements include the Engineering Framework Agreement, the Ancillary Telecommunications Services Framework Agreement, the Operation Support Services Framework Agreement, the IT Application Services Framework Agreement, the Centralized Services Agreement, the Property Leasing Framework Agreement and the Supplies Procurement Services Framework Agreement (the "2015 Agreements"). Each of the 2015 Agreements had an initial term expired on 31 December 2018 and, subject to approval from the shareholders (if applicable), the 2015 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. All of the 2015 Agreements (excluding the Centralized Services Agreement and the Property Leasing Framework Agreement that did not require independent shareholders' approval under the Listing Rules) were approved by the independent shareholders of the Company at the extraordinary general meeting held on 11 December 2015.

The Board considers that it is in the interest of the Company to enter into the 2015 Agreements and cooperate with China Telecom Group to ensure a stable revenue source from one of the largest telecommunications operators in the PRC so as to benefit the Company's future growth and development.

Details of each of the 2015 Agreements 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 for telecommunications infrastructure projects undertaken by China Telecom Group.

The charges for engineering related services rendered under the Engineering Framework Agreement shall be determined at prices fixed through tender process or market price. According to the relevant regulations and under the internal policy of China Telecom Group, whenever the value of any design and/or project supervision and management contracts exceeds RMB0.5 million, or the value of any construction contracts exceeds RMB2 million, the award of the relevant contract must be subject to a tender process (with a minimum of three parties tendering bids) in accordance with the Bidding Law of the PRC and Regulation on the Implementation of the Bidding Law of the PRC, except as otherwise provided by related laws and regulations. In determining the market price, the business and financial department of the relevant subsidiary of the Company shall collect the relevant market information (including but not limited to the change in price for the same or similar type of services), review and compare the costs and profits of transactions conducted in the most recent year of the same or similar type entered into with China Telecom Group or independent third parties, and prepare fee quotes for review by the marketing department of the relevant subsidiary of the Company, or the marketing department of the relevant subsidiary will further submit the fee quotes to the management of such subsidiary for review depending on the actual situations (such as the amount and size of the transaction). The marketing department or management of the relevant subsidiary of the Company shall primarily consider the following factors: (1) cost of service; (2) prices of the same or similar type of services provided to China Telecom Group by other service providers in the market; (3) prices of the same or similar type of services provided to China Telecom Group and independent third parties previously by the Company.

The Company will be given 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 favorable than those offered by the Company for the same type of services, and in return, the Company has undertaken to China Telecom Group that the Company shall not provide services to it on terms which are less favorable than those offered by the Company to independent third parties.

REPORT OF THE DIRECTORS

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 comprehensive logistics services, including purchasing agent, warehousing, transportation, delivery, testing and inspection, logistics information management and distribution; provision of application, content and other services such as fixed-line value added services, wireless value added services, Internet value added services, and development of online gaming, certificate authentication and value added business platform of Internet cafes (the "Ancillary Telecommunications Services").

The Ancillary Telecommunications Services Framework Agreement stipulates that the Ancillary Telecommunications Services shall be provided at:

(1) market price. In determining the market price, the business and financial department of the relevant subsidiary of the Company shall collect the relevant market information (including but not limited to the change in price for the same or similar type of services), review and compare the costs and profits of transactions conducted in the most recent year of the same or similar type entered into with China Telecom Group or independent third parties, and prepare fee quotes for review by the marketing department of the relevant subsidiary of the Company, or the marketing department of the relevant subsidiary will further submit the fee quotes to the management of such subsidiary for review depending on the actual situations (such as the amount and size of the transaction). The marketing department or management of the relevant subsidiary of the Company shall primarily consider the following factors: (i) cost of service; (ii) prices of the same or similar type of services provided to China Telecom Group by other service providers in the market; (iii) prices of the same or similar type of services provided to China Telecom Group and independent third parties previously by the Company; or

(2) in the absence of market price or where the market price cannot be determined, the price shall be agreed between both parties, which shall be the aggregate amount of reasonable costs, the relevant taxes in sales and reasonable profits. In determining such price, the business and financial department of the relevant subsidiary of the Company will review and compare the costs and profits of transactions conducted in the most recent year of the same or similar type entered into with China Telecom Group or independent third parties, take into account factors such as historical price, transaction size, average profit ratio within the relevant industry, supply and demand, labor cost, local commodity prices and economic development levels, and prepare fee proposals for review by the marketing department of the relevant subsidiary of the Company, or the marketing department of the relevant subsidiary will further submit the fee quotes to the management of such subsidiary for review depending on the actual situations (such as the amount and size of the transaction).

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 favorable than those offered by the Company for the same services, and in return, the Company has undertaken to China Telecom Group that the Company and its subsidiaries shall not provide Ancillary Telecommunications Services to it on terms which are less favorable than those offered by the Company to independent third parties.

REPORT OF THE DIRECTORS

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, advertisement, conferencing services, vehicles, and certain repair and leasing of equipment. China Telecom Group also agreed to provide operation support services such as logistics services, warehousing, medical care, food and beverages, education, hotel and travelling services, labor services and so on to the Company.

The Operation Support Services Framework Agreement shall adopt the same pricing policy as the Ancillary Telecommunications Services Framework Agreement. In addition, in determining the market price of the operation support services provided to the Company by the China Telecom Group, the Company primarily considered the following factors: (i) prices of the same or similar type of services provided to the Company by other service providers in the market; (ii) prices of the same or similar type of services provided to the Company by China Telecom Group and independent third parties previously.

Each of the parties to the Operation Support Services Framework Agreement 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 favorable than those offered by the other party for the same services, and 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 favorable than those offered to independent third parties.

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 also agreed to provide to the Company certain IT application services including voice and data, value added services and information application services.

The IT Application Services Framework Agreement shall adopt the same pricing policy as the Engineering Framework Agreement. In addition, in determining the market price of the IT application services provided to the Company by the China Telecom Group, the Company primarily considers the following factors: (i) prices of the same or similar type of services provided to the Company by other service providers in the market; (ii) prices of the same or similar type of services provided to the Company by China Telecom Group and independent third parties previously.

Each of the parties to the IT Application Services Framework Agreement will accord priority to the other party in the provision of the IT application services, provided that the terms and conditions offered by independent third parties to the relevant party are no more favorable than those offered by the other party for the same services, and 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 favorable 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 of China Telecom's certain retained specialized telecommunications support businesses in the PRC other than the Group and any remaining assets, such as hotels, manufacturing plants, schools and hospitals which are not in association with the specialized telecommunications support businesses in the primary service areas of the Group; 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 the Company for the provision of the centralized services referred to above (all expenses incurred in connection with the above-mentioned headquarters management functions excluding remuneration for the 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

China Telecom Group have been leasing from the Company and its subsidiaries certain properties for use as business premises, offices, equipment storage facilities and sites for network equipment. The Company and its subsidiaries also have been leasing from China Telecom Group certain properties for use as business premises, offices and equipment storage facilities. These arrangements fall within the Property Leasing Framework Agreement.

Pursuant to the Property Leasing Framework Agreement, the rental charges in respect of each property are determined at market price. In determining the market price, the business and financial department of the relevant subsidiary of the Company shall collect the relevant market information (including but not limited to the change in price for the same or similar type of services), review and compare the costs and profits of transactions conducted in the most recent year of the same or similar type entered into with China Telecom Group or independent third parties, and prepare fee quotes for review by the marketing department of the relevant subsidiary of the Company, or the marketing department of the relevant subsidiary will further submit the fee quotes to the management of such subsidiary for review depending on the actual situations (such as the amount and size of the transaction). The marketing department or management of the relevant subsidiary of the Company shall primarily consider the following factors: (1) cost of property depreciation; (2) rental charges of the same or similar type of property provided to China Telecom Group and the Company by other service providers in the market; (3) rental charges of the same or similar type of property provided to China Telecom Group and independent third parties by the Company previously, or rental charges of the same or similar type of property provided to the Company by China Telecom Group and independent third parties previously. Rental charges are payable monthly in arrears, except as otherwise agreed by the parties, and subject to review every three years by both parties confirming after negotiations whether to adjust the rental charges and the amount of such adjustment.

REPORT OF THE DIRECTORS

SUPPLIES PROCUREMENT SERVICES FRAMEWORK AGREEMENT

Pursuant to the Supplies Procurement Services Framework Agreement, the Company agreed to provide to China Telecom Group with comprehensive supplies procurement services, including, among others, (i) procurement of imported telecommunications supplies, domestic telecommunications supplies and domestic non-telecommunications supplies; (ii) agency services of supplies procurement; (iii) sales of telecommunications supplies manufactured by the Group; (iv) resale of supplies purchased from independent third parties; and (v) management of biddings, verification of technical specifications, warehousing, transportation and installation services. According to the same agreement, China Telecom agreed to provide to the Group with comprehensive supplies procurement services, including, among others, (i) sales of telecommunications supplies manufactured by China Telecom Group, (ii) resale of supplies purchased from independent third parties; (iii) agency services of supplies procurement; and (iv) warehousing, transportation and installation services.

The price for the provision of comprehensive supplies procurement services under the Supplies Procurement Services Framework Agreement is determined as follows:

(1) 1% of the contract value at the maximum for procurement services relating to imported telecommunications supplies;

(2) 3% of the contract value at the maximum for procurement services relating to domestic telecommunications supplies and other domestic non-telecommunications materials; and

(3) for other services:

(i) market price. In determining the market price, the business and financial department of the relevant subsidiary of the Company shall collect the relevant market information (including but not limited to the change in price for the same or similar type of services), review and compare the costs and profits of transactions conducted in the most recent year of the same or similar type entered into with China Telecom Group or independent third parties, and prepare fee quotes for review by the marketing department of the relevant subsidiary of the Company, or the marketing department of the relevant subsidiary will further submit the fee quotes to the management of such subsidiary for review depending on the actual situations (such as the amount and size of the transaction). The marketing department or management of the relevant subsidiary of the Company shall primarily consider the following factors: (i) cost of service; (ii) prices of the same or similar type of services provided to China Telecom Group or the Company by other service providers in the market; (iii) prices of the same or similar type of services provided to China Telecom Group and independent third parties by the Company, or prices of the same or similar type of services provided to the Company by China Telecom Group and independent third parties; or

(ii) in the absence of market price or where the market price cannot be determined, the price shall be agreed between both parties, which shall be the aggregate amount of reasonable costs, the taxes in sales and reasonable profits. In determining such price, the business and financial department of the relevant subsidiary of the Company will review and compare the costs and profits of transactions conducted in the most recent year of the same or similar type entered into with China Telecom Group or independent third parties, take 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, and prepare fee proposals for review by the marketing department of the relevant subsidiary of the Company, or the marketing department of the relevant subsidiary will further submit the fee quotes to the management of such subsidiary for review depending on the actual situations (such as the amount and size of the transaction).

REPORT OF THE DIRECTORS

The Group will be given priority by China Telecom Group in the provision of comprehensive logistics services, provided that the terms and conditions offered by independent third parties to China Telecom Group are no more favorable than those offered by the Company for the same services, and in return, the Company has undertaken to China Telecom that the Company and its subsidiaries shall not provide supplies procurement related comprehensive logistic services to it on terms which are less favorable than those offered by the Company and its subsidiaries to independent third parties.

The independent non-executive directors of the Company have confirmed that all the continuing connected transactions for the year ended 31 December 2015 to which the Group was a party:

1. had been entered into by the Group in the ordinary and usual course of business;

2. had been entered into on normal commercial terms or better; and

3. had been entered into according to the agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The independent non-executive directors have further confirmed that:

The values of the 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.

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 2015 have not been approved by the Board;

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 2015 and have not found that the continuing connected transactions were not in accordance with the pricing policies as stated in the relevant agreements in all material respects;

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 2015 and have not found that the continuing connected transactions were not in accordance with the terms of the agreements governing the transactions in all material respects; and

4. they have not noted that the continuing connected transactions exceeded the annual caps for 2015 as disclosed in the circular dated 22 October 2015 of the Company and approved by the independent shareholders of the Company on 11 December 2015.

REPORT OF THE DIRECTORS

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 2015, 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.

RISK FACTORS

The following section lists out the principal risks and uncertainties faced by the Group. It is a non-exhaustive list and there may be other risks and uncertainties further to the key risk areas outlined below.

1. The Group's business may be affected by the economic, political and social conditions as well as government policies in China

As substantially all businesses, assets and operations of the Group are located in China, and therefore, the Group's operating results, financial status and business prospect depend on the economic, political and social developments of China to a large extent.

In recent years, China is one of the countries with the fastest pace of economic growth around the globe in terms of GDP. However, the current growth rate may not be sustainable. Moreover, any future disaster, such as natural disaster and outbreak of epidemics would potentially slow down the level of economic activities, and in turn affect the economic growth of China, Asia and even the world. If any of the above mentioned reasons causes serious economic downturn in China, the Group's financial status, operating results and prospect may be adversely affected.

2. The business of the Group hinges on the investment and operating conditions in the Chinese telecommunications sector

Demands in the Group's services will be affected by the level of capital expenditures of the fixed-line, broadband and mobile telecommunications infrastructure of the telecommunications operators in China. Such decreases in capital expenditures may have adverse effect to the Group's revenue and profits.

Moreover, in the event the competition in the Chinese telecommunications sector continues to intensify, the products and services offered by the telecommunications operator customers of the Group may be exposed to price cutting pressure, thus leading to the decrease in their revenue. If that happens, such telecommunications customers may reduce the service fees to our Company in relation to certain businesses for cost cutting, with a view to maintaining their profitability.

3. The business of the Group is working capital intensive in respect of services offered to customers

During our course of business, the Group shall pay considerable working capital expenditures to make procurements for goods and services required for the provision of services to the clients of the Group and for the completion of projects. In the past, the Company has satisfied the working capital needs primarily by cash from operating activities and its own fund. A deficiency in working capital may affect the Group's business, financial status and operating results. Moreover, the Group's customers may delay payment or default in accounts receivables, which may have adverse effect on the cash flows, working capital, financial status and operating results of the Company.

REPORT OF THE DIRECTORS

4. The Group is under certain risks in relation to international business and operation

The Group is dedicated in expanding into overseas market and strategically expanding overseas operations. The expansion into markets outside China will subject us to considerable risks, including differences in business environment, high entry barrier imposed on foreign enterprises, existing market players, exchange rate fluctuations, legal and regulatory requirements, potentially unfavorable tax liabilities, inexperience in new markets, competition in the local markets and protectionism.

Part of our business is conducted overseas, mainly located in developing countries and regions, where the local political and economic conditions are often unstable and such factors are beyond our control. As we have engaged in operations overseas, we are subject to various risks related to the countries and regions where we operate.

5. The tax liabilities of the Group may increase due to the taxation policy changes of the Chinese government

Certain subsidiaries of the Group are entitled to preferential tax rates of High and New Technology enterprise and the preferential policy of tax deduction before income tax for research and development expenses. However, whether the Group can enjoy ongoing preferential tax treatment is uncertain. Where the Group ceases to enjoy the existing preferential tax treatment in the future, the Group's effective enterprise income tax rate may be increased.

Moreover, the Chinese government is revising the taxation policies, such as (amongst others) value added tax and business tax, and is replacing the business tax by value added tax. The Group is not yet able to accurately predict the effect of the above-mentioned taxation policy revisions on the financial status and operating results of the Group, and the changes in related taxation policies may affect the business, financial status, operating results and prospect of the Group.

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 2015. 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 2016 will be proposed at the upcoming 2015 annual general meeting of the Company.

By order of the Board
Sun Kangmin
Chairman

Beijing, PRC
31 March 2016

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 relevant requirements including the *PRC Company Law* and the Articles of Association of the Company.

During the reporting period, the Supervisory Committee convened a total of three meetings. The seventh meeting of the third session of the Supervisory Committee convened on 20 March 2015 and reviewed and approved resolutions such as the Company's 2014 financial report, profit allocation and dividend distribution plan, auditors' report issued by the external auditor, the Company's work report on internal control for 2014 and work plan for 2015, the work report of the Supervisory Committee for 2014 and the work plan of the Supervisory Committee for 2015, and resolved on the same. In respect of issues that are of more concern, the supervisory committee had communicated with the finance department, risk management department and external auditors and put forward relevant advice. At the first meeting of the fourth session of the Supervisory Committee convened on 21 August 2015, we have reviewed and approved the *unaudited interim financial report for 2015*, reviewed the *Report on the review of the interim financial report for 2015* issued by the external auditors and the internal control work report for the first half of 2015 and work plan for the second half and resolved on the same. The second meeting of the fourth session of the Supervisory Committee convened on 11 December 2015 and reviewed and approved the resolution on the resignation of Ms. Xia Jianghua, the former chairperson of the Supervisory Committee of China Communications Services Corporation Limited and elected Ms. Han Fang as the new chairperson for the Supervisory Committee. During the reporting period, the members of the Supervisory Committee attended the board meetings, general meetings and audit committee meetings of the Company. By attending these meetings, the Supervisory Committee supervised significant decision making of the Company and the duty performance of the members of the Board and senior management and recommended relevant management suggestion in a serious and responsible manner.

The Supervisory Committee is of the opinion that, during the reporting period, the Company upheld the management philosophy of "value-driven, seeking steady yet progressive growth and efficient development", adhered the market-oriented approach in resources allocation, pursued further comprehensive and deepened reform, and maintained stable fundamentals for the Company amid complicated and ever changing internal and external environment, thus realizing continuous growth in total revenues of RMB80,960 million, representing a year-on-year growth of 10.6%. Profit attributable to the equity shareholders of the Company amounted to RMB2,334 million, representing a year-on-year growth of 8.6%. Free cash flow was RMB3,573 million and reached a historical high.

The Supervisory Committee is of the opinion that, in 2015, all members of the Board 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, they have also safeguarded the interests of the shareholders, earnestly implemented 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 PRC 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 information intended to be submitted by the Board of Directors to the general meeting such as the financial report of the Company for 2015 which were prepared according to relevant requirements and issued with unqualified opinion by the external auditors. The Supervisory Committee is of the opinion that the financial report gives an objective and true view of the Company's financial position and operating results.

In 2016, the Supervisory Committee will continue to comply with the relevant requirements of the PRC Company Law and the Articles of Association of the Company strictly and assume the responsibilities of safeguarding the interests of the shareholders and the benefits of the Company, to focus on the supervision of the Company's implementation of its commitment to shareholders and to expand our scope of philosophy, with a view to enhancing our supervision and inspection efforts in major adjustment events and important operating activities and duly perform our duties in a thoughtful manner.

We hereby sincerely express our thanks to Ms. Xia Jianghua, the resigned former chairperson of the Supervisory Committee, for her contribution to the development of the Group during her tenure.

By order of the Supervisory Committee
Han Fang
Chairperson of the Supervisory Committee

Beijing, PRC
25 March 2016

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.

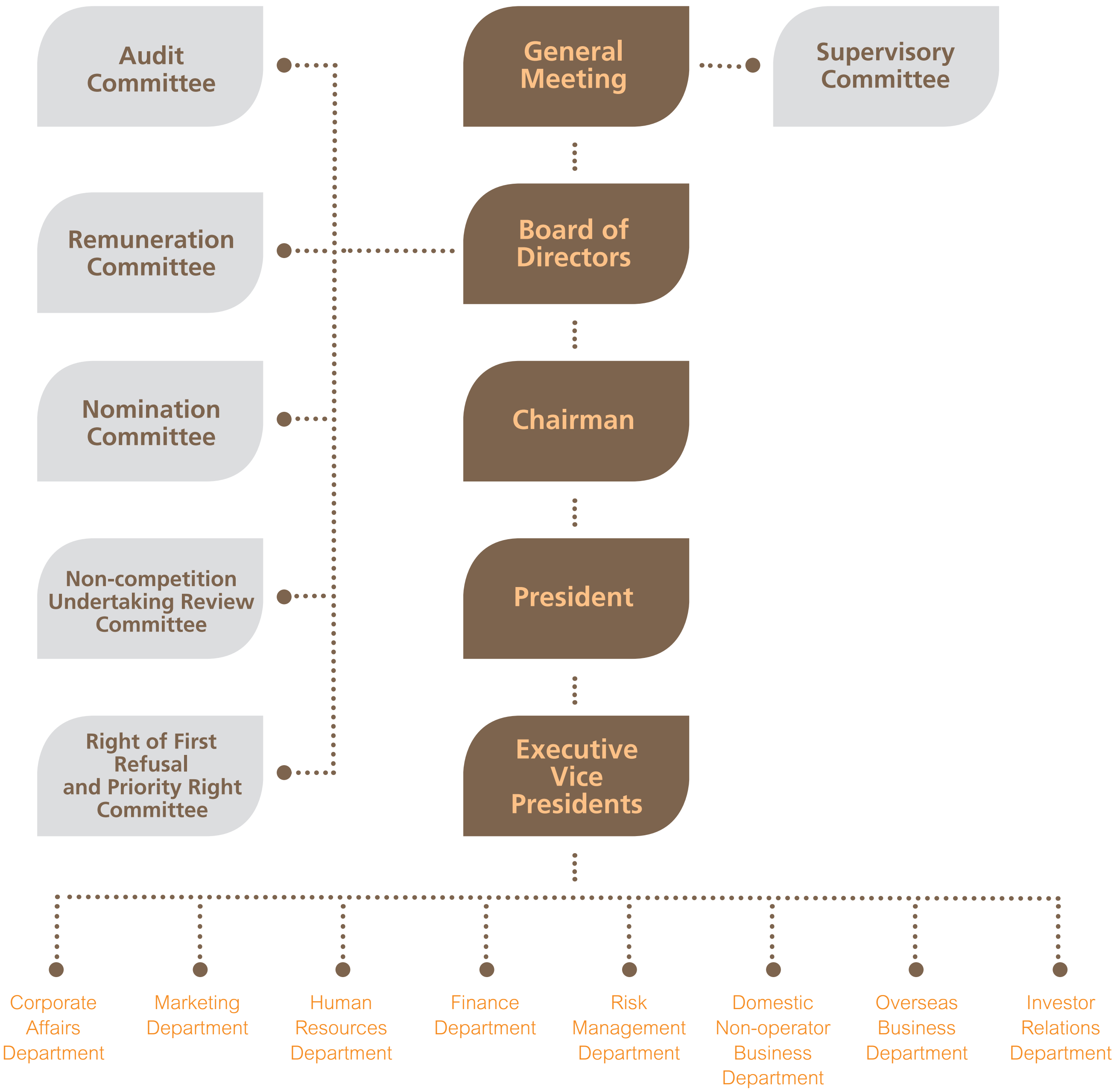
The Board is responsible for performing corporate governance duties, including developing and reviewing the Company's policies and practices on corporate governance; reviewing and monitoring the training and continuous professional development of directors and senior management; reviewing and monitoring 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 2015, 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 honored with "The Best Listed Company Award in Corporate Governance" by *Tai Kung Pao* at the "China Securities Golden Bauhinia Awards".

Throughout the year ended 31 December 2015, 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



CORPORATE GOVERNANCE REPORT

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 2015. In 2015, apart from the AGM, the Company also convened two EGMs.

For the first EGM of 2015, a physical meeting was held in Beijing on 19 January 2015, at which the resolutions, including appointment of Mr. Sun Kangmin as an executive director of the Company and the amendments to the Articles of Association, were considered and approved by shareholders.

For the 2014 AGM, a physical meeting was held in Beijing on 26 June 2015, at which the resolutions, including the 2014 financial statements, profit distribution proposal and dividend declaration proposal, appointment of auditors, report of the Directors, and report of the Supervisory Committee and the election of the fourth session of the Board were considered and approved by shareholders.

For the second EGM of 2015, a physical meeting was held in Beijing on 11 December 2015, at which the resolutions regarding revision of annual caps, renewal of continuing connected transactions and proposed new annual caps between the Company and the Company's controlling shareholder, China Telecom, and the proposed appointment of the member of Supervisory Committee, were considered and approved by shareholders. China Telecom and its associates, being connected persons to the Company, abstained from voting on resolutions related to the connected transactions.

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

SHAREHOLDERS' RIGHTS

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.

CORPORATE GOVERNANCE REPORT

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.

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

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 ten 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 five independent non-executive directors (Mr. Wang Jun, Mr. Zhao Chunjun, Mr. Siu Wai Keung, Francis, Mr. Lv Tingjie and Mr. Wu Taishi). 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 five independent non-executive directors, of which two independent non-executive directors (Mr. Siu Wai Keung, Francis and Mr. Wu Taishi) possess 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.

CORPORATE GOVERNANCE REPORT

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.

On 26 June 2015, the term of office of the third session of the Board and the Supervisory Committee of the Company expired. Except for Mr. Wei Leping who retired as independent non-executive director of the Company, the remaining directors of the third session of the Board were re-elected as directors of the fourth session of the Board at the annual general meeting held on the same day. Mr. Lv Tingjie and Mr. Wu Taishi, were newly appointed as independent non-executive directors of the Company.

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 2015, the Board held four meetings and passed four written resolutions. 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 regarding to changes of directors, appointment of directors, remuneration package of directors, amendment of the Articles of Association and renewal of continuing connected transactions. For the resolutions on the connected transactions such as revision of annual caps, renewal of continuing connected transactions and proposed new annual caps between the Company and China Telecom, directors with conflict of interests abstained from voting. Meanwhile, in the agenda of approving director remuneration, relevant directors with conflicts of interests on their own remuneration also abstained from voting.

CORPORATE GOVERNANCE REPORT

In 2015, 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 2015 are as follows:

	Attendance in 2015/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
Executive Directors								
Sun Kangmin	4/4	—	—	—	—	—	1/1	2/2
Si Furong	4/4	—	—	—	—	—	1/1	2/2
Hou Rui	4/4	—	—	—	—	—	1/1	2/2
Non-executive Directors								
Li Zhengmao	4/4 [(1)]	—	—	—	—	—	0/1	1/2
Zhang Junan	4/4 [(2)]	—	—	—	—	—	0/1	1/2
Independent Non-executive Directors								
Wang Jun	4/4 [(3)]	—	—	1/1 [(4)]	—	—	0/1	0/2
Zhao Chunjun	4/4 [(5)]	2/2 [(6)]	1/1	1/1	2/2 [(7)]	—	0/1	2/2
Siu Wai Keung, Francis	4/4	2/2	1/1	—	1/1	—	1/1	2/2
Lv Tingjie [(8)]	2/2	1/1	—	—	1/1	—	—	1/1
Wu Taishi [(9)]	2/2	—	—	—	1/1	—	—	1/1
Resigned Director								
Wei Leping [(10)]	2/2	1/1	1/1	1/1	1/1	—	1/1	1/1

Notes:

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

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

(3) Mr. Wang Jun appointed other directors to attend four meetings.

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

(5) Mr. Zhao Chunjun appointed other directors to attend two meetings.

(6) Mr. Zhao Chunjun appointed another director to attend one meeting.

(7) Mr. Zhao Chunjun appointed another director to attend one meeting.

(8) Mr. Lv Tingjie was appointed as an independent non-executive director of the Company on 26 June 2015.

(9) Mr. Wu Taishi was appointed as an independent non-executive director of the Company on 26 June 2015.

(10) Mr. Wei Leping resigned as an independent non-executive director of the Company on 26 June 2015.

CORPORATE GOVERNANCE REPORT

DIRECTOR'S TRAINING

Each newly appointed director will be offered training by the Company upon the appointment, so as to ensure that they have adequate 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. All 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 2015, the training records of the directors of the Company were as follows:

	Attend training and/or seminar relevant to the Company's industry and business, director's duties and/or corporate governance	Give a speech at the meeting relevant to the Company's industry and business, director's duties and/or corporate governance	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
Executive Directors			
Sun Kangmin	✓	✓	✓
Si Furong	✓	✓	✓
Hou Rui	✓	✓	✓
Non-executive Directors			
Li Zhengmao	—	✓	✓
Zhang Junan	—	✓	✓
Independent Non-executive Directors			
Wang Jun	—	—	✓
Zhao Chunjun	✓	✓	✓
Siu Wai Keung, Francis	✓	✓	✓
Lv Tingjie	✓	✓	✓
Wu Taishi	✓	✓	✓

CORPORATE GOVERNANCE REPORT

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. Lv Tingjie. 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 risk management and 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 risk management and 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.

In 2015, the Audit Committee held two meetings, mainly reviewing the resolutions of the Company for its audited financial report of 2014, interim report of 2015, 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. Lv Tingjie and Mr. Wu Taishi. 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 2015, the Remuneration Committee held one meeting and passed one written resolution, mainly reviewing the resolutions of adjusting the exercise price of share appreciation rights scheme of the Company and the remuneration packages of the fourth session of the Board.

Nomination Committee

The Nomination Committee consists of three independent non-executive directors: Mr. Zhao Chunjun (Chairman), Mr. Lv Tingjie and Mr. Wu Taishi. 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 2015, the Nomination Committee held one meeting and passed one written resolution, mainly reviewing the resolutions of change of the term of office of the fourth session of the Board, including the review of the Board structure and composition, as well as recommending Mr. Lv Tingjie and Mr. Wu Taishi as the independent non-executive directors of the Company and making their recommendations to the Board.

CORPORATE GOVERNANCE REPORT

Non-Competition Undertaking Review Committee

The Non-competition Undertaking Review Committee consists of three independent non-executive directors: Mr. Lv Tingjie (Chairman), Mr. Zhao Chunjun and Mr. Wu Taishi. 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 2015, the Non-competition Undertaking Review Committee held two meetings, mainly reviewing the implementation of the non-competition undertakings by China Telecom, 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 2015. 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. Zhao Chunjun (Chairman), Mr. Wang Jun 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 2015, Right of First Refusal and Priority Right Committee did not hold any meeting.

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.

The Company held an Independent Board Committee meeting on 29 September 2015, at which five independent non-executive directors of the Company attended. The Independent Board Committee mainly reviewed the resolution regarding the revision of annual caps, renewal of continuing connected transactions and proposed new annual caps between the Company and China Telecom, and made its recommendations to the independent shareholders. Details of this resolution and the Independent Board Committee's recommendation were contained in the circular dispatched to shareholders on 22 October 2015.

Supervisory Committee

The Company established a Supervisory Committee pursuant to the *PRC Company Law*. The Supervisory Committee consists of three members: Ms. Han Fang (the chairperson), Mr. Hai Liancheng (the external independent supervisor) and Mr. Si Jianfei (the employee representative supervisor). Except for Ms. Han Fang, the term of service of the supervisors are three years, and the supervisors may serve consecutive terms if re-elected upon the expiry of their terms of service. The term of service of Ms. Han Fang commenced from 11 December 2015 (the date of the election) to the 2017 AGM to be held in 2018. 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.

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 2015, the Supervisory Committee held three meetings, details of which are set out in the "Report of the Supervisory Committee" of this annual report.

CORPORATE GOVERNANCE REPORT

AMENDMENTS TO THE ARTICLES OF ASSOCIATION

During the 2015 first EGM, the shareholders of the Company approved the amendments to the Articles of Association, including the amendments of the Company's scope of business and composition of the Board of the Company. The amended Articles of Association is published on the websites of the Company and the Stock Exchange.

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 2015.

REMUNERATION OF THE AUDITORS

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 three 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 RMB34,395 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 92 to 93 of this annual report.

CORPORATE GOVERNANCE REPORT

RISK MANAGEMENT AND INTERNAL CONTROL

Risk Management and Internal Control System

The Board of the Company is fully responsible for maintaining healthy, comprehensive and effective internal control to safeguard the investment of the shareholders and the assets of the Group. The Company has set up the internal control system and risk management mechanism in compliance with the COSO standards, covering the defined management structure and its authority. This aims at ensuring the efficient and effective utilization of the resources of the Company to assist the Company to achieve business target and to safeguard assets, with a view to preventing unauthorized utilization or treatment of the resources of the Company, to secure appropriate accounting records and provide reliable financial data for internal use or external dissemination, so as to ensure that the operating activities are in compliance with relevant laws and rules. The above control system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

Since listing in 2006 , the Company has formulated systems such as internal control guidelines and internal control assessment methods on the basis of COSO internal control framework. Over the years, the Company has strived to perform ongoing revision and improvement to the systems related to internal control in light of the changes in internal and external operating environment and business development requirements. After nearly a decade of refinement and drawing conclusion from the past experience after the listing, the Company put in place a set of practicable risk management methods, which solidified risk management procedures, enhanced risk management efficiency and basically established a comprehensive risk management mechanism. In 2015, the Company took into account the requirements of Rule C.2 of the Corporate Governance Code of the Hong Kong Stock Exchange to continue to strengthen the identification, rationalization and assessment and control of risk, without any material risk issue throughout the year. After strict rationalization and assessment and analysis of risks, the Company conducted initial assessment on the potential risks that the Company may be exposed to in 2016, such as (amongst others) strategic risks and market risks, and proposed practicable corresponding solutions.

The risk management department of the Company has established the internal audit division, which focuses on the emergencies arising from the operating and administrative activities and operating procedures to strengthen audit supervision, and attaches importance to the utilization and transformation of the results of audit, so as to foster management improvement and to prevent loophole. It plays an important role in supporting the Board, the management and the risk management and internal control assessment. The internal audit division is responsible for providing objective guarantee to the Audit Committee and the Board to ensure that the management will maintain effective risk management and internal control system.

Annual Risk Management and Internal Control Assessment

The Company continues to focus on strengthening internal control and risk management and has sound internal control foundations in place. The Company's main control measures in 2015 are summarized as below:

In 2015, the internal audit division of the Company took the lead to organize a self assessment exercise for internal control within the whole Company. The self assessment exercise for internal control strives to, on the basis of comprehensive assessment, focus on the assessment of key control aspects and control points identified after the risk identification assessment. In 2015, we selected the process of fund management, contract management, subcontracting management and inventory management to undergo key assessment, and such self assessment covered all the subsidiaries of the Company.

CORPORATE GOVERNANCE REPORT

The internal control self-assessment was conducted under the supervision of the Company's working group on risk management. The Risk Management Department organized and coordinated the assessment of key processes conducted by the relevant processes leading department, with each relevant department, in particular, the business department, coordinates this internal control self assessment exercise, and tackles risk management issues from the sources. The implementation departments of the control points in the processes participated in the assessment work. By vesting the control points within the processes to each person-in-charge by the implementation department, thereby splitting the assessment work among specific staff in the control points to ensure that the width and depth of the internal control assessment work comply with the requirements.

In response to the defects identified during the self assessment and internal auditing work, the Company enhanced the checking and supervision on the internal control defects rectification so as to ensure the effectiveness of the rectification work. Each of the provincial companies proactively rectified the defects identified during internal and external assessment.

The Board continued to monitor and supervise the Company's risk management and internal control system, and conducted annual review on the internal control system of the Company and its subsidiaries for the financial year ended 31 December 2015. After receiving the report from the internal audit division as to the effectiveness of the relevant system, the Board considered that the internal control system of the Company is stable, healthy, proper, effective and adequate, and has satisfied the requirements under Rule C.2 of the Corporate Governance Code of the Hong Kong Stock Exchange regarding to the internal control.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

OVERVIEW

The Group is a leading services provider in the PRC informatization sector that is committed to providing integrated support services to customers and consistently upholds its principle of "customer oriented, outstanding performance, efficient resources allocation and innovative leadership". On the back of our fundamental missions of serving our customers, bringing returns to our shareholders, caring about our employees and giving back to society, we devote ourselves to providing a series of services covering high quality, efficient and secured telecommunications infrastructure services, business process outsourcing services and applications, content and other services. We place a strong emphasis on scientific development and corporate social responsibility, deliver value to our customers and the society, promote sustainable development, and align our corporate development with society and environment.

ENVIRONMENTAL PROTECTION AND RESOURCES UTILISATION

As a communications services enterprise, the Group have always complied with relevant national laws, regulations and standards on emission during the course of service provision. We have established an internal management system, embark on energy saving and consumption reduction activities and ensure that we can meet our energy conservation and emission reduction goals.

The Group consistently adheres to the philosophies of environmental protection throughout the entire course of communications service provision and complies with the relevant national laws, regulations and operational standards on environmental protection. In exploring, designing and constructing field area communications, we keep away from mines, forests, grassland, wild animals' habitats, natural and human heritage, nature preservation areas and scenic areas as far as possible. In the event we have to undertake minor alterations to the natural environment due to project requirements, we will conduct environmental rehabilitation as soon as possible.

We proactively promote costs saving and efficiency enhancement through adoption of new-generation energy saving products and enhancing relevant management systems, and lower our costs effectively. We also widely utilise energy saving lighting in our production facilities and offices, appropriately adjust the temperature of our production facilities and offices as appropriate, encourage all employees to save paper, water and power, and thereby create the environment to build up an "energy saving enterprise" and make due contributions to building an energy saving society.

The Group also actively facilitates energy saving and emission reduction for our customers and other sectors in the society. In particular, we have developed and adopted new energy saving technologies in our construction services, property management and logistics operations, effectively assisted our customers to realise construction and operation with low energy consumption, and thereby promote energy saving and emission reduction in the society.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

HUMAN RESOURCES MANAGEMENT

Employment

The Group had an average of 109 thousand employees in 2015. We are committed to ensuring equal employment opportunities and protecting the rights of female employees. Amongst our employees, 25% are aged 29 or below, 49% are aged 34 or below, and 66% are aged 39 or below. Our employees are located primarily in the PRC with certain located in the other districts such as Africa and Southeast Asia. Our employees are divided into contract employees, dispatched employees, part-time employees and other employees.

We have actively refined our employment structure in accordance with the relevant national labour management laws and regulations. The Group implements strict recruitment and employment policies and has not been involved in child or forced labour.

We consider our employees as an important resource, attach much importance to safeguarding their interests, offer competitive remuneration packages and pay the relevant insurance. We established corporate annuity mechanism and our employees are entitled to national statutory holidays. We are committed to the career development of our employees and offer two different promotion paths for them — promotion for management functions and promotion for technical expertise. We implement a system that links our employees' remuneration and promotion to their work experience, capabilities and performance, which incentivises their proactivity.

The Group proactively cares about its employees and provides diverse solutions to address their requests on their work and life. We equip our base level operational units with the necessary production and living facilities, and continue to refine our poverty alleviation mechanism to help our employees with difficulties. In 2015, we addressed 1,347 issues and helped 1,362 employees in difficulties with relief funds of RMB2.57 million.

Development and Training

We attach great importance to training and have established a three-tier training system covering the headquarters, provincial companies and professional companies to teach knowledge and skills according to the practical situations of our employees. 100% of the senior and middle management have attended the trainings, whilst over 90% of other employees have attended. In addition, the Group attaches great importance to the skill advancement of its employees and encourages them to participate in trainings and examinations proactively.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

We actively promote our innovative activities for our employees by way of minor innovation, slight reformation and minor measures, with a focus on solving practical problems. In 2015, the Group recognised 25 innovations by our employees, whilst provincial companies also recognised 215 such innovations.

Each year, we conduct two-way exchanges between employees in the headquarters and the provincial companies, hold periodic training seminars on leadership for the exchange employees and the management. We attach importance to the selection and recommendation of management reserves and have gradually built up an adequate and high quality team with diverse background and sound structure.

Providing induction training for new employees

Team building activity

OPERATIONAL MANAGEMENT

Health and Safety

The Group is committed to safe production, consistently complies with the requirements of laws and regulations such as the *PRC Labour Law*, *PRC Safe Production Law* and *PRC Fire Services Law* as well as the requirements of the government and has established a sound work safety management department and safety management rules. The Group conducts in-depth promotion, education and training, on work safety, and enhances work safety awareness and consciousness of its employees. We have fully implemented a work safety accountability system and assign such responsibilities to each position and every employee. We have also proactively improved work environment and adopted work protection and health care measures. In addition, the Group has intensified its efforts in work safety supervision and inspection, increased investment in work safety and rectified causes for potential incidents so as to secure a normal corporate production order and, in turn, create a safe environment.

Inspection work on production safety

In 2015, the Group did not experience any major work safety incidents.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Supply Chain Management

We have formulated the relevant administrative rules on procurement in compliance with relevant laws and regulations such as the *PRC Contract Law and the PRC Tender Law,* strengthened the monitoring and control over key procedures of, among other things, contract execution, safety management, financial settlement, monitoring and supervision, and strictly implemented the suppliers admission, assessment and exit mechanisms. Meanwhile, we conduct trainings on specific skills and safety education to all personnel in the supply chain and regulate the work safety administration so as to ensure that the remuneration payment and employment management of the supplier comply with relevant national and local requirements.

The Group has considered operation outsourcing as the key area of audit and supervision. We conduct review on supplier admission, tendering and bidding as well as outsourcing pricing by ways of, among other things, audit and credit verification, with a view to preventing illegal and non-compliant activities such as violation of the administration measures of the Company and interests conveyance.

Product Liability and Customers

As a communications service enterprise, the Group is always committed to providing high quality, efficient and safe services for customers and contributes to the improvement of communications infrastructure and the protection of an effective communications network of the PRC. We have participated in a number of telecommunications network restoration work for major disasters and safety incidents to fulfil our corporate social responsibility. In 2015, after the natural disasters in Tibet, Zhejiang and Fujian, the Group proactively assisted customers to repair communication lines to provide a smooth communications network, and also delivered outstanding performance in post-earthquake reconstruction in Nepal.

Award for quality construction services from our clients

Post-disaster restoration of base station

Anti-corruption

The Group consistently complies with laws and regulations, social integrity, commercial ethics and industrial standards. We have been devoted to safeguarding the interests of investors and creditors, protecting intellectual property and executing contracts in good faith. We honour commercial credibility and oppose improper competition with a view to preventing corruption in business activities.

We have strengthened anti-corruption and disciplinary education in various ways, such as seminars, trainings and themed conferences to facilitate the education of anti-corruption and discipline to draw the awareness of relevant requirements by our employees. In addition, we reinforce our daily supervision by combined supervision efforts such as audit and monitoring, and strictly prevent activities such as bribery, blackmail, fraud and money laundering. The Group has established departments in charge of discipline, inspection and supervision at different levels, set up a smooth channel for identifying and resolving existing problems in a timely manner. We have attached great importance to the establishment of an anti-corruption system, established an accountability system to clearly define responsibilities and anti-corruption responsibility letter was signed with the relevant responsible parties. In respect of relevant illegal and non-compliant activities, the Group will address these seriously according to the requirements of laws, disciplines and rules, with a view to safeguarding the normal operation of its businesses.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

COMMUNITY PARTICIPATION

The Group has proactively assisted the PRC government and society to address the employment problem and offered a large number of job opportunities to the public, and contributed to alleviating employment pressure. Whilst accelerating its own development, the Group is devoted to supporting social charity and proactively alleviate poverty by giving assistance to those in need. It also actively participates in charity affairs in education, culture and sports. In 2015, the Group made charitable and other donations of RMB0.36 million in total.

Establishment of volunteer team

The Group contributes to social safety with the help of informatization. We have tailor-made and constructed a remote monitoring and alarm network system in rural credit co-operatives in the Guangxi Zhuang Autonomous Region. We have also reinforced security by integrating technology, manpower and securing facilities. The Group has played a critical role in the improvement of security management standards and the capability of guaranteeing security services of rural co-operative financial institutions, and promoted economic development in new rural areas.

We also provide informatization services in Africa to facilitate the standard of informatization. As an EPC contractor, the Group undertook the national ICT fiber cable backbone transmission network project in Tanzania. By constructing such a backbone, regional and professional network, we have improved Tanzania's informatization capacity, thereby driving the economic development. Tanzania has become an important hub of communications in eastern Africa, and raised the influence of the country. We employed over 8,000 local employees for the construction of the Tanzania project and over 100 local employees upon completion and effectively resolved the employment issue. The project has already been regarded as a classic sample of "Sino-Tanzania friendship" and economic co-operation between the two countries.

INVESTOR RELATIONS

The Company attaches much importance to build up good relations and maintain close communications with the capital market since our listing, and strives to implement highly effective investor relations measures. In 2015, the Company continued to improve the standard of investor relations works by adhering to the principle of accuracy, timeliness and effectiveness. We maintained proactive and effective interactive communications with the shareholders and investors through diversified communication channels, so as to facilitate the continuous development and enhancement of the Company's long-term investment value with an aim to provide better return to the shareholders and investors.

The Company keeps improving the two-way communication mechanism with the capital market to enhance the effectiveness of investor relations practice. The Company maintains timely and effective communications with the shareholders and investors and enhances the understanding and confidence of the market in the Company, at the same time closely monitor the feedback from the capital market to ensure the management has comprehensive understanding towards the investors' suggestions, advice and expectation of the Company, which provides reference to the formulation of more comprehensive future development strategies, thus fully enhancing and realizing the investment value of the Company.

INVESTOR RELATIONS ACTIVITIES

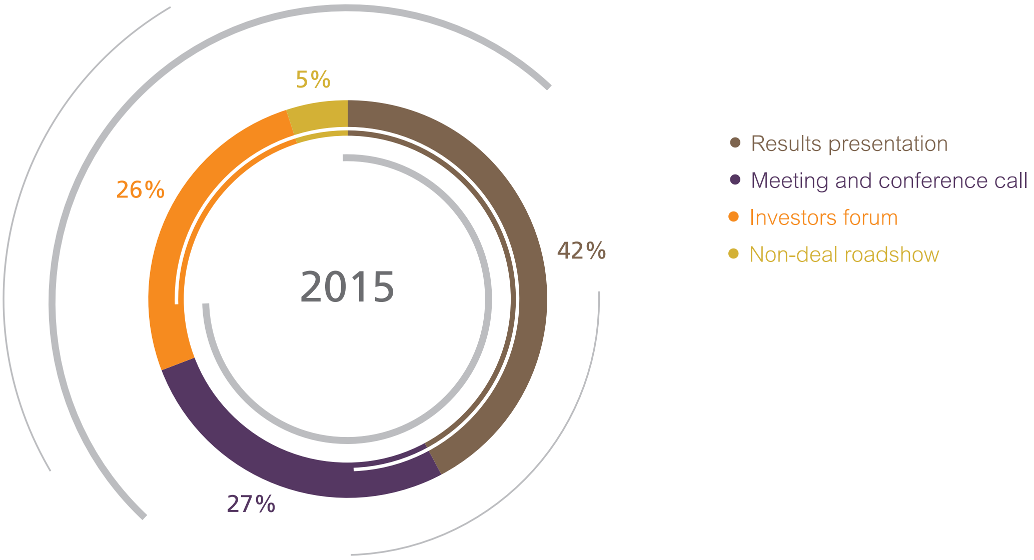
In 2015, the Company continued to enhance the two-way interactive communications with the capital market on a fair, just and transparent basis, so as to disseminate the core values and development targets of the Company, and strove to maintain good corporate image and gain high recognition from the market and increase investors' confidence in the Company.

The Company continues to maintain direct and effective communications with the capital market through investor and press conferences, non-deal roadshows, investor forums organized by investment banks, one-on-one meetings, teleconferences and video conferences, and timely disseminates important information such as operation and development updates and release of results of the Company to the capital market through various channels including emails, press releases as well as investor relations website. In 2015, the senior management and the investor relations department of the Company held meetings and effectively communicated with around 400 analysts and investors through the above channels.

2015 Annual Results Presentation

INVESTOR RELATIONS

ATTENDANCE ANALYSIS OF INVESTOR RELATIONS ACTIVITIES IN 2015



LIST OF INVESTOR RELATIONS ACTIVITIES OF THE COMPANY IN 2015

Date	Activities	Venue
1/2015	DB Access China Conference 2015	Beijing
3/2015	2014 Annual Results Announcement – Analyst Briefing – Press Conference	Hong Kong
3/2015	Non-deal Roadshow	Hong Kong
5/2015	Macquarie Greater China Conference 2015	Hong Kong
5/2015	Nomura China TMT Corporate Day 2015	Hong Kong
5/2015	BNP Paribas 6th Asia Pacific TMT Conference	Hong Kong
6/2015	Nomura Investment Forum Asia 2015	Singapore
8/2015	2015 Interim Results Announcement – Analyst Briefing – Press Conference	Hong Kong
8/2015	Non-deal Roadshow	Hong Kong
10/2015	Jefferies 5th Annual Greater China Summit	Hong Kong
11/2015	Citi 10th China Investor Conference	Macau
11/2015	Goldman Sachs China Conference 2015	Shanghai
12/2015	Barclays 2015 Asia TMT Conference	Hong Kong

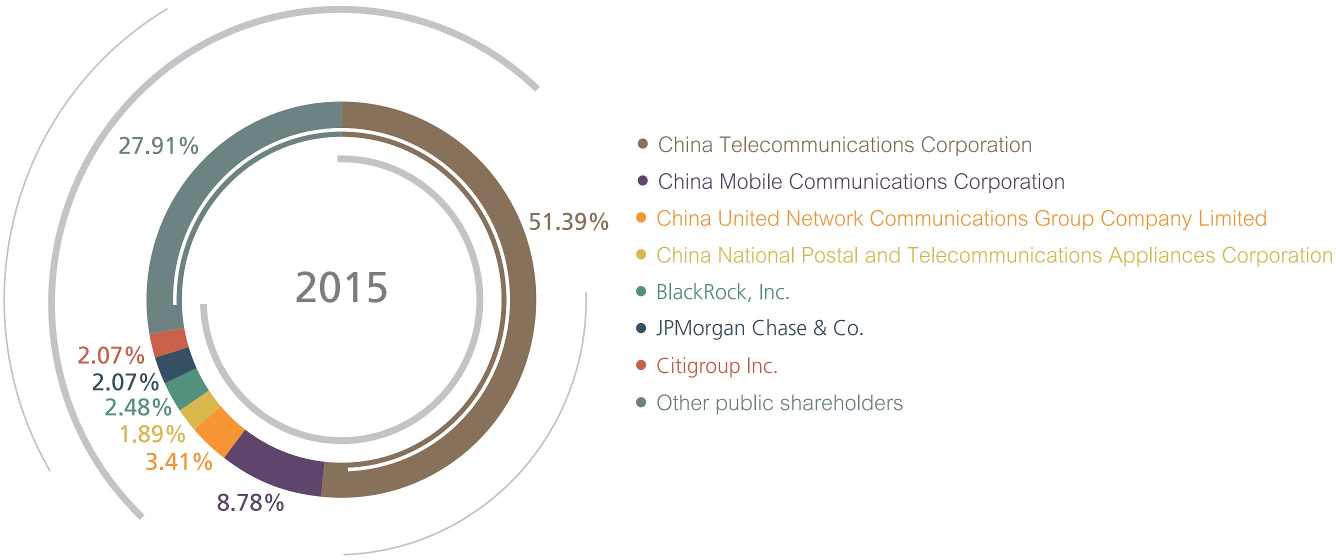
INVESTOR RELATIONS

SHAREHOLDING STRUCTURE

In 2015, the Company continued to appoint an international survey company to conduct two comprehensive surveys on the shareholding structure. Through understanding of the shareholding structure and position changes of shareholders, background, geographical distribution and investment styles, the Company was able to conduct more targeted interactive communications proactively with its shareholders and investors, thus enhancing the effectiveness of its investor relations program.

The Company's shares have been admitted in the Shanghai-Hong Kong Stock Connect Programme and open for trading by investors from Mainland China from November 2014 onwards. According to the information from the Central Clearing and Settlement System operated by the Hong Kong Securities Clearing Company Limited, as at 31 December 2015, 3.35% of the issued H share capital of the Company was held by the investors from Mainland China through China Securities Depository and Clearing Corporation Limited.

SHAREHOLDING STRUCTURE[1] AS OF 31 DECEMBER 2015



[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".

INVESTOR RELATIONS

INFORMATION DISCLOSURE

The Company firmly believes that information disclosure is not only the responsibility and obligation that must be discharged by a listed company in accordance with the regulatory requirements for the protection of investors' interest, but also an effective way 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 by consistently adhering to the principle of timely, just, fair and accurate. In 2015, the Company published more than twenty 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 voluntary disclosures as well as awards received from the capital market.

In 2015, the Company published the following information on the websites of the Stock Exchange and the Company pursuant to the Listing Rules:

19/01/2015	Poll results of the extraordinary general meeting held on 19 January 2015 and appointment of executive director
19/01/2015	Announcement of appointment of chairman and authorized representative
19/01/2015	Announcement of list of directors and their role and function
06/03/2015	Announcement relating to date of board meeting to approve the 2014 annual results
25/03/2015	Announcement of annual results for the year ended 31 December 2014
20/04/2015	Annual report 2014
20/04/2015	Notice of the annual general meeting to be held on 26 June 2015, form of proxy and attendance slip
20/04/2015	Circular relating to the proposed re-election of directors and supervisors and notice of annual general meeting
05/05/2015	Articles of Association
01/06/2015	Circular relating to the supplemental notice of annual general meeting
01/06/2015	Supplemental notice of annual general meeting to be held on 26 June 2015 and supplemental form of proxy
26/06/2015	Poll results of the annual general meeting held on 26 June 2015, payment of final dividend and appointments of directors and supervisors
26/06/2015	Announcement of list of directors and their role and function
07/08/2015	Announcement relating to the date of board meeting to approve the 2015 interim results
26/08/2015	Announcement of interim results for the six months ended 30 June 2015
14/09/2015	Interim report 2015
29/09/2015	Announcement relating to the revision of annual caps, continuing connected transactions and proposed new annual caps
29/09/2015	Announcement of appointment of deputy chief financial officer
22/10/2015	Notice of the extraordinary general meeting to be held on 11 December 2015, form of proxy and attendance slip
22/10/2015	Circular relating to the revision of annual caps, continuing connected transactions and proposed new annual caps
20/11/2015	Supplemental notice of extraordinary general meeting to be held on 11 December 2015 and supplemental form of proxy
20/11/2015	Circular relating to the supplemental notice of extraordinary general meeting
11/12/2015	Poll results of the extraordinary general meeting held on 11 December 2015
11/12/2015	Announcement of resignation and appointment of supervisor

INVESTOR RELATIONS

Other than announcements and circulars, the Company's website (http://www.chinaccs.com.hk) is also one of the important channels for corporate information disclosure and provides a more convenient and efficient information platform for the investors. The financial information, stock information, annual reports and investor activities of the Company, which are the information the capital market and investors concern about, are systematically disclosed in the "Investor Relations" section of the website of the Company. The Company also timely updates the content of the website to keep the investors abreast of the Company's latest development with comprehensive understanding.

Annual report is not only an important document for information disclosure of a listed company, but also one of the important means to disclose the operation philosophy, strategies, current operating performance and development trends of the Company to the investor community in detail. Hence, the Company attaches much importance to the preparation of annual reports. Through the detailed disclosures in the annual report, investors are able to have adequate and more comprehensive understanding of the Company.

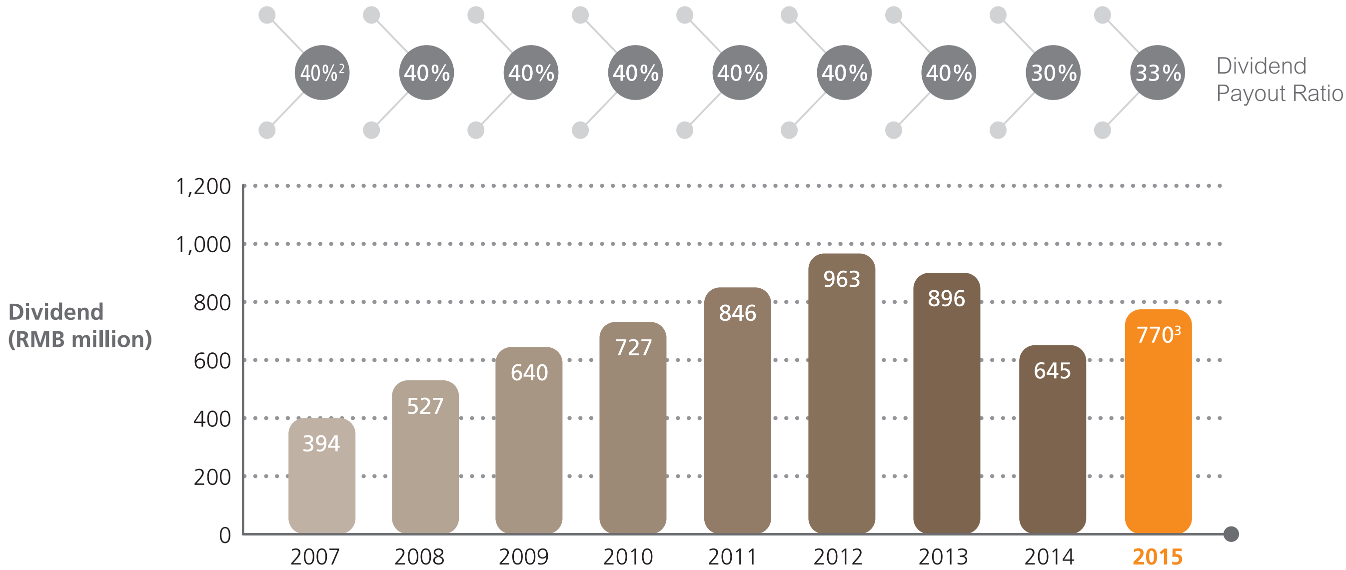
The effort of the Company put in the preparation of annual report continued to receive recognition. In 2015, the 2014 annual report of the Company won the Grand Award in the category of "Best of Cover Design" at the "2015 International ARC Awards", and ranked the 22nd in "Regional Top 50" (Asia-Pacific) and received a Gold Award from the League of American Communications Professionals (LACP).

INVESTOR RELATIONS

DIVIDEND

The Company always attaches importance to our return to shareholders since our listing, and determines its dividend for the year with reference to factors such as the Company's current year performance results, financial position, cash flow, long-term development needs and investment opportunities. In 2015, in view of the Group's outstanding operating results and free cash flow for the year and the confidence in future development, the Board has proposed to distribute final dividend of RMB0.1011 per share (equivalent to a payout ratio of 30%), and a special dividend of RMB0.0101. Total dividend for 2015 is RMB0.1112 per share (equivalent to a payout ratio of 33%).

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



[2] The 2007 dividend payout ratio has been calculated after deducting the net profit contributed by the business in 13 provinces before 31 August 2007 (being the completion date of the acquisitions) when such business was acquired by the Company.

[3] Subject to the approval at the 2015 annual general meeting to be held on 24 June 2016.

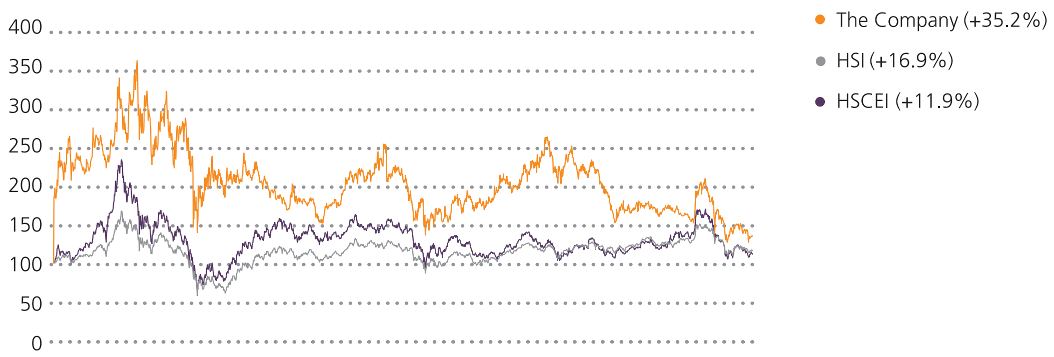
INVESTOR RELATIONS

SHARE PRICE PERFORMANCE

The H shares issued by the Company 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 firmly captured various development opportunities arising from the industry and adapted to the policy environment and achieved sustainable and steady development 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 favourable overall performance since its listing to 31 December 2015.

Share Price Performance Since Listing

From 8 December 2006 to 31 December 2015

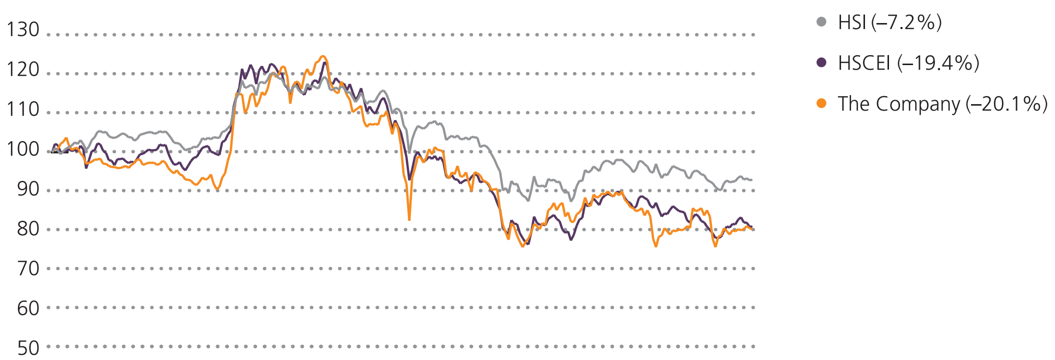


In 2015, against the backdrop of the changing macro-economic environment and a series of policies introduced by the Chinese government, both the industry and market environment encountered different levels of changes and the Hong Kong stock market fluctuated and showed a downward trend. Facing the dual impact of capital market fluctuation and changes in industrial environment, the Company proactively implemented its investor relations program and communicated with the capital market in a timely and effective manner, such that the investors can have a more comprehensive and in-depth understanding towards the Company's current operation and long-term future prospects with a view to secure and strengthen investor's confidence. In 2015, the stock price of the Company remained relatively stable in the second half of the year after fluctuations in the first half. The Company's share price recorded a decline of around 20.1% for the whole year.

2015	Highest	Lowest	Closing
Price per H share of the Company (HK$)	4.69	2.69	2.91

Share Price Performance in 2015

From 1 January 2015 to 31 December 2015



As at 31 December 2015, the total number of shares of 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 number of shares of the Company. Based on the closing price as of 31 December 2015, the Company's market capitalization was about HK$20.2 billion.

INVESTOR RELATIONS

MAJOR AWARDS AND RECOGNITIONS IN 2015

1. **"Leadership 100 Awards" by *International Finance Magazine***
   - President, Mr. Si Furong

2. **"Corporate Governance Asia Recognition Awards 2015" by *Corporate Governance Asia***
   - The Best of Asia — Icon on Corporate Governance

3. **"Asian Excellence Recognition Awards 2015" by *Corporate Governance Asia***
   - Best Chief Financial Officer
   - Best Investor Relations

4. **"The List of Best Listed Companies" by *FORTUNE China***
   - The Best Risk Management Company

5. **"The Asset Corporate Awards 2015" by *The Asset***
   - Gold Award — Financial Performance, Corporate Governance and Investor Relations

6. **"2015 China Securities Golden Bauhinia Awards" by *Tai Kung Pao***
   - The Best Listed Company in Corporate Governance

7. **"2015 International ARC Awards"**
   - Grand Award — "Best of Cover Design"

8. **"Vision Awards" by *LACP***
   - Regional Top 50 (Asia-Pacific) — rank 22nd
   - Gold Award

9. **"2015 FORTUNE China 500" published by *FORTUNE China***
   - Rank 78th

INVESTOR RELATIONS

RECOGNITIONS AND HONOURS 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 2015, there were more than 10 international investment banks and research institutions covering and regularly publishing research reports on the Company. Since its listing, the Company's investment value has been recognized by the capital market. As of 31 December 2015, major research institutions maintained positive investment ratings such as "Buy" or "Hold" on the Company.

The Company continued to receive recognition from the capital market. In 2015, the Company was awarded many major international awards. *International Finance Magazine*, a British financial magazine, awarded the "Leadership 100 Award in 2015" to the President of the Company Mr. Si Furong, while *Corporate Governance Asia*, an authoritative journal on corporate governance in Asia, issued the honour of "Best Chief Financial Officer" to Ms. Hou Rui, our Chief Financial Officer for two consecutive years, which reflected the high recognition from the capital market on the Company's corporate governance standard. Moreover, various authoritative institutions, such as *Fortune China, Corporate Governance Asia* and *The Asset* also offered recognitions and awards to the Company in respect of corporate governance, investor relations and risk management. Moreover, the Company received various important awards from international assessment institutions in respect of the design and production of the Company's annual report. Such awards and honours showed the Company's efforts in various aspects and indicated the high recognition from 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

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the annual general meeting of China Communications Services Corporation Limited (the "Company") for the year 2015 will be held at 10:00 a.m. on Friday, 24 June 2016 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 2015 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 2016;

2. **THAT** the profit distribution proposal and the declaration and payment of a final dividend for the year ended 31 December 2015 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 2016 be considered and approved, and the Board be authorized to fix the remuneration of the auditors;

4. **THAT** the election of Mr. Liu Linfei as an independent non-executive director of the Company be and is hereby considered and approved, with effect from the date on which this resolution is passed 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. Liu Linfei, and **THAT** the Board be and is hereby authorized to determine his 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

5. 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:

   5.1. **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.

NOTICE OF ANNUAL GENERAL MEETING

5.2. **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.

5.3. **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.

6. **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

NOTICE OF ANNUAL GENERAL MEETING

(d) for the purpose of this special resolution 6:

"Relevant Period" means the period from the passing of special resolution 6 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.

7. **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 6, 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
22 April 2016

Notes:

(1) Profiles of the proposed director

Mr. Liu Linfei, aged 59, an attorney and a senior partner of Jun He Law Offices. He graduated from the Heilongjiang University with a bachelor degree in 1982 and obtained a Master of Laws from the University of International Relations in Beijing in 1985, after which he served in the research office under the Standing Committee of the National People's Congress. He went to the United States in the autumn of 1987 and studied in the School of Advanced International Studies, Johns Hopkins University and served as an intern in the Congress of the United States. He enrolled in the School of Law of the University of Kansas in the United States in 1989 and graduated in 1992 with a Juris Doctor degree, after which he practiced in a law firm in the United States after his graduation and was qualified as a practicing lawyer in the United States. He joined the Jun He Law Offices as a partner in early 1995. His practice primarily covers international legal affairs, in particular, foreign direct investment, international mergers and acquisitions and infrastructure and project finance.

Except for those stated in this notice, Mr. Liu did not hold any directorship in public companies, the securities of which are listed on any securities market in Hong Kong or overseas, or taken up a post in any affiliated companies of the Company in the past three years. In addition, Mr. Liu does not have any relationship with any other director, supervisor, senior management, substantial shareholder or controlling shareholder of the Company. Mr. Liu does not have any equity interest in the Company within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

Mr. Liu will be elected subject to approval by the shareholders at the AGM, and his term will be effective from the date when the resolution in relation to his election is passed. The remuneration of Mr. Liu will be determined with reference to his duties, responsibilities, experience as well as the current market situations.

Except for those stated in this notice, the Company considers that there is no other information relating to Mr. Liu to be disclosed pursuant to Rule 13.51(2) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited nor any matter which needs to be brought to the attention of the shareholders of the Company.

NOTICE OF ANNUAL GENERAL MEETING

(2) Buyers who submit the share transfer application forms to the Company's share registrar before 4:30 p.m. on Tuesday, 24 May 2016 and then register as shareholders on the register of members of the Company are entitled to attend the annual general meeting.

(3) 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 2015, which is expected to be despatched to shareholders on around Friday, 22 April 2016.

(4) 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

(5) All resolutions at the general meeting will be voted by poll.

(6) 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 Friday, 3 June 2016.

(7) 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 to be held on Friday, 24 June 2016 (the "Annual General Meeting"), from Wednesday, 25 May 2016 to Friday, 24 June 2016 (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, 24 May 2016. H share shareholders who are registered with Computershare Hong Kong Investor Services Limited on Friday, 24 June 2016 are entitled to attend the Annual General Meeting.

(b) Proposed Final Dividend and Special Dividend

The Board proposes a final dividend of RMB0.1011 per share and a special dividend of RMB0.0101 per share, and the total dividend is RMB0.1112 per share (pre-tax) for the year ended 31 December 2015. The dividend proposal will be submitted for consideration at the Annual General Meeting. If such proposed dividend distribution is approved by the shareholders, the final dividend and special dividend will be distributed to those shareholders whose names appear on the register of members of the Company on Tuesday, 12 July 2016. The register of members will be closed from Thursday, 7 July 2016 to Tuesday, 12 July 2016 (both days inclusive). In order to be entitled to the final dividend and special 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 Wednesday, 6 July 2016.

NOTICE OF ANNUAL GENERAL MEETING

Dividends will be denominated and declared in Renminbi. Dividends will be paid in Renminbi for holders of domestic shares and holders of H shares (including enterprises and individuals) who invest in the H shares of the Company listed on the Hong Kong Stock Exchange through the Shanghai Stock Exchange ("the Southbound Trading Link") (the "Southbound Shareholders"), and dividends for H share shareholders other than the Southbound Shareholders 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 approval of declaration of dividends by the Annual General Meeting. The record date for entitlement to the shareholders' rights and the relevant arrangements of dividend distribution for Southbound Shareholders are the same as those for the Company's H share shareholders. The proposed dividends are expected to be paid on or about Thursday, 18 August 2016 upon approval at the Annual General Meeting.

(8) 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.

(9) 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

INDEPENDENT AUDITOR'S REPORT

Deloitte.
德勤

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 94 to 170, which comprise the consolidated statement of financial position as at 31 December 2015, 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 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.

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 financial position of the Group as at 31 December 2015, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
31 March 2016

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2015

	Notes	2015 RMB'000	2014 RMB'000
Revenues	4	**80,959,946**	73,176,252
Cost of revenues	5	**(69,572,305)**	(62,494,549)
Gross profit		**11,387,641**	10,681,703
Other operating income	6	**854,051**	805,579
Selling, general and administrative expenses		**(9,306,152)**	(8,777,028)
Other operating expenses	7	**(109,170)**	(84,638)
Finance costs	8	**(51,392)**	(20,430)
Share of profits of associates		**49,985**	25,700
Profit before tax	9	**2,824,963**	2,630,886
Income tax	10	**(487,446)**	(463,088)
Profit for the year		**2,337,517**	2,167,798
Attributable to:			
Equity shareholders of the Company		**2,334,412**	2,150,258
Non-controlling interests		**3,105**	17,540
Profit for the year		**2,337,517**	2,167,798
Basic earnings per share (RMB)	15	**0.337**	0.310

The notes on pages 102 to 170 form part of these consolidated financial statements. Details of dividend paid or proposed to equity shareholders of the Company attributable to the profit for the year are set out in note 14.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2015

	Notes	2015 RMB'000	2014 RMB'000
Profit for the year		**2,337,517**	2,167,798
Other comprehensive income (expense) for the year (after tax)			
Items that may be subsequently reclassified to profit or loss (after tax):			
Exchange differences on translation of financial statements of subsidiaries outside Mainland China		**27,511**	(7,755)
Available-for-sale securities: net movement in the fair value reserve	11	**13,865**	8,698
		41,376	943
Total comprehensive income for the year		**2,378,893**	2,168,741
Attributable to:			
Equity shareholders of the Company		**2,375,752**	2,151,087
Non-controlling interests		**3,141**	17,654
Total comprehensive income for the year		**2,378,893**	2,168,741

The notes on pages 102 to 170 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2015

	Notes	31 December 2015 RMB'000	31 December 2014 RMB'000
Non-current assets			
Property, plant and equipment, net	16	**4,331,796**	4,538,844
Investment properties	17	**658,186**	682,289
Construction in progress	18	**360,977**	234,890
Lease prepayments	19	**793,586**	872,348
Goodwill	20	**103,005**	103,005
Other intangible assets	21	**269,231**	249,618
Interests in associates	22	**117,196**	67,211
Available-for-sale financial assets	23	**865,072**	838,778
Deferred tax assets	24	**408,869**	331,854
Other non-current assets	25	**636,375**	634,084
Total non-current assets		**8,544,293**	8,552,921
Current assets			
Inventories	26	**2,883,989**	2,420,898
Accounts and bills receivable, net	27	**27,520,829**	27,441,198
Prepayments and other current assets	29	**6,873,074**	5,833,187
Restricted deposits	30	**2,555,290**	1,199,411
Cash and cash equivalents	31	**9,535,851**	7,313,515
Total current assets		**49,369,033**	44,208,209
Total assets		**57,913,326**	52,761,130
Current liabilities			
Interest-bearing borrowings	32	**177,005**	246,818
Accounts and bills payable	33	**19,699,385**	18,815,568
Receipts in advance for contract work		**2,911,542**	1,578,088
Accrued expenses and other payables	34	**8,691,602**	7,424,966
Income tax payable		**309,261**	312,796
Total current liabilities		**31,788,795**	28,378,236
Net current assets		**17,580,238**	15,829,973
Total assets less current liabilities		**26,124,531**	24,382,894
Non-current liabilities			
Interest-bearing borrowings	32	**34,455**	38,708
Other non-current liabilities	35	**865,780**	787,642
Deferred tax liabilities	24	**14,687**	13,357
Total non-current liabilities		**914,922**	839,707
Total liabilities		**32,703,717**	29,217,943

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2015

	Notes	31 December 2015 RMB'000	31 December 2014 RMB'000
Equity			
Share capital	36	**6,926,018**	6,926,018
Reserves		**17,834,795**	16,103,855
Equity attributable to equity shareholders of the Company		**24,760,813**	23,029,873
Non-controlling interests		**448,796**	513,314
Total equity		**25,209,609**	23,543,187
Total liabilities and equity		**57,913,326**	52,761,130

The notes on pages 102 to 170 form part of these consolidated financial statements.

Approved and authorised for issue by the board of directors on 31 March 2016.

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 2015

		Equity attributable to equity shareholders of the Company											
	Notes	Share capital RMB'000	Share premium RMB'000 (note a)	Capital reserve RMB'000 (note b)	Statutory surplus reserve RMB'000 (note c)	Specific reserve RMB'000 (note d)	Fair value reserve RMB'000 (note e)	Exchange reserve RMB'000 (note f)	Other reserve RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance as at 1 January 2015		**6,926,018**	**4,529,310**	**1,846,468**	**751,084**	**103,450**	**30,861**	**(27,041)**	**(68,310)**	**8,938,033**	**23,029,873**	**513,314**	**23,543,187**
Changes in equity for the year ended 31 December 2015													
Profit for the year		—	—	—	—	—	—	—	—	2,334,412	2,334,412	3,105	2,337,517
Other comprehensive income		—	—	—	—	—	13,865	27,475	—	—	41,340	36	41,376
Total comprehensive income		—	—	—	—	—	13,865	27,475	—	2,334,412	2,375,752	3,141	2,378,893
Capital contribution from non-controlling interests		—	—	—	—	—	—	—	—	—	—	1,563	1,563
Dividend declared	14(b)	—	—	—	—	—	—	—	—	(644,812)	(644,812)	—	(644,812)
Distribution to non-controlling interests		—	—	—	—	—	—	—	—	—	—	(69,222)	(69,222)
Appropriation		—	—	—	105,066	—	—	—	—	(105,066)	—	—	—
Appropriation of specific reserve		—	—	—	—	399,553	—	—	—	(399,553)	—	—	—
Utilisation of specific reserve		—	—	—	—	(365,626)	—	—	—	365,626	—	—	—
Balance as at 31 December 2015		**6,926,018**	**4,529,310**	**1,846,468**	**856,150**	**137,377**	**44,726**	**434**	**(68,310)**	**10,488,640**	**24,760,813**	**448,796**	**25,209,609**
Balance as at 1 January 2014		6,926,018	4,529,310	1,846,468	664,801	72,142	30,861	(27,870)	(68,310)	7,799,343	21,772,763	515,259	22,288,022
Changes in equity for the year ended 31 December 2014													
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	14(b)	—	—	—	—	—	—	—	—	(895,534)	(895,534)	—	(895,534)
Distribution to non-controlling interests		—	—	—	—	—	—	—	—	—	—	(19,599)	(19,599)
Appropriation		—	—	—	86,283	—	—	—	—	(86,283)	—	—	—
Appropriation of specific reserve		—	—	—	—	333,274	—	—	—	(333,274)	—	—	—
Utilisation of specific reserve		—	—	—	—	(301,966)	—	—	—	301,966	—	—	—
Others		—	—	—	—	—	—	—	—	1,557	1,557	—	1,557
Balance as at 31 December 2014		6,926,018	4,529,310	1,846,468	751,084	103,450	30,861	(27,041)	(68,310)	8,938,033	23,029,873	513,314	23,543,187

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.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2015

Notes: (Continued)

(c) Statutory surplus reserve

According to the People's Republic of China (the "PRC") Company Law and the Articles of Association of the Company and its PRC subsidiaries, these companies are required to transfer 10% of their respective net profit as determined in accordance with the PRC Accounting Rules and Regulations to the 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 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.

The amount represents the statutory surplus reserve appropriated by the Company and the statutory surplus reserve appropriated by the Company's subsidiaries is not presented.

For the year ended 31 December 2015, the Company transferred RMB105 million (2014: 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

Pursuant to the relevant PRC regulations, the Group appropriated and utilised the provision for production safety. The Group is required to make a transfer for the provision for production safety from retained earnings to a specific reserve. The provision for production safety could be utilised when expenses or capital expenditures on production safety measures are incurred. The amount of the provision for production safety 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 2015

	Notes	2015 RMB'000	2014 RMB'000
Operating activities			
Profit before tax		2,824,963	2,630,886
Adjustments for:			
Depreciation and amortisation		845,518	840,742
Impairment losses on accounts and bills and other receivables		583,792	329,569
Impairment losses on property, plant and equipment and construction in progress		—	454
Impairment losses on inventories		63,260	17,609
Interest income		(143,392)	(94,605)
Finance costs		51,392	20,430
Share of profits of associates		(49,985)	(25,700)
Dividend income		(63,857)	(63,083)
Changes in fair value of financial derivatives		(3,524)	1,969
Gain on partial disposal of an associate and other investments		—	(69,411)
(Gain)/loss on disposal of property, plant and equipment and other intangible assets, net		(29,013)	2,274
Exchange differences		41,118	15,099
Write-back of non-payable liabilities		(34,443)	(23,889)
Operating profit before changes in working capital		4,085,829	3,582,344
Increase in inventories		(526,351)	(210,293)
Increase in accounts and bills receivable		(583,468)	(2,659,181)
Increase in prepayments and other current assets		(1,347,048)	(1,209,483)
Increase in accounts and bills payable		871,498	1,734,784
Increase in receipts in advance for contract work		1,333,454	414,059
Increase in accrued expenses and other payables		1,353,086	410,672
Net cash inflow from operations		5,187,000	2,062,902
Interest paid		(50,334)	(20,042)
Interest received		126,758	89,516
Income tax paid		(575,613)	(523,522)
Net cash generated from operating activities		4,687,811	1,608,854

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2015

	Notes	2015 RMB'000	2014 RMB'000
Investing activities			
Payments for purchase of property, plant and equipment and other intangible assets		**(811,769)**	(794,595)
Proceeds from disposal of property, plant and equipment and other intangible assets		**161,637**	13,784
Restricted bank deposits paid		**(1,102,061)**	(64,265)
Dividends received		**63,727**	78,251
Proceeds from disposal of investments		**1,463**	190,843
Payments for acquisition of investments		**(750)**	(300,140)
Other cash paid related to investing activities		**(623)**	(552)
Other cash received related to investing activities		**2,212**	—
Net cash used in investing activities		**(1,686,164)**	(876,674)
Financing activities			
Proceeds from bank and other loans		**225,813**	995,468
Repayments of bank and other loans		**(302,502)**	(209,500)
Dividends paid		**(716,142)**	(942,019)
Net cash used in financing activities		**(792,831)**	(156,051)
Increase in cash and cash equivalents		**2,208,816**	576,129
Cash and cash equivalents at beginning of year		**7,313,515**	6,760,237
Effect of foreign exchange rate changes		**13,520**	(22,851)
Cash and cash equivalents at end of the year	31	**9,535,851**	7,313,515

The notes on pages 102 to 170 form part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

1. PRINCIPAL ACTIVITIES AND ORGANISATION

(a) Principal activities

China Communications Services Corporation Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") is a leading integrated service provider to the telecommunications, media and technology industries in the People's Republic of China (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 services (including management of infrastructure for information technologies business, general 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 management of infrastructure for information technologies business, general 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 3,623.40 million ordinary shares with a par value of RMB1.00 each.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

1. PRINCIPAL ACTIVITIES AND ORGANISATION (continued)

(b) Organisation (continued)

(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 management of infrastructure for information technologies business, general 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.

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 over-allotment 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

1. PRINCIPAL ACTIVITIES AND ORGANISATION (continued)

(b) Organisation (continued)

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.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

The provisions of the new Hong Kong Companies Ordinance (Cap. 622) regarding preparation of accounts and directors' reports and audits became effective for the Company for the financial year ended 31 December 2015. Further, the disclosure requirements set out in the Listing Rules regarding annual accounts have been amended with reference to the new CO. Accordingly the presentation and disclosure of information in the consolidated financial statements for the financial year ended 31 December 2015 have been changed to comply with these new requirements. Comparative information in respect of the financial year ended 31 December 2014 are presented or disclosed in the consolidated financial statements based on the new requirements. Information previously required to be disclosed under the predecessor CO or Listing Rules but not under the new CO or amended Listing Rules are not disclosed in these consolidated financial statements.

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. 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 the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2015 comprise the Group and its interests in associates.

The measurement basis used in the preparation of the consolidated 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.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 Share-based Payment, leasing transactions that are within the scope of IAS 17 Leases, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 Inventories or value in use in IAS 36 Impairment of Assets.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

The preparation of financial statements in accordance 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 amounts 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 41.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

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 2015

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 Financial Instruments: Recognition and Measurement, or when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

(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, after reassessment). 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 after reassessment.

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. 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)).

Investments in securities which do not fall into the above category are classified as available-for-sale securities carried at fair value. 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 equity 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 estimated residual value, if any, using the straight-line method over their estimated 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

The useful life of an asset and its residual value, if any, and depreciation method are reviewed annually.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

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 land use rights paid to the PRC's government authorities. Land use rights 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 2015

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.

Lease payments made under an operating lease 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 receivables

Investments in debt and equity securities classified as available-for-sale securities and other current and non-current receivables that are stated at amortised cost 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Impairment of assets (continued)

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

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)(ii). 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)(ii).

— 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.

— 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 carried at fair value that is considered to be impaired, 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 carried at fair value 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Impairment of assets (continued)

(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; and

— other intangible assets.

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 for which the future cash flow estimates have not been adjusted. 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 or zero.

— **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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Inventories

Inventories are carried at the lower of cost and net realizable 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 realizable 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 realizable 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.

(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 consolidated 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 amortised 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 amortised 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 amortised cost.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 recognised immediately to profit or loss, except where the derivative qualify for cash flow hedge accounting or hedge the net investment in a foreign operation.

(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.

(ii) Share appreciation rights scheme

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 until the liability is settled 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 38.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

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

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.

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 realization 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) Income tax (continued)

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 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, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

(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.

(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) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(w) Revenue recognition (continued)

(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 2015

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 income 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 currency of the Company and the presentation currency of the Group 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. Assets and liabilities of foreign operations 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 reclassify 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 development 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 2015

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 provide 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 43).

(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 2015

3. CHANGES IN ACCOUNTING POLICIES

The IASB has issued several amendments to IFRSs that are first effective for the current year of the Group:

Amendments to IAS 19	Defined Benefit Plans: Employee Contributions
Amendments to IFRSs	Annual Improvements to IFRSs 2010–2012 Cycle
Amendments to IFRSs	Annual Improvements to IFRSs 2011–2013 Cycle

The application of the amendments to IFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

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:

	2015 RMB'000	2014 RMB'000
Revenue from telecommunications infrastructure services	**39,209,267**	34,008,077
Revenue from business process outsourcing services	**33,014,030**	31,215,423
Revenue from applications, content and other services	**8,736,649**	7,952,752
	80,959,946	73,176,252

The Group's major customers are telecommunications operators which include China Telecommunications Corporation 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 2015 amount to RMB39,130 million and RMB12,659 million, respectively (2014: RMB31,948 million and RMB13,279 million, respectively), being 48.3% and 15.6% of the Group's total revenues, respectively (2014: 43.7% and 18.1%, respectively). In addition, the revenues derived from areas outside of Mainland China for the year ended 31 December 2015 amounts to RMB3,225 million (2014: RMB3,790 million).

5. COST OF REVENUES

	2015 RMB'000	2014 RMB'000
Depreciation and amortisation	**447,031**	450,741
Direct personnel costs	**8,731,020**	8,892,965
Operating lease charges	**1,318,185**	1,164,086
Purchase of materials and telecommunications products	**20,452,798**	20,190,921
Subcontracting charges	**31,811,771**	25,763,190
Others	**6,811,500**	6,032,646
	69,572,305	62,494,549

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

6. OTHER OPERATING INCOME

	2015 RMB'000	2014 RMB'000
Interest income	**143,392**	94,605
Dividend income from listed securities	**824**	822
Dividend income from unlisted securities	**63,033**	62,261
Government grants	**244,759**	210,126
Gain on partial disposal of an associate and other investments	**—**	69,411
Gain on disposal of property, plant and equipment and other intangible assets	**38,153**	6,421
Penalty income	**1,652**	1,909
Management fee income	**297,177**	286,403
Write-back of non-payable liabilities	**34,443**	23,889
Others	**30,618**	49,732
	854,051	805,579

7. OTHER OPERATING EXPENSES

	2015 RMB'000	2014 RMB'000
Impairment losses on property, plant and equipment and construction in progress	**—**	454
Loss on disposal of property, plant and equipment and other intangible assets	**9,648**	8,695
Donations	**362**	267
Penalty charge	**11,290**	14,852
Net foreign exchange loss	**41,118**	16,097
Others	**46,752**	44,273
	109,170	84,638

8. FINANCE COSTS

	2015 RMB'000	2014 RMB'000
Interest on bank and other borrowings	**24,005**	10,096
Interest for convertible preference shares and preference shares (note 35)	**27,387**	10,334
	51,392	20,430

For the years ended 31 December 2015 and 2014, no borrowing costs were capitalised in relation to construction in progress.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

9. PROFIT BEFORE TAX

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

		2015 RMB'000	2014 RMB'000
(a)	Staff costs:		
	Salaries, wages and other benefits	13,395,240	13,285,508
	Contributions to defined contribution retirement schemes	1,145,518	1,138,305
		14,540,758	14,423,813
(b)	Other items:		
	Depreciation		
	— Property, plant and equipment (note 16)	682,447	705,178
	— Investment properties (note 17)	41,490	43,270
	Amortisation		
	— Lease prepayments (note 19)	27,912	27,525
	— Other intangible assets (note 21)	93,669	64,769
	Auditors' remuneration	34,395	33,800
	Cost of inventories (note 26)	20,452,798	20,190,921
	Write-down of inventories (note 26)	64,712	18,666
	Reversal of write-down of inventories (note 26)	(1,452)	(1,057)
	Impairment losses on accounts and bills and other receivables	700,776	371,645
	Reversal of impairment losses on accounts and bills and other receivables	(116,984)	(42,076)
	Changes in fair value of financial derivatives	(3,524)	1,969
	Operating lease charges	1,601,101	1,451,817
	Research and development costs	2,038,016	1,780,923

The selling expenses, general and administrative expenses and other expenses of the Group are RMB1,406 million, RMB7,264 million and RMB636 million (2014: RMB1,209 million, RMB7,260 million and RMB308 million) respectively for the year ended 31 December 2015. Research and development costs include RMB1,591 million (2014: RMB1,389 million) relating to staff costs, amount of which is also included in the staff cost disclosed in note 9(a).

10. INCOME TAX

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

	2015 RMB'000	2014 RMB'000
Current tax		
PRC enterprise income tax	545,567	488,603
Overseas enterprise income tax	20,011	19,631
Deferred tax		
Origination and reversal of temporary differences (note 24)	(78,132)	(45,146)
Total income tax	487,446	463,088

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

10. INCOME TAX (continued)

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

	2015 RMB'000	2014 RMB'000
Profit before tax	**2,824,963**	2,630,886
Expected income tax expense at a statutory tax rate of 25% (2014: 25%) (note (i))	**706,241**	657,722
Differential tax rates on subsidiaries' income (note (i))	**(220,867)**	(195,847)
Non-deductible expenses (note (ii))	**135,387**	93,164
Non-taxable income	**(53,723)**	(46,940)
Tax losses not recognised	**59,058**	101,789
Utilisation of previously unrecognised tax losses	**(8,354)**	(6,604)
Over provision in respect of prior years	**(29,094)**	(29,516)
Effect of tax exemptions	**(1,362)**	(8,132)
Others (note (iii))	**(99,840)**	(102,548)
Income tax	**487,446**	463,088

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 2015 and 2014, 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 additional deductions in research and development expense.

11. OTHER COMPREHENSIVE INCOME

Available-for-sale securities

	2015 RMB'000	2014 RMB'000
Changes in fair value recognised during the year	**16,312**	10,233
Net deferred tax debited to other comprehensive income	**(2,447)**	(1,535)
Net movement in the fair value reserve during the year recognised in other comprehensive income	**13,865**	8,698

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

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 2015 are as follows:

	Fee RMB'000	Salaries, allowances and other benefits in kind RMB'000	Discretionary bonus RMB'000 (note)	Pension scheme contribution RMB'000	Share appreciation rights RMB'000	2015 Total RMB'000
Executive Directors						
Sun Kangmin (appointed on 19 January 2015)	—	—	—	—	—	—
Li Ping (resigned on 19 January 2015)	—	—	—	—	—	—
Si Furong	—	199	543	78	—	820
Hou Rui	—	140	488	70	—	698
	—	339	1,031	148	—	1,518
Non-Executive Directors						
Li Zhengmao	—	—	—	—	—	—
Zhang Junan	—	—	—	—	—	—
	—	—	—	—	—	—
Independent Non-Executive Directors						
Wang Jun	200	—	—	—	—	200
Zhao Chunjun	150	—	—	—	—	150
Siu Wai Keung, Francis	260	—	—	—	—	260
Lv Tingjie (appointed on 26 June 2015)	75	—	—	—	—	75
Wu Taishi (appointed on 26 June 2015)	75	—	—	—	—	75
Wei Leping (resigned on 26 June 2015)	75	—	—	—	—	75
	835	—	—	—	—	835
Supervisors						
Xia Jianghua (resigned on 11 December 2015)	—	—	—	—	—	—
Han Fang (appointed on 11 December 2015)	—	—	—	—	—	—
Hai Liancheng	75	—	—	—	—	75
Si Jianfei	—	119	334	65	—	518
	75	119	334	65	—	593
Total directors' and supervisors' emoluments						2,946

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

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 2014 are as follows:

	Fee RMB'000	Salaries, allowances and other benefits in kind RMB'000	Discretionary bonus RMB'000 (note)	Pension scheme contribution RMB'000	Share appreciation rights RMB'000	2014 Total RMB'000
Executive Directors						
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
	—	338	691	138	—	1,167
Non-Executive Directors						
Li Zhengmao	—	—	—	—	—	—
Zhang Junan	—	—	—	—	—	—
	—	—	—	—	—	—
Independent Non-Executive Directors						
Wang Jun	200	—	—	—	—	200
Zhao Chunjun	150	—	—	—	—	150
Wei Leping	150	—	—	—	—	150
Siu Wai Keung, Francis	240	—	—	—	—	240
	740	—	—	—	—	740
Supervisors						
Xia Jianghua	—	—	—	—	—	—
Hai Liancheng	75	—	—	—	—	75
Si Jianfei	—	119	317	58	—	494
	75	119	317	58	—	569
Total directors' and supervisors' emoluments						2,476

Note:

The discretionary bonus is determined based on the performance of the directors and supervisors and the Group's operating results.

The emoluments of executive directors, Mr. Sun Kangmin and Mr. Li Ping, non-executive directors, Mr. Li Zhengmao and Mr. Zhang Junan, and supervisors, Ms. Han Fang and Ms. Xia Jianghua, were not borne by the Group.

The emoluments of executive directors, Mr. Si Furong and Ms. Hou Rui, were mainly for their services in connection with the management of the affairs of the Group.

The independent non-executive directors' emoluments shown above were in connection with their services as directors of the Group.

The emoluments of a supervisor, Mr. Hai Liancheng were in connection with his services as a supervisor of the Group and the emoluments of a supervisor, Mr. Si Jianfei, were mainly for his services as an employee of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

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:

	2015	2014
Directors and supervisors	—	1
Non-director and non-supervisor employees	5	4
	5	5

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

	2015 RMB'000	2014 RMB'000
Salaries, allowances and other benefits in kind	1,929	1,353
Discretionary bonuses	3,286	2,728
Pension scheme contributions	208	255
	5,423	4,336

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

	2015	2014
RMB equivalent		
Nil to 1,000,000	3	4
1,000,001 to 1,500,000	2	1

(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:

	2015	2014
RMB equivalent		
Nil to 1,000,000	19	20

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

14. DIVIDENDS

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

	2015 RMB'000	2014 RMB'000
Final dividend proposed after the end of the reporting period RMB0.1011 per share (2014: RMB0.0931 per share)	**700,220**	644,812

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

	2015 RMB'000	2014 RMB'000
Final dividend in respect of the financial year ended 31 December 2014, approved during the year, of RMB0.0931 per share (2013: RMB0.1293 per share)	**644,812**	895,534

(c) Special dividends payable to equity shareholders of the Company:

	2015 RMB'000	2014 RMB'000
Special dividend proposed after the end of the reporting period RMB0.0101 per share	**69,953**	—

15. 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 2015 of RMB2,334,412 thousand (2014: RMB2,150,258 thousand) and number of shares in issue during the year ended 31 December 2015 of 6,926,018 thousand shares (2014: 6,926,018 thousand shares).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

16. PROPERTY, PLANT AND EQUIPMENT, NET

	Buildings RMB'000	Building improvements RMB'000	Motor vehicles RMB'000	Furniture, fixtures and other equipment RMB'000	Total RMB'000
Cost:					
As at 1 January 2015	3,230,812	488,697	1,643,787	3,572,992	8,936,288
Transfer to investment properties (note 17)	(20,115)	—	—	—	(20,115)
Transfer from investment properties (note 17)	2,930	—	—	—	2,930
Transfer from construction in progress (note 18)	23,428	14,727	5,319	32,370	75,844
Additions	48,800	34,634	112,349	271,340	467,123
Disposals	(39,700)	(6,265)	(147,448)	(193,126)	(386,539)
As at 31 December 2015	3,246,155	531,793	1,614,007	3,683,576	9,075,531
Accumulated depreciation and impairment losses:					
As at 1 January 2015	978,529	337,284	919,879	2,161,752	4,397,444
Transfer to investment properties (note 17)	(840)	—	—	—	(840)
Transfer from investment properties (note 17)	942	—	—	—	942
Depreciation charge	129,383	51,425	159,400	342,239	682,447
Depreciation written back on disposals	(21,278)	(5,178)	(136,950)	(166,515)	(329,921)
Impairment loss eliminated on disposals	—	—	(103)	(6,234)	(6,337)
As at 31 December 2015	1,086,736	383,531	942,226	2,331,242	4,743,735
Net carrying value:					
As at 31 December 2015	2,159,419	148,262	671,781	1,352,334	4,331,796
As at 1 January 2015	2,252,283	151,413	723,908	1,411,240	4,538,844

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

16. PROPERTY, PLANT AND EQUIPMENT, NET (continued)

	Buildings RMB'000	Building improvements RMB'000	Motor vehicles RMB'000	Furniture, fixtures and other equipment RMB'000	Total RMB'000
Cost:					
As at 1 January 2014	3,159,042	466,298	1,593,643	3,400,234	8,619,217
Transfer to investment properties (note 17)	(35,563)	—	—	—	(35,563)
Transfer from investment properties (note 17)	52,875	—	—	—	52,875
Transfer from construction in progress (note 18)	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
Accumulated depreciation and impairment losses:					
As at 1 January 2014	845,618	291,300	847,347	1,947,999	3,932,264
Transfer to investment properties (note 17)	(12,024)	—	—	—	(12,024)
Transfer from investment properties (note 17)	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
Net carrying value:					
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

All the Group's buildings are located in the PRC.

As at 31 December 2015, certain banking facilities and borrowings from banks of the Group were secured by property, plant and equipment with carrying amount of RMB334 million (2014: RMB356 million).

Up to the date of issue of these consolidated 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 amount of approximately RMB372 million as at 31 December 2015 (2014: RMB397 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 2015

17. INVESTMENT PROPERTIES

	2015 RMB'000	2014 RMB'000
COST		
As at 1 January	**1,066,782**	1,081,013
Transfer from property, plant and equipment (note 16)	**20,115**	35,563
Transfer to property, plant and equipment (note 16)	**(2,930)**	(52,875)
Additions	**141**	3,081
As at 31 December	**1,084,108**	1,066,782
ACCUMULATED DEPRECIATION		
As at 1 January	**384,493**	346,892
Transfer from property, plant and equipment (note 16)	**840**	12,024
Transfer to property, plant and equipment (note 16)	**(942)**	(18,113)
Depreciation charge	**41,490**	43,270
Others	**41**	420
As at 31 December	**425,922**	384,493
NET CARRYING VALUE		
As at 31 December	**658,186**	682,289
As at 1 January	**682,289**	734,121
Fair value	**2,160,543**	2,130,704

All the Group's investment properties are located in the PRC.

The fair value measurement of the Group's investment properties is categorised 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 2015

17. 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:

	2015 RMB'000	2014 RMB'000
Within 1 year	**195,957**	130,681
After 1 year but within 5 years	**218,975**	234,272
After 5 years	**39,227**	15,311
As at 31 December	**454,159**	380,264

During the year ended 31 December 2015, RMB107 million (2014: RMB149 million) has been recognised as rental income in the consolidated statement of profit or loss and RMB38 million (2014: RMB32 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 RMB38 million as at 31 December 2015 (2014: RMB30 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.

18. CONSTRUCTION IN PROGRESS

	2015 RMB'000	2014 RMB'000
Cost:		
As at 1 January	**234,890**	207,111
Additions	**259,865**	229,553
Disposals	**(2,692)**	(913)
Transfer to other intangible assets (note 21)	**(55,242)**	(33,922)
Transfer to property, plant and equipment (note 16)	**(75,844)**	(166,485)
Impairment loss	**—**	(454)
As at 31 December	**360,977**	234,890

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

19. LEASE PREPAYMENTS

	2015 RMB'000	2014 RMB'000
Cost:		
As at 1 January	**1,083,566**	1,082,997
Additions	**5,102**	5,227
Disposals	**(69,324)**	(4,658)
As at 31 December	**1,019,344**	1,083,566
Released to profit or loss:		
As at 1 January	**211,218**	185,170
Amortisation charge	**27,912**	27,525
Disposals	**(13,372)**	(1,477)
As at 31 December	**225,758**	211,218
Net carrying value:		
As at 31 December	**793,586**	872,348
As at 1 January	**872,348**	897,827

Lease prepayments represent payments for land use rights paid to the PRC authorities. The Group's land use rights are located in the PRC and are with remaining terms ranging from 12 to 64 years as at 31 December 2015.

20. GOODWILL

	2015 RMB'000	2014 RMB'000
Cost and carrying amount	**103,005**	103,005

	2015 RMB'000	2014 RMB'000
Impairment tests for cash-generating units containing goodwill		
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 uses cash flow projection based on financial budget approved by management covering a five-year period and pre-tax discount rates is 13.13 % (2014: 13.82%).

Cash flows beyond the five years period are extrapolated using zero growth rate. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

20. GOODWILL (continued)

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.

21. OTHER INTANGIBLE ASSETS

	2015 RMB'000	2014 RMB'000
Cost:		
As at 1 January	**562,522**	458,856
Additions	**62,778**	80,513
Transfer from construction in progress (note 18)	**55,242**	33,922
Disposals	**(7,086)**	(10,769)
As at 31 December	**673,456**	562,522
Accumulated amortisation:		
As at 1 January	**312,904**	258,763
Amortisation charge	**94,135**	64,769
Written back on disposals	**(2,814)**	(10,628)
As at 31 December	**404,225**	312,904
Net carrying value:		
As at 31 December	**269,231**	249,618
As at 1 January	**249,618**	200,093

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

22. INTERESTS IN ASSOCIATES

	2015 RMB'000	2014 RMB'000
Share of net assets	**117,196**	67,211

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

23. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2015 RMB'000	2014 RMB'000
Unlisted equity securities, at cost	797,088	787,106
Listed equity securities, at quoted market price	67,984	51,672
	865,072	838,778

24. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net balance	
	31 December 2015 RMB'000	31 December 2014 RMB'000	31 December 2015 RMB'000	31 December 2014 RMB'000	31 December 2015 RMB'000	31 December 2014 RMB'000
Impairment losses, primarily for receivables and inventories	224,494	139,241	—	—	224,494	139,241
Revaluation of property, plant and equipment	—	—	(11,349)	(11,349)	(11,349)	(11,349)
Unused tax losses (note (i))	21,715	39,104	—	—	21,715	39,104
Change in fair value (note (ii))	—	—	(8,679)	(6,232)	(8,679)	(6,232)
Unpaid expenses	162,660	153,509	—	—	162,660	153,509
Others	—	—	5,341	4,224	5,341	4,224
Deferred tax assets and (liabilities)	408,869	331,854	(14,687)	(13,357)	394,182	318,497

Movements in deferred tax assets and liabilities for the year ended 31 December 2015 and 2014 are as follows:

	As at 1 January 2015 RMB'000	Recognised in profit or loss RMB'000 (note 10(a))	Recognised in other comprehensive income RMB'000	As at 31 December 2015 RMB'000
Impairment losses, primarily for receivables and inventories	139,241	85,253	—	224,494
Revaluation of property, plant and equipment	(11,349)	—	—	(11,349)
Unused tax losses (note (i))	39,104	(17,389)	—	21,715
Change in fair value (note (ii))	(6,232)	—	(2,447)	(8,679)
Unpaid expenses	153,509	9,151	—	162,660
Others	4,224	1,117	—	5,341
Deferred tax assets and (liabilities)	318,497	78,132	(2,447)	394,182

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

24. DEFERRED TAX ASSETS AND LIABILITIES (continued)

	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
Deferred tax assets and (liabilities)	274,886	45,146	(1,535)	318,497

Notes:

(i) Expiry of recognised tax losses

	2015 RMB'000	2014 RMB'000
Year of expiry		
2015	—	—
2016	—	8,169
2017	33,759	75,487
2018	51,529	66,535
2019	53,193	94,273
2020	3,042	—
	141,523	244,464

(ii) As at 31 December 2015, 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 2015, the Group has not recognised deferred tax assets in respect of tax losses of RMB941.0 million (2014: RMB714.1 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 2016 to 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

25. 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.

26. INVENTORIES

	2015 RMB'000	2014 RMB'000
Construction materials	452,678	288,470
Finished goods	2,304,453	2,061,092
Spare parts and consumables	126,858	71,336
	2,883,989	2,420,898

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

	2015 RMB'000	2014 RMB'000
Carrying amount of inventories consumed and sold	20,452,798	20,190,921
Reversal of write-down of inventories	(1,452)	(1,057)
Write-down of inventories	64,712	18,666
	20,516,058	20,208,530

27. ACCOUNTS AND BILLS RECEIVABLE, NET

	2015 RMB'000	2014 RMB'000
Bills receivable	202,069	431,134
Unbilled revenues for contract work	7,864,033	7,856,102
Trade receivables	20,536,104	19,778,338
	28,602,206	28,065,574
Less: impairment losses	(1,081,377)	(624,376)
	27,520,829	27,441,198

(a) Included in accounts and bills receivable are amounts due from CTC Group of RMB15,976 million (2014: RMB13,612 million) as at 31 December 2015. The amounts due from CTC Group are unsecured, interest-free and are expected to be recovered within one year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

27. ACCOUNTS AND BILLS RECEIVABLE, NET (continued)

(b) The ageing analysis of accounts and bills receivable (net of impairment losses) based on credit terms is as follows:

	2015 RMB'000	2014 RMB'000
Current (note)	13,211,725	13,536,273
Within 1 year	11,666,256	11,228,501
After 1 year but less than 2 years	2,131,351	1,938,198
After 2 years but less than 3 years	511,497	648,426
After 3 years	—	89,800
Amount past due	14,309,104	13,904,925
	27,520,829	27,441,198

Note: Including revenues within the credit terms for contract work.

(c) 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:

	2015 RMB'000	2014 RMB'000
At 1 January	624,376	372,576
Impairment loss recognised	577,101	295,706
Reversal of impairment loss previously recognised	(101,648)	(34,208)
Uncollectible amounts written off	(18,452)	(9,698)
At 31 December	1,081,377	624,376

At 31 December 2015, accounts and bills receivable of RMB1,421 million (2014: RMB2,152 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 RMB511 million (2014: RMB317 million) were recognised. The Group does not hold any collateral over these balances.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

27. ACCOUNTS AND BILLS RECEIVABLE, NET (continued)

(d) 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:

	2015 RMB'000	2014 RMB'000
Neither past due nor impaired	**13,211,725**	13,536,273
Past due but not impaired		
Within 1 year	**10,285,576**	10,127,135
After 1 year but less than 2 years	**1,000,787**	938,591
After 2 years but less than 3 years	**269,883**	245,510
After 3 years	**—**	39,114
	24,767,971	24,886,623

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

28. CONSTRUCTION CONTRACTS

The aggregate amounts of costs incurred plus recognised profit less recognised losses to date, included in the gross amount due from customers for contract work at 31 December 2015 are RMB13,448 million (2014: RMB12,661 million).

In respect of construction contacts 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 2015 are RMB41 million (2014: RMB26 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

29. PREPAYMENTS AND OTHER CURRENT ASSETS

	2015 RMB'000	2014 RMB'000
Advances to staff	172,833	224,602
Amounts due from CTC Group and other related parties	1,430,237	1,468,131
Prepayments in connection with construction work and equipment purchases	2,648,540	2,271,376
Prepaid expenses and deposits	709,866	590,965
Others	1,911,598	1,278,113
	6,873,074	5,833,187

The amounts due from CTC Group and other related parties are unsecured, interest-free and are expected to be recovered within one year.

30. 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 original maturity over three months. Restricted deposits carry interest at prevailing market interest rates.

31. CASH AND CASH EQUIVALENTS

	2015 RMB'000	2014 RMB'000
Cash at bank and in hand	8,748,298	6,331,789
Deposits at bank with original maturity less than three months	787,553	981,726
Cash and cash equivalents	9,535,851	7,313,515

Bank balances carry interest at prevailing market interest rates.

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 2015

32. INTEREST-BEARING BORROWINGS

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

	2015 RMB'000	2014 RMB'000
RMB denominated		
Borrowings from banks		
— unsecured	32,953	—
Loan from a fellow subsidiary		
— unsecured	13,280	13,280
USD denominated		
Borrowings from banks		
— secured	17,013	17,378
— unsecured	109,590	216,160
Other denominated		
Borrowings from banks		
— unsecured	4,169	—
	177,005	246,818

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

	2015	2014
RMB denominated		
Borrowings from banks		
— unsecured	5.60%–5.62%	—
Loan from a fellow subsidiary		
— unsecured	2.39%	2.39%
USD denominated		
Borrowings from banks		
— secured	5.30%	5.30%
— unsecured	1.46%–4.14%	2.06%–4.70%
Other denominated		
Borrowings from banks		
— unsecured	8.60%	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

32. INTEREST-BEARING BORROWINGS (continued)

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

	2015 RMB'000	2014 RMB'000
USD denominated		
Borrowings from banks		
— secured	—	34,389
— unsecured	34,455	4,319
	34,455	38,708

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

	2015	2014
USD denominated		
Borrowings from banks		
— secured (fixed interest rate)	—	5.30%
— unsecured (fixed interest rate)	3.53%–4.14%	—
— unsecured (floating interest rate)	Libor+4.00%	Libor+4.00%

The Group's borrowings were repayable as follows:

	2015 RMB'000	2014 RMB'000
Within 1 year	177,005	246,818
After 1 year but within 2 years	18,221	17,378
After 2 years but within 5 years	16,234	21,330
	211,460	285,526

As at 31 December 2015, certain banking facilities and borrowings from banks of the Group were secured by property, plant and equipment with carrying amount of RMB334 million (2014: RMB356 million). Such banking facilities amounted to RMB131 million (2014: RMB131 million). The facilities were utilised to the extent of RMB17 million (2014: RMB52 million).

As at 31 December 2015, no borrowings from bank were subject to financial covenants.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

33. ACCOUNTS AND BILLS PAYABLE

Accounts and bills payable comprise:

	2015 RMB'000	2014 RMB'000
Accounts payable	17,429,304	16,366,810
Bills payable	2,270,081	2,448,758
	19,699,385	18,815,568

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

	2015 RMB'000	2014 RMB'000
Within 1 year	17,984,560	17,370,714
After 1 year but less than 2 years	1,191,927	994,309
After 2 years but less than 3 years	270,058	237,301
After 3 years	252,840	213,244
	19,699,385	18,815,568

Included in accounts and bills payable are amounts due to CTC Group and other related parties of RMB1,777 million (2014: RMB2,239 million) as at 31 December 2015. 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.

34. ACCRUED EXPENSES AND OTHER PAYABLES

	2015 RMB'000	2014 RMB'000
Wages and welfare payable	1,571,302	1,506,835
Amounts due to CTC Group and other related parties (note (i))	792,676	689,210
Advances received	1,578,163	1,128,593
Other taxes payable	806,418	841,579
Special dividend and profit distribution payable to CTC Group (note (ii))	54,029	91,426
Dividend payable	74,016	30,051
Payables for construction and purchase of property, plant and equipment	75,435	95,756
Others (note (iii))	3,739,563	3,041,516
	8,691,602	7,424,966

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

34. ACCRUED EXPENSES AND OTHER PAYABLES (continued)

Notes:

(i) The amounts due to CTC group and other related parties 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 to 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 RMB533 million special dividend to CTC and its subsidiaries by 31 December 2015.

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 RMB145 million has been paid to CTC and its subsidiaries by 31 December 2015.

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, which has been paid to CTC and its subsidiaries by 31 December 2015.

(iii) The amounts mainly include payables to suppliers for purchases on behalf of CTC, deposits received from subcontractors and others.

35. OTHER NON-CURRENT LIABILITIES

	2015 RMB'000	2014 RMB'000
Convertible preference shares and preference shares (note (i))	**649,360**	611,900
Others (note (ii))	**216,420**	175,742
	865,780	787,642

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 annual interest payment and also to redeem the convertible preference share and preference share eight years after the delivery date. However, the Group has obligation to pay the interest amount if the subsidiary of the Company defer the payment. Therefore, the directors of the Company consider 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 1 January 2017 onwards. In the opinion of the directors of the Company, the number of ordinary shares can be converted, from the Group's perspective, is subject to negotiation between the Group and the preference shareholder in certain circumstances pursuant to the terms of the agreement, and with reference to fair value. In the consolidated statement of financial position of the Group, the host contract was classified 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 from the first interest payment in the year of eighth anniversary of the issuance date. The adjusted interest rate should not be less than 8%, and will automatically increase 1% every year after then. The effective interest rate as at 31 December 2015 was 4.21% per annum.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

36. SHARE CAPITAL

	2015 RMB'000	2014 RMB'000
Registered, issued and fully paid:		
4,534,598,160 (31 December 2014: 4,534,598,160) domestic shares of RMB1.00 each	**4,534,598**	4,534,598
2,391,420,240 (31 December 2014: 2,391,420,240) H shares of RMB1.00 each	**2,391,420**	2,391,420
	6,926,018	6,926,018

	2015 Thousand shares	2014 Thousand shares
At 1 January and 31 December	**6,926,018**	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.

(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, long-term interest bearing borrowings and convertible preference shares and preference shares. The Group aims to maintain the gearing ratio at a reasonable level. The Group's ratio as at 31 December 2015 was 3.4% (2014: 3.8%). 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

37. RETIREMENT BENEFIT OBLIGATIONS

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% (2014: 18% 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.

38. 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.

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-thirds and 100%, respectively, of the total share appreciation rights granted to such person.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

38. SHARE APPRECIATION RIGHTS SCHEME (continued)

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.

In March 2013, 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 HKD4.66 per unit to HKD4.51 per unit, and approved the adjustment of the exercise price of the second batch of the first phase share appreciation rights from HKD4.28 per unit to HKD4.13 per unit.

In March 2015, the Company's Board of Directors approved the adjustment of the exercise price of the second phase share appreciation rights from HKD3.41 per unit to HKD2.93 per unit.

During the year ended 31 December 2015, RMB13 million was credited (2014: RMB74 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 2015, the Group has recorded liabilities of RMB53 million (2014: RMB66 million).

The total of 113.4 million share appreciation right units of the first phase share appreciation rights have been exercised in 2013. As at 31 December 2015, 132.2 million share appreciation right units of the second phase share appreciation rights can be exercised, the rest of the second phase share appreciation rights are not vested.

39. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Capital commitments

As at 31 December 2015, the Group had capital commitments for acquisition and construction of property, plant and equipment and other non-current assets as follows:

	2015 RMB'000	2014 RMB'000
Contracted for but not provided	317,445	118,586

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

39. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

(b) Operating lease commitments

As at 31 December 2015, the Group's total future minimum lease payments under non-cancellable operating leases were payable as follows:

	2015 RMB'000	2014 RMB'000
Within 1 year	**308,106**	304,985
After 1 year but within 5 years	**352,620**	370,586
After 5 years	**122,061**	111,339
	782,787	786,910

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 2015, the Group had no material contingent liabilities and no material financial guarantees issued.

40. 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 69 % of the total accounts and bills receivable as at 31 December 2015 (2014: 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

40. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(a) Credit risk (continued)

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 2015 and 2014.

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

(b) Interest rate risk

The Group is exposed to fair value interest rate risk primarily from its short-term and long-term debts carrying interests at fixed rates. The Group manages its exposure to fair value 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 32.

(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 realizable 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 non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on interest rates at the end of the reporting period) and the earliest date the Group can be required to pay:

	2015		2014	
	Contractual undiscounted cash outflow within 1 year or on demand RMB'000	**Carrying amount RMB'000**	Contractual undiscounted cash outflow within 1 year or on demand RMB'000	Carrying amount RMB'000
Short-term interest-bearing borrowings (note 32)	**179,538**	**177,005**	250,287	246,818
Account and bills payable (note 33)	**19,699,385**	**19,699,385**	18,815,568	18,815,568
Receipt in advance for contract work	**2,911,542**	**2,911,542**	1,578,088	1,578,088
Accrued expenses and other payables (note 34)	**8,691,602**	**8,691,602**	7,424,966	7,424,966
	31,482,067	**31,479,534**	28,068,909	28,065,440

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

40. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(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. 92.2% (2014: 89.1%) of the Group's cash and cash equivalents and 21.9% (2014: 4.7%) of the Group's short-term debt and long-term debt as at 31 December 2015 are denominated in RMB.

The following table details the Group'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

	Exposure to foreign currencies (expressed in RMB) 2015					
	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	**450,005**	**27,211**	**44,158**	**35,378**	**12,133**	**175,905**
Accounts receivable	**425,604**	**34,594**	**28,829**	**197,545**	**45,233**	**332,287**
Accounts payable	**(260,798)**	**(9,163)**	**(24,234)**	**(116,817)**	**(53,036)**	**(127,598)**
Short-term interest-bearing borrowings	**(126,603)**	**—**	**—**	**—**	**—**	**(4,169)**
Long-term interest-bearing borrowings	**(34,455)**	**—**	**—**	**—**	**—**	**—**
Other non-current liabilities	**(649,360)**	**—**	**—**	**—**	**—**	**—**
Overall net exposure	**(195,607)**	**52,642**	**48,753**	**116,106**	**4,330**	**376,425**

	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)	—	—	—	—	—
Other non-current liabilities	(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 2015

40. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(d) Currency risk (continued)

Exposure to currency risk (continued)

The following significant exchange rates applied during the year:

	Average rate		Spot rate	
	2015	2014	**2015**	2014
United States dollars	**6.31**	6.11	**6.49**	6.12
Hong Kong dollars	**0.81**	0.79	**0.84**	0.79
Nigerian Naira	**0.03**	0.04	**0.03**	0.04
Saudi Arabian Riyal	**1.68**	1.63	**1.73**	1.63
Ethiopian Birr	**0.31**	0.31	**0.31**	0.31

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.

	2015			2014		
	Strengthen/ (weaken) in foreign exchange rate	**Effect on profit after tax and retained profits RMB'000**	**Effect on other components of equity RMB'000**	Strengthen/ (weaken) 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%**	**(7,335)**	**—**	5%	(8,116)	—
	(5)%	**7,335**	**—**	(5)%	8,116	—
Hong Kong dollars	**5%**	**1,974**	**—**	5%	1,582	—
	(5)%	**(1,974)**	**—**	(5)%	(1,582)	—
Nigerian Naira	**5%**	**1,828**	**—**	5%	3,276	—
	(5)%	**(1,828)**	**—**	(5)%	(3,276)	—
Saudi Arabian Riyal	**5%**	**4,354**	**—**	5%	2,891	—
	(5)%	**(4,354)**	**—**	(5)%	(2,891)	—
Ethiopian Birr	**5%**	**162**	**—**	5%	1,146	—
	(5)%	**(162)**	**—**	(5)%	(1,146)	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

40. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(d) Currency risk (continued)

Sensitivity analysis (continued)

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 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 2014.

(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 23). 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 38.

At 31 December 2015, it is estimated that an increase/(decrease) of 5% (2014: 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:

	2015			2014		
	Increase/ (decrease) in equity price	Effect on profit after tax and retained profits RMB'000	Effect on other components of equity RMB'000	Increase/ (decrease) in equity price	Effect on profit after tax and retained profits RMB'000	Effect on other components of equity RMB'000
Changes in the relevant equity price risk variable:						
Increase	5%	(9,897)	2,549	5%	(12,273)	1,938
Decrease	(5%)	8,763	(2,549)	(5%)	9,946	(1,938)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

40. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(e) Equity price risk (continued)

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. 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 2014.

(f) Fair value

(i) Financial instruments carried at fair value on a recurring basis

Some of the Group's financial instruments are measured at fair value at the end of each reporting period.

	2015			
	Level 1 RMB'000	**Level 2 RMB'000**	**Level 3 RMB'000**	**Total RMB'000**
Assets				
Available-for-sale securities				
— Listed equity securities	**67,984**	**—**	**—**	**67,984**
Trading financial assets				
— Foreign currency forward contract	**—**	**735**	**—**	**735**
Liabilities				
Trading financial liabilities				
— Foreign currency forward contract	**—**	**261**	**—**	**261**

	2014			
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
Available-for-sale securities				
— Listed equity securities	51,672	—	—	51,672
Trading financial assets				
— Foreign currency forward contract	—	143	—	143
Liabilities				
Trading financial liabilities				
— Foreign currency forward contract	—	1,574	—	1,574

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

40. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(f) Fair value (continued)

(ii) Fair values of financial instruments carried at other than fair value

The fair values of financial assets and financial liabilities recorded at amortised cost are not materially different from their carrying amounts, which are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The fair values of Group's unquoted available-for-sale financial assets could not be reliably measured.

41. 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 20, 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. 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 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.

(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 amount of the assets and could result in additional impairment charge or reversal of impairment in future periods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

41. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(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 consolidated 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.

42. RELATED PARTIES

The Group is part of a larger group of companies under CTC Group and has significant transactions and relationships with members of CTC Group. Apart from the transactions and balances disclosed in the consolidated financial statements set out in above notes, 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 and CTC Group, it is possible that the terms of those transactions are not the same as those that would result from transactions among unrelated parties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

42. RELATED PARTIES (continued)

(a) Transactions with CTC Group and other related parties (continued)

The principal transactions with CTC Group and other related parties which were carried out in the ordinary course of business are as follows:

	2015 RMB'000	2014 RMB'000
Income from related parties:		
Engineering related services (note (i))	21,568,401	15,582,389
IT application services (note (ii))	2,072,360	1,847,913
Provision of ancillary telecommunications services (note (iii))	8,521,187	7,548,455
Provision of operation support services (note (iv))	2,440,069	2,402,396
Supplies procurement service (note (v))	5,393,203	4,472,320
Property leasing (note (vi))	111,064	97,491
Management fee income (note (vii))	297,177	286,403
Expenses paid to related parties:		
Property leasing charges (note (viii))	171,998	155,410
IT application service charges (note (ix))	303,551	242,470
Operation support service charges (note (x))	685,051	662,565
Supplies procurement service charges (note (xi))	2,736,330	2,662,675
Interest paid (note (xii))	2,594	317

Notes:

(i) The amount represents the engineering related services, such as design, construction and project management for telecommunications infrastructure project provided to CTC Group and other related parties.

(ii) The amount represents the telecommunications network support services, software and hardware development and other IT related services provided to CTC Group and other related parties.

(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 and other related parties.

(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.

(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 (as defined below) 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 other related parties for logistics, labor resources, cultural, educational, hygiene and other supporting services.

(xi) The amount represents the charge paid and payable to CTC Group and other related parties 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 and fellow subsidiaries.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

42. RELATED PARTIES (continued)

(a) Transactions with CTC Group and other related parties (continued)

Amounts due from/to CTC Group and other related parties included in respective balances are summarised as follows:

	2015 RMB'000	2014 RMB'000
Accounts and bills receivable, net	16,155,020	13,612,267
Prepayments and other current assets	1,430,237	1,468,131
Total amounts due from CTC Group and other related parties	17,585,257	15,080,398
Interest-bearing borrowings	13,280	13,280
Accounts and bills payable	1,777,246	2,238,518
Receipts in advance for contract work	291,188	81,079
Accrued expenses and other payables	846,705	780,636
Total amounts due to CTC Group and other related parties	2,928,419	3,113,513

As at 31 December 2015, the Group has recognised impairment losses of RMB152 million (2014: RMB26 million) for bad and doubtful debts in respect of amounts due from CTC Group and other related parties.

As at 31 December 2015, the Group has capital commitments to CTC Group and other related parties for acquisition and construction of property, plant and equipment and other assets as follows:

	2015 RMB'000	2014 RMB'000
Contracted for but not provided	280,373	4,863

As at 31 December 2015, the Group total future minimum lease payments to CTC Group and other related parties under non-cancellable operating leases were payable as follows:

	2015 RMB'000	2014 RMB'000
Within 1 year	62,310	90,095
After 1 year but within 5 years	122,553	160,735
After 5 year	88,103	89,141
	272,966	339,971

The directors of the Company 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 reasonable so far as the shareholders of the Company are concerned.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

42. RELATED PARTIES (continued)

(a) Transactions with CTC Group and other related parties (continued)

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 ended 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 ended 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 ended 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. On 29 September 2015, the Company announced to propose the increase of annual caps for the service charges receivable by the Company from CTC Group under Engineering Framework Agreement for the year ended 31 December 2015 to RMB24,000 million, and the annual cap for the service charges payable by the Company to CTC Group under Operation Support Service Framework Agreement for the year ended 31 December 2015 to RMB800 million, and signed agreements which extended the expiry date of all agreements to 31 December 2018 and increased annual caps of several framework agreements.

According to these Supplement Agreements for the year ended 31 December 2015, (i) the annual cap for the service charges receivable by the Company from CTC Group under the Engineering Related Services Framework Agreement was RMB24,000 million; (ii) the annual cap for the service charges receivable by the Company from CTC Group under the Ancillary Telecommunications Services Framework Agreement was RMB11,000 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 were RMB3,000 million and RMB800 million; respectively (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 were RMB2,300 million and RMB490 million respectively ; (v) the annual cap for the service charges receivable by the Company from CTC Group under the Centralised Services Framework Agreement was RMB420 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 were RMB166 million and RMB180 million respectively; (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 were RMB5,600 million and RMB4,100 million respectively. The terms of the principal agreements impacting the results of operations of the Group are summarised as follows:

(i) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

42. RELATED PARTIES (continued)

(a) Transactions with CTC Group and other related parties (continued)

(ii) 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.

(iii) 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:

— market price. In determining the market price, the Group primarily considers the following factors: (i) cost of service; (ii) prices of the same or similar type of services provided to CTC Group by other service providers in the market;(iii) prices of the same or similar type of services provided to CTC Group and independent third parties previously by the Group.

— in the absence of market price or where the market price cannot be determined, the price shall be agreed between both parties, which shall be the aggregate amount of reasonable costs, the relevant taxes in sales and reasonable profits. "Reasonable costs" means the costs confirmed by both parties after negotiations, and "reasonable profit" 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, labor cost, local commodity prices and economic development levels.

(iv) 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.

(v) 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;

— market price. In determining the market price, the Group primarily considers the following factors: (i) cost of service; (ii) prices of the same or similar type of services provided to CTC Group or the Group by other service providers in the market; (iii) prices of the same or similar type of services provided to CTC Group and independent third parties by the Group, or prices of the same or similar type of services provided to the Group by CTC Group and independent third parties.

— in the absence of market price or where the market price cannot be determined, the price shall be agreed between both parties, which shall be the aggregate amount of reasonable costs, the taxes in sales and reasonable profits. "Reasonable costs" means the costs confirmed by both parties after negotiations, and "reasonable profit" 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, labor cost, local commodity prices and economic development levels.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

42. RELATED PARTIES (continued)

(b) Transactions with other government-related entities in the PRC

The Company 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").

Apart from transactions with parent company and its affiliates (note 42(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 of the Company 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:

	2015 RMB'000	2014 RMB'000
Salaries and other emoluments	5,687	4,278
Retirement benefits	1,342	1,519
Discretionary bonuses	11,357	9,068
	18,386	14,865

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

42. 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 2015 and 2014, 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 42(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 to the annual report.

43. SEGMENT REPORTING

The Group principally has one reportable segment, which is the provision of integrated telecommunications support services in the informatization sector. Therefore, no additional segment information 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 2015

44. SUBSIDIARIES

The following list contains only the particulars of subsidiaries at 31 December 2015 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 31 December 2015 Directly %	31 December 2014 Directly %	Issued and fully paid up/ registered capital	Principal activities
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 2015

44. SUBSIDIARIES (continued)

Name of company	Type of legal entity	Place of incorporation/ establishment	Proportion of ownership interest and voting rights held by the Company 31 December 2015 Directly %	31 December 2014 Directly %	Issued and fully paid up/ registered capital	Principal activities
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 2015

44. SUBSIDIARIES (continued)

Name of company	Type of legal entity	Place of incorporation/ establishment	Proportion of ownership interest and voting rights held by the Company 31 December 2015 Directly %	31 December 2014 Directly %	Issued and fully paid up/ registered capital	Principal activities
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
China Comservice Supply Chain Management Company Limited	Limited Liability Company	The PRC	100	—	RMB100 million	Provision of integrated telecommunications support services

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 RMB449 million as at 31 December 2015 (2014: RMB513 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 2015

45. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	31 December 2015 RMB'000	31 December 2014 RMB'000
Non-current assets		
Property, plant and equipment, net	10,888	10,414
Construction in progress	13,728	10,862
Other intangible assets	36,743	9,098
Investments in subsidiaries	12,627,534	12,617,534
Total non-current assets	12,688,893	12,647,908
Current assets		
Inventories	372	—
Prepayments and other current assets	1,280,846	1,424,210
Restricted deposits	1,213,174	254,736
Cash and cash equivalents	1,489,189	1,262,093
Total current assets	3,983,581	2,941,039
Total assets	16,672,474	15,588,947
Current liabilities		
Accrued expenses and other payables	699,782	21,667
Income tax payable	—	431
Total current liabilities	699,782	22,098
Net current assets	3,283,799	2,918,941
Total assets less current liabilities	15,972,692	15,566,849
Total liabilities	699,782	22,098
Equity		
Share capital	6,926,018	6,926,018
Reserves	9,046,674	8,640,831
Total equity	15,972,692	15,566,849
Total liabilities and equity	16,672,474	15,588,947

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

45. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (continued)

The movements of shareholders' equity of the Company are as follows:

	Share capital RMB'000 (note 36)	Share premium RMB'000	Capital reserve RMB'000	Statutory surplus reserve RMB'000	Retained earnings RMB'000	Total 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 14(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
Profit for the year	—	—	—	—	**1,050,655**	**1,050,655**
Distribution of dividend (see note 14(b))	—	—	—	—	**(644,812)**	**(644,812)**
Appropriation	—	—	—	**105,066**	**(105,066)**	—
At 31 December 2015	**6,926,018**	**4,529,310**	**1,966,293**	**856,150**	**1,694,921**	**15,972,692**

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

46. POSSIBLE IMPACT OF AMENDMENTS TO STANDARDS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING YEAR ENDED 31 DECEMBER 2015

Up to the date of issue of these consolidated financial statements, the IASB has issued the following amendments to standards and new standards which are not yet effective for the year ended 31 December 2015 and which have not been adopted in these consolidated financial statements.

IFRS 9	Financial Instruments[1]
IFRS 15	Revenue from Contracts with Customers[1]
IFRS 16	Leases[2]
Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations[3]
Amendments to IAS 1	Disclosure Initiative[3]
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation[3]
Amendments to IFRSs	Annual Improvements to IFRSs 2012–2014 Cycle[3]
Amendments to IAS 16 and IAS 41	Agriculture: Bearer Plants[3]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation Exception[3]
Amendments to IAS 7	Disclosure Initiative[5]
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[5]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective for annual periods beginning on or after 1 January 2016
4 Effective for annual periods beginning on or after a date to be determined
5 Effective for annual periods beginning on or after 1 January 2017

Except for those described below, 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 2015

46. POSSIBLE IMPACT OF AMENDMENTS TO STANDARDS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING YEAR ENDED 31 DECEMBER 2015 (continued)

IFRS 9 Financial Instruments (continued)

Key requirements of IFRS 9 are:

(i) All recognised financial assets that are within the scope of IAS 39 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 that 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 at 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 credits 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 recognised.

(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 performs a detailed review.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

46. POSSIBLE IMPACT OF AMENDMENTS TO STANDARDS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING YEAR ENDED 31 DECEMBER 2015 (continued)

IFRS 15 Revenue from Contracts with Customers

In May 2014, IFRS15 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 a material 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.

IFRS 16 Leases

IFRS 16, which upon the effective date will supersede IAS 17 Leases, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Specifically, under IFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, IAS 17.

46. POSSIBLE IMPACT OF AMENDMENTS TO STANDARDS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING YEAR ENDED 31 DECEMBER 2015 (continued)

IFRS 16 Leases (continued)

In respect of the lessor accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The directors of the Company anticipate that the application of IFRS 16 in the future may have a material impact on the amounts reported and/or disclosures made in the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 16 until the Group performs a detailed review.

47. IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At 31 December 2015, 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)

	For the year ended 31 December				
	2015 RMB	2014 RMB	2013 RMB	2012 RMB	2011 RMB (Note 1)
Results					
Revenue from telecommunications infrastructure services	**39,209,267**	34,008,077	32,036,241	28,413,360	25,377,847
Revenue from business process outsourcing services	**33,014,030**	31,215,423	29,011,577	26,304,137	22,325,184
Revenue from applications,content and other services	**8,736,649**	7,952,752	7,411,278	6,799,878	6,077,096
Total Revenues	**80,959,946**	73,176,252	68,459,096	61,517,375	53,780,127
Depreciation and amortization	**(447,031)**	(450,741)	(462,103)	(439,095)	(430,290)
Direct personnel costs	**(8,731,020)**	(8,892,965)	(9,251,872)	(9,229,460)	(8,517,004)
Purchase of materials and telecommunications products	**(20,452,798)**	(20,190,921)	(19,804,087)	(17,645,654)	(16,253,237)
Subcontracting charges	**(31,811,771)**	(25,763,190)	(21,873,785)	(18,447,867)	(14,528,052)
Operating lease charges and others	**(8,129,685)**	(7,196,732)	(6,689,260)	(5,969,932)	(5,470,054)
Cost of revenues	**(69,572,305)**	(62,494,549)	(58,081,107)	(51,732,008)	(45,198,637)
Gross profit	**11,387,641**	10,681,703	10,377,989	9,785,367	8,581,490
Other operating income	**854,051**	805,579	802,216	851,336	684,821
Selling, general and administrative expenses	**(9,306,152)**	(8,777,028)	(8,288,163)	(7,514,881)	(6,464,571)
Other operating expenses	**(109,170)**	(84,638)	(116,624)	(69,258)	(64,408)
Finance costs	**(51,392)**	(20,430)	(11,232)	(26,030)	(64,556)
Share of profits of associates	**49,985**	25,700	14,315	4,844	(2,600)
Profit before tax	**2,824,963**	2,630,886	2,778,501	3,031,378	2,670,176
Income tax	**(487,446)**	(463,088)	(493,121)	(585,514)	(538,778)
Profit for the year	**2,337,517**	2,167,798	2,285,380	2,445,864	2,131,398
Attributable to:					
Equity shareholders of the Company	**2,334,412**	2,150,258	2,238,351	2,406,792	2,129,212
Non-controlling interests	**3,105**	17,540	47,029	39,072	2,186
Profit for the year	**2,337,517**	2,167,798	2,285,380	2,445,864	2,131,398
Basic and diluted earnings per share (RMB)	**0.337**	0.310	0.323	0.353	0.358

FINANCIAL SUMMARY

(Amounts in thousands, except per share data)

	At 31 December				
	2015 RMB	2014 RMB	2013 RMB	2012 RMB	2011 RMB (Note 1)
Financial position					
Property, plant and equipment, net	**4,331,796**	4,538,844	4,686,953	4,517,754	4,495,582
Other non-current assets	**4,212,497**	4,014,077	3,408,183	3,306,161	3,093,541
Inventories	**2,883,989**	2,420,898	2,228,214	1,894,825	1,705,641
Accounts and bills receivable, net	**27,520,829**	27,441,198	25,428,055	21,321,955	17,323,211
Prepayments and other current assets	**6,873,074**	5,833,187	5,027,405	4,773,469	4,636,968
Cash and cash equivalents	**9,535,851**	7,313,515	6,760,237	8,879,491	7,380,435
Restricted deposits	**2,555,290**	1,199,411	712,259	266,979	320,039
Total assets	**57,913,326**	52,761,130	48,251,306	44,960,634	38,955,417
Interest-bearing borrowings	**177,005**	246,818	53,901	409,805	998,335
Accounts and bills payable	**19,699,385**	18,815,568	17,080,784	14,843,934	12,780,549
Receipts in advance for contract work	**2,911,542**	1,578,088	1,164,029	1,386,805	1,166,285
Accrued expenses and other payables	**8,691,602**	7,424,966	7,126,497	6,763,252	6,853,292
Income tax payable	**309,261**	312,796	315,222	309,761	305,717
Non-current liabilities	**914,922**	839,707	222,851	244,918	215,015
Total liabilities	**32,703,717**	29,217,943	25,963,284	23,958,475	22,319,193
Equity attributable to equity shareholders of the Company	**24,760,813**	23,029,873	21,772,763	20,502,739	16,284,108
Non-controlling interests	**448,796**	513,314	515,259	499,420	352,116
Total equity	**25,209,609**	23,543,187	22,288,022	21,002,159	16,636,224
Total liabilities and equity	**57,913,326**	52,761,130	48,251,306	44,960,634	38,955,417

Note 1: 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 of 2011 have been restated to include the results and financial condition of the Target Interests and SBSS in the relevant period.

China Communications Services Corporation Limited

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