中国通信服务
CHINA COMSERVICE

中國通信服務股份有限公司

CHINA COMMUNICATIONS SERVICES CORPORATION LIMITED

(A joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock Code: 552)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2014

HIGHLIGHTS

- Total revenues were RMB73,176 million, up by 6.9%.
- Profit attributable to equity shareholders of the Company was RMB2,150 million, down by 3.9%.
- Gross profit margin and net profit margin were 14.6% and 2.9%, respectively.
- The Group continued to strengthen the management of cash flow and accounts receivable. Free cash flow for the year was RMB833 million, representing a significant improvement from RMB-324 million last year.
- The Group achieved stable revenue growth of 8.8% from domestic telecommunications operator customers, and the aggregate revenue growth from domestic non-operator customers and overseas customers was 3.7%.
- The Board proposed to pay a final dividend of RMB0.0931 per share for the financial year ended 31 December 2014.

CHAIRMAN'S STATEMENT

Dear Shareholders,

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

Operating Results

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

Maintaining Leading Position in the Domestic Telecommunications Operator Market

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

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

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

Persisting in Efficient Expansion of Two New Markets

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

Promoting Comprehensive and Deepened Reforms and External Cooperation

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

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

Preferential Treatment and Non-competition Arrangements with the Tower Company[3]

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

[3] Tower Company refers to China Tower Corporation Limited (formerly known as China Communications Facilities Services Corporation Limited).

Corporate Social Responsibility

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

Corporate Governance

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

Prospects

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

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

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

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

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

Sun Kangmin
Chairman

Beijing, PRC
25 March 2015

PRESIDENT'S STATEMENT

Dear Shareholders,

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

Financial Performance

In 2014, in face of the complex and volatile internal and external operating environment, the Group adhered to its market-oriented approach, allocated its resources adaptively for the expansion of the three major customer[5] markets, and closely followed the pace of network construction and higher outsourcing demand of maintenance of domestic telecommunications operators. The Group recorded total revenues of RMB73,176 million for the year, representing a year-on-year increase of 6.9%. During the year, the reduction of service charge and the implementation of the "VAT Reform[6]", Labour Contract Law[7] and other new industry policies imposed extra pressures on the Group in terms of competition and costs. In addition, the Group adopted a more prudent approach in financial management in 2014. As a result of the aforementioned factors, profit attributable to equity shareholders of the Company amounted to RMB2,150 million for the year, representing a year-on-year decrease of 3.9%. Gross profit margin and net profit margin were 14.6% and 2.9%, respectively. Basic earnings per share amounted to RMB0.310.

The Group continued to strengthen the management of cash flow and accounts receivable through effective settlement and collection work. Free cash flow for the year was RMB833 million, representing a significant improvement from RMB-324 million for 2013.

Business Development

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

[5] Three major customers refer to domestic telecommunications operators, domestic non-operator customers and overseas customers.
[6] VAT Reform refers to the replacement of business tax with value added tax.
[7] Labour Contract Law refers to the amended PRC Labour Contract Law.

In 2014, the revenue from business process outsourcing ("BPO") services achieved a year-on-year increase of 7.6%, accounting for 42.6% of the total revenues. In addition to our focus on the business opportunities from the capital investment of domestic telecommunications operators, the Group also sought business opportunities from their operating expenditure and continuous demand of maintenance outsourcing. Revenue from network maintenance increased by 18.3%, more than doubled in terms of the growth rate as compared with the previous year[8], and the relevant incremental revenue accounted for nearly 27% of total incremental revenues.

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

Customer Development

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

[8] In 2013, revenue from network maintenance of the Group was RMB6,884 million, representing a year-on-year increase of 7.3%.

Management Innovation

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

Prospects for 2015

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

1. The Group will consolidate our leading position in the domestic telecommunications operator market by seizing business opportunities arising from 4G development. The Group will fully support the construction of 4G network by seizing the opportunities arising from investment in network construction by operator customers. The Group will also focus on the opportunities from the operating expenditure and needs of customers to provide competitive one-stop construction and maintenance solutions. The Group will vigorously develop businesses in network maintenance and network optimization, and strive for breakthroughs in high-end maintenance, collaborative logistics and energy-preserving products.

2. The Group will strengthen the establishment of its organization structure to support further expansion of domestic non-operator market. The Group will accelerate the establishment of five key systems relating to marketing, products, procurement, delivery and financing to create synergistic effects in market expansion. The Group will establish a vertically integrated marketing system and focus on the informatisation demand of government, industries and small-and-medium enterprises. The Group will establish product lines both in the group and regional level to promote representative products, such as "Smart City", "Intelligent Building", "Smart Transportation", "Smart Security" and "SAP Cloud Computing". The Group will strengthen the synergistic development of products across different regions to enhance market penetration.

3. The Group will adopt a new operational model to boost the leaping development in the overseas market. The Group will focus on the markets in the Middle East, Africa and Southeast Asia which have demand for “Broadband Countries”, “Smart City” and “Regional Information Hubs”. The Group will also review its products offerings and promote products and services with distinctive competitive advantages to secure large scale turnkey projects. The Group will adopt new business model to initiate projects through consultation and planning, to launch projects through investment and finance and to develop projects through operation and maintenance. The Group will refine its presences in the overseas market by enhancing differentiated management and resources allocation to businesses and regions with higher profitability.

4. The Group will implement the preferential treatment and non-competition arrangements with the Tower Company. The Group will focus on customers’ needs, coordinate at various levels within the Group, and provide full service support.

5. The Group will integrate internal and external resources to develop core products. The Group will track and reserve new technologies and increase its investment in research and development in key areas, including cloud computing, Internet of Things and information security. The Group will allocate innovation funds to establish product bases. The innovation of product, mechanism and business model will be fully integrated for the development of more competitive core products.

6. The Group will enhance efficiency by strengthening precise management. The Group will further refine the organizational structure of provincial-level subsidiaries and specialized subsidiaries, strengthen project management and sub-divide performance evaluation units so as to promote cost reduction and achieve higher profitability. The Group will improve capital management to improve the efficiency of utilization of funds, and strengthen its financial control to prevent operational risks.

Si Furong
President

Beijing, the PRC
25 March 2015

GROUP RESULTS

China Communications Services Corporation Limited (the "Company") is pleased to announce the consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2014, extracted from the audited consolidated financial statements of the Group as set out in its 2014 annual report.

Consolidated Statement of Profit or Loss
For the year ended 31 December 2014
(Expressed in Renminbi)

	Notes	**2014** **RMB'000**	2013 *RMB'000*
Revenues	*4*	**73,176,252**	68,459,096
Cost of revenues	*5*	**(62,494,549)**	(58,081,107)
Gross profit		**10,681,703**	10,377,989
Other operating income	*6*	**805,579**	802,216
Selling, general and administrative expenses		**(8,777,028)**	(8,288,163)
Other operating expenses		**(84,638)**	(116,624)
Finance costs	*7*	**(20,430)**	(11,232)
Share of profits of associates		**25,700**	14,315
Profit before tax	*8*	**2,630,886**	2,778,501
Income tax	*9*	**(463,088)**	(493,121)
Profit for the year		**2,167,798**	2,285,380
Attributable to:			
Equity shareholders of the Company		**2,150,258**	2,238,351
Non-controlling interests		**17,540**	47,029
Profit for the year		**2,167,798**	2,285,380
Basic earnings per share (RMB)	*12*	**0.310**	0.323

Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the year ended 31 December 2014
(Expressed in Renminbi)

	Notes	2014 RMB'000	2013 RMB'000
Profit for the year		**2,167,798**	2,285,380
Other comprehensive income 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 of Mainland China		**(7,755)**	(14,057)
Available-for-sale securities: net movement in the fair value reserve	10	**8,698**	8,307
		943	(5,750)
Total comprehensive income for the year		**2,168,741**	2,279,630
Attributable to			
Equity shareholders of the Company		**2,151,087**	2,232,601
Non-controlling interests		**17,654**	47,029
Total comprehensive income for the year		**2,168,741**	2,279,630

Consolidated Statement of Financial Position
At 31 December 2014
(Expressed in Renminbi)

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

Consolidated Statement of Financial Position ***(Continued)***
At 31 December 2014
(Expressed in Renminbi)

	Notes	**31 December 2014** ***RMB'000***	31 December 2013 *RMB'000*
Non-current liabilities			
Interest-bearing borrowings		**38,708**	51,580
Other non-current liabilities		**787,642**	154,379
Deferred tax liabilities		**13,357**	16,892
Total non-current liabilities		**839,707**	222,851
Total liabilities		**29,217,943**	25,963,284
Equity			
Share capital	*15*	**6,926,018**	6,926,018
Reserves		**16,103,855**	14,846,745
Equity attributable to equity shareholders of the Company		**23,029,873**	21,772,763
Non-controlling interests		**513,314**	515,259
Total equity		**23,543,187**	22,288,022
Total liabilities and equity		**52,761,130**	48,251,306

Notes:

1. STATEMENT OF COMPLIANCE

These financial statements of the Company and the Group have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB"). IFRSs include all applicable individual International Financial Reporting Standards, International Accounting Standards ("IASs") and related interpretations. These financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

2. CHANGES IN ACCOUNTING POLICIES

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

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

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

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

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

- obtain funds from one or more investors for the purpose of providing them with investment management services;

- commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and

- measure and evaluate performance of substantially all of its investments on a fair value basis.

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

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

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

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

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

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

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

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

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

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

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

IFRIC 21 *Levies*

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

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

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

3. 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 reportable segment has been presented. Additional information about major customers and geographical areas of the Group has been disclosed in note 4.

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:

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

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

5. COST OF REVENUES

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

6. OTHER OPERATING INCOME

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

7. FINANCE COSTS

	2014 *RMB'000*	2013 *RMB'000*
Interest on bank and other borrowings wholly repayable within five years	**10,096**	11,232
Interest for convertible preference shares and preference shares[9]	**10,334**	–
	20,430	11,232

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

9 A subsidiary of the Company has placed 100 million convertible preference shares and preference shares (US$1 per share) to an independent third party on 25 July 2014.

8. PROFIT BEFORE TAX

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

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

Research and development costs include RMB1,389 million (2013: RMB1,201 million) relating to staff costs, amount of which is also included in the staff cost disclosed in note 8(a).

9. INCOME TAX

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

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

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

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

Notes:

(i) The provision for income tax of the Group is calculated based on a statutory rate of 25% of the assessable profit of the Group as determined in accordance with the relevant PRC income tax rules and regulations for the years ended 31 December 2014 and 2013, except for certain domestic subsidiaries of the Group, which are taxed at preferential rates of 20%, 15% and 10%, where applicable; and for certain overseas subsidiaries of the Group, which are taxed at respective statutory rates.

(ii) The amount includes personnel and other miscellaneous expenses in excess of statutory deductible limits for tax purposes.

(iii) The amounts primarily represent the effect of research and development expense deduction.

10. OTHER COMPREHENSIVE INCOME

Available-for-sale securities

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

11. DIVIDENDS

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

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

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

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

12. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company for the year ended 31 December 2014 of RMB2,150,258 thousand (2013: RMB2,238,351 thousand) and number of shares in issue during the year ended 31 December 2014 of 6,926,018 thousand shares (2013: 6,926,018 thousand shares).

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

13. ACCOUNTS AND BILLS RECEIVABLE, NET

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

(a) Included in accounts and bills receivable are amounts due from CTC Group of RMB13,612 million (2013: RMB11,749 million) as at 31 December 2014. The amounts due from CTC Group are unsecured, interest-free and are expected to be recovered within one year.

(b) In general, debts are due for payment upon billing. Subject to negotiation, credit terms within a range of one to three months are available for certain customers with well-established trading and payment records.

(c) The ageing analysis of accounts and bills receivable (net of impairment losses) based on the invoice date is as follows:

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

Note: Including unbilled revenues for contract work.

(d) Impairment of accounts and bills receivable

Impairment losses in respect of accounts and bills receivable are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against accounts and bills receivable directly.

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

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

At 31 December 2014, the Group's accounts and bills receivable of RMB2,152 million (2013: RMB2,169 million) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific impairment losses of RMB317 million (2013: RMB164 million) were recognised. The Group does not hold any collateral over these balances.

(e) Accounts and bills receivable that is not impaired

The ageing analysis of accounts and bills receivable that are neither individually nor collectively considered to be impaired are as follows:

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

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

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowances is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

14. ACCOUNTS AND BILLS PAYABLE

Accounts and bills payable comprise:

	2014	2013
	RMB'000	*RMB'000*
Accounts payable	**16,366,810**	14,651,217
Bills payable	**2,448,758**	2,429,567
	18,815,568	17,080,784

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

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

Included in accounts and bills payable are amounts due to CTC Group and an associate of the Group of RMB2,239 million (2013: RMB1,794 million) as at 31 December 2014. The amounts due to CTC Group and an associate of the Group are unsecured, interest-free and are expected to be settled within one year.

15. SHARE CAPITAL

	2014	2013
	RMB'000	*RMB'000*
Registered, issued and fully paid:		
4,534,598,160 (31 December 2013: 4,534,598,160) domestic shares of RMB1.00 each	**4,534,598**	4,534,598
2,391,420,240 (31 December 2013: 2,391,420,240) H shares of RMB1.00 each	**2,391,420**	2,391,420
	6,926,018	6,926,018

	2014	2013
	Thousand shares	*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.

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

Overview

In 2014, the Group adhered to its market-oriented approach and allocated its resources in an adaptive way for the expansion of the three major customer markets. The Group's total revenues reached RMB73,176 million, representing an increase of 6.9% from 2013. However, the reduction of service charge and the implementation of the "VAT Reform", Labour Contract Law and other new industry policies imposed extra pressure on the Group in terms of competition and costs. In addition, the Group adopted a more prudent approach in financial management in 2014. As a result of the aforementioned factors, profit attributable to equity shareholders of the Company amounted to RMB2,150 million, representing a decrease of 3.9% from RMB2,238 million in 2013, and such decrease was lowered as compared with that of 2013. Basic earnings per share were RMB0.310. Free cash flow was RMB833 million in 2014, representing a significant improvement from RMB-324 million of last year.

Total Revenues

Our total revenues in 2014 were RMB73,176 million, representing an increase of 6.9% from 2013. Among our businesses, the revenue from telecommunications infrastructure ("TIS") services was RMB34,008 million, representing an increase of 6.2% from 2013; the revenue from business process outsourcing ("BPO") services was RMB31,215 million, representing an increase of 7.6% from 2013; the revenue from applications, content and other ("ACO") services was RMB7,953 million, representing an increase of 7.3% from 2013. As to business structure, construction services and network maintenance services were the two major businesses that contributed to the Group's overall incremental revenues. As to customer structure, the revenue from the domestic telecommunications operators in 2014 amounted to RMB47,117 million, representing 64.4% of the total revenues and an increase of 8.8% from 2013; the aggregate revenues from the domestic non-operator customers and overseas customers amounted to RMB26,059 million, representing an increase of 3.7% from 2013 and 35.6% of the total revenues. In 2014, the Group adopted a market-oriented approach and allocated its resources adaptively to grasp the opportunities from the network construction investment by domestic telecommunications operators after the issuance of 4G licenses. The Group saw favorable business development in the domestic telecommunications operator market and the incremental revenue from such market accounted for 80.4% of the total incremental revenues. This market was a major driving force of the Group's total revenues growth.

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

	2014	2013	Percentage
	RMB'000	*RMB'000*	Change
Telecommunications Infrastructure Services			
Design services	**6,664,097**	6,325,767	5.3%
Construction services	**24,875,087**	23,426,702	6.2%
Project supervision and management services	**2,468,893**	2,283,772	8.1%
	34,008,077	32,036,241	6.2%
Business Process Outsourcing Services[10]			
Management of infrastructure for information technology	**8,146,213**	6,884,291	18.3%
Distribution of telecommunications services and products	**19,599,256**	18,933,812	3.5%
General facilities management	**3,469,954**	3,193,474	8.7%
	31,215,423	29,011,577	7.6%
Applications, Content and Other Services			
System Integration	**3,574,294**	3,355,792	6.5%
Software development and system support	**1,447,777**	1,378,348	5.0%
Value Added Services	**1,285,250**	1,170,597	9.8%
Others	**1,645,431**	1,506,541	9.2%
	7,952,752	7,411,278	7.3%
Total	**73,176,252**	68,459,096	6.9%

Telecommunications Infrastructure Services

In 2014, the revenue from TIS services of the Group was RMB34,008 million, representing an increase of 6.2% over RMB32,036 million in 2013. TIS services were our primary source of revenues and accounted for 46.5% of our total revenues, representing a decrease of 0.3 percentage point from 46.8% in 2013. In light of the progress of 4G licenses issuance, domestic telecommunications operators showed imbalanced pace of network construction investment between the first half and second half of the year. The Group closely followed the pace of network construction investment by domestic telecommunications operators. TIS revenue from domestic telecommunications operators amounted to RMB26,548 million, representing an increase of 6.6% over RMB24,903 million in 2013. The aggregate TIS revenues from domestic non-operator market and overseas market amounted to RMB7,460 million, representing an increase of 4.6% over RMB7,133 million in 2013. Aggregate revenues from the domestic non-operator market and overseas market accounted for 21.9% of the total TIS revenues, representing a decrease of 0.4 percentage point over 2013.

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

Business Process Outsourcing Services

In 2014, the revenue from BPO services of the Group was RMB31,215 million, representing an increase of 7.6% over RMB29,012 million in 2013. The revenue from BPO services accounted for 42.6% of our total revenues, representing an increase of 0.2 percentage point from 42.4% in 2013. Among BPO services, the revenue from network maintenance amounted to RMB8,146 million, representing an increase of 18.3% from 2013, more than doubled in terms of the growth rate as compared with last year, and incremental revenue from network maintenance accounted for 26.8% of the total incremental revenues. Such favorable development was mainly because the Group focused and captured the opportunities arising from the continuously increasing operating expenditure of the domestic telecommunications operators and their continuous demands for maintenance outsourcing. The revenue from distribution of telecommunications services and products ("Distribution Business") was RMB19,599 million, representing an increase of 3.5% over 2013. The growth rate was significantly lower than that of last year[11] because the Group adhered to the principle of efficient development and proactively controlled the development of certain Distribution Businesses with relatively low operating efficiency.

Applications, Content and Other Services

In 2014, the revenue from ACO services of the Group was RMB7,953 million, representing an increase of 7.3% over RMB7,411 million in 2013. The revenue from ACO services accounted for 10.9% of our total revenues, representing an increase of 0.1 percentage point from 10.8% in 2013. During the year, by pursuing openness and innovation, the Group strived to grasp opportunities brought by the informatisation in China, and continuously promoted competitive products and solutions in key areas such as "Smart City" and "Safe City".

Cost of Revenues

Our cost of revenues in 2014 was RMB62,494 million, representing an increase of 7.6% from 2013 and accounting for 85.4% of our total revenues.

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

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

11 In 2013, the Group's revenue from Distribution Business was RMB18,934 million, representing a year-on-year increase of 11.7%.

Direct Personnel Costs

In 2014, direct personnel costs were RMB8,893 million, representing a decrease of 3.9% over RMB9,252 million in 2013. With the growth in business volume in 2014, the Group consistently applied reasonable control over its total headcount and subcontracted its low-end businesses, and thereby minimized the staff costs. The Group also strictly complied with the Labour Contract Law, and employed dispatch workers in accordance with the relevant regulations to avoid related risks. Direct personnel costs as a proportion to our total revenues was 12.2%, representing a decrease of 1.3 percentage points compared to 2013.

Depreciation and Amortisation

In 2014, depreciation and amortisation were RMB451 million, representing a decrease of 2.5% over RMB462 million in 2013. Depreciation and amortisation as a proportion to our total revenues was 0.6%, representing a decrease of 0.1 percentage point compared to 2013.

Purchase of Materials and Telecommunications Products

In 2014, the costs of materials and telecommunications products purchase were RMB20,191 million, representing an increase of 2.0% from RMB19,804 million in 2013. The significant decrease in the growth rate of costs of materials and telecommunications products[12] was mainly because the Group effectively controlled the development of certain low-end Distribution Businesses. Cost of materials and telecommunications products as a proportion to our total revenues was 27.6%, representing a decrease of 1.3 percentage points compared to 2013.

Subcontracting Charges

In 2014, subcontracting charges were RMB25,763 million, representing an increase of 17.8% over RMB21,874 million in 2013. Such increase was mainly resulted from our TIS services and network maintenance services. Having considered its strategic development, effectiveness and efficiency, the Group continued to focus on high-end businesses and outsource certain low-end tasks, and the Group believed that engaging subcontractors could facilitate a more flexible utilization of external resources. As a result of the rapid growth in network maintenance business, which is labour-intensive in nature and demands for more subcontracts, subcontracting charges grew rapidly during the year. Subcontracting charges as a proportion to our total revenues was 35.2%, representing an increase of 3.2 percentage points compared to 2013.

Operating Lease Charges and Others

In 2014, operating lease charges and others were RMB7,196 million, representing an increase of 7.6% over RMB6,689 million in 2013. Operating lease charges and others as a proportion to our total revenues was 9.8%, which remained stable as compared with 2013.

[12] In 2013, the Group's purchase of materials and telecommunications products was RMB19,804 million, representing a year-on-year increase of 12.2%.

Gross Profit

In 2014, the Group's gross profit amounted to RMB10,682 million, representing an increase of 2.9% over RMB10,378 million in 2013. The Group's gross profit margin in 2014 was 14.6%, representing a decrease of 0.6 percentage point from 15.2% in 2013. The decrease in gross profit margin was due to various factors, including the decrease in service charge, higher subcontracting charges, low profit margin in the initial stage of expansion into new markets and the change in the pricing of our design services and project supervision and management services resulting from the implementation of the "VAT Reform" in the telecommunications industry from 1 June 2014.

Selling, General and Administrative Expenses

Our selling, general and administrative expenses in 2014 were RMB8,777 million, representing an increase of 5.9% over RMB8,288 million in 2013. In 2014, the Group strengthened cost control on selling and administrative expense. Selling, general and administrative expenses as a proportion to our total revenues was 12.0%, representing a decrease of 0.1 percentage point compared to 2013.

Finance Costs

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

Income Tax

The income tax of the Group in 2014 was RMB463 million and our effective tax rate was 17.6%, representing a decrease of 0.2 percentage point compared to 17.8% in 2013. The difference between our effective tax rate and the statutory tax rate was mainly due to the preferential income tax rate treatment enjoyed by certain subsidiaries, which are classified as key software enterprises and new and high-technology enterprises the preferential policy of tax deduction before income tax for research and development expenses. Certain key software enterprises were entitled to a preferential income tax rate of 10%. Certain new and high-technology enterprises and enterprises which could enjoy the preferential policies for Western Development Program were entitled to a preferential income tax rate of 15%. Several subsidiaries of the Group were subject to an income tax rate of 20%. Apart from these subsidiaries, the Company and other domestic subsidiaries of the Group were subject to an income tax rate of 25%. The overseas subsidiaries of the Group were subject to different tax rates in various countries.

Profit Attributable to Equity Shareholders of the Company and Basic Earnings Per Share

In 2014, profit attributable to equity shareholders of the Company was RMB2,150 million, representing a decrease of 3.9% over RMB2,238 million in 2013. Profit attributable to equity shareholders of the Company accounted for 2.9% of our total revenues, representing a decrease of 0.4 percentage point as compared with 2013. Basic earnings per share of the Company were RMB0.310.

Capital Expenditure

We implement stringent budget management over capital expenditure, and adjust our capital expenditure plan according to changes in market condition. In 2014, our capital expenditure amounted to RMB646 million, representing a decrease of 8.4% from RMB705 million in 2013. The capital expenditure in 2014 accounted for 0.9% of our total revenues. Our capital expenditure included the purchases of production facilities and equipment, machinery and meters, plant and office buildings, intangible assets and other operating assets.

Cash Flow

Our net cash inflow in 2014 amounted to RMB576 million as compared to the net cash outflow of RMB2,086 million in 2013. As at the end of 2014, our cash and cash equivalents amounted to RMB7,314 million, of which 89.1% was denominated in Renminbi.

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

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

In 2014, net cash generated from operating activities was RMB1,609 million, representing an increase of RMB1,288 million from RMB321 million in 2013. The increase in net cash generated from operating activities was mainly due to the Group continuously strengthened its cash flow and accounts receivable management, and initiated accounts receivable settlement and collection work effectively.

In 2014, net cash used in investing activities was RMB877 million, representing a decrease of RMB132 million from RMB1,009 million in 2013. Cash used in investing activities mainly comprised capital expenditure such as equipment purchases.

In 2014, net cash used in financing activities was RMB156 million, representing a decrease of RMB1,242 million from RMB1,398 million in 2013. The change in cash flow from financing activities was mainly due to the increased liability by the Group after introducing a strategic investor for overseas expansion.

Working Capital

As at the end of 2014, working capital (i.e. current assets minus current liabilities) was RMB15,830 million, representing an increase of RMB1,414 million from RMB14,416 million in 2013. The increase in working capital was mainly due to the expansion of our business and the prolonged repayment cycle by major customers of the Group.

Indebtedness

As at the end of 2014, total indebtedness of the Group was RMB897 million, representing an increase of RMB792 million from RMB105 million at the end of 2013. Indebtedness of the Group were mainly denominated in US dollar, of which Renminbi loan accounted for 1.5% and US dollar loan accounted for 98.5%, and of which 31.3% was fixed interest rate loans and 68.7% was floating interest rate loans.

As at the end of 2014, our gearing ratio[13] was 3.8%, representing an increase of 3.3 percentage points from 0.5% in 2013.

Contractual Obligations

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

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

Exchange Rate

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

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

For the year ended 31 December 2014, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

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

AUDIT COMMITTEE

The audit committee has reviewed the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including the review of the annual report for the year ended 31 December 2014 with the management and the Company's international auditors, Deloitte Touche Tohmatsu.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

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 has abided by the PRC Company Law and the applicable laws, regulations and regulatory requirements of Hong Kong and the PRC as the basic guidelines for the Company's corporate governance. Throughout the year ended 31 December 2014, the Company has complied with the code provisions as set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules to govern securities transactions by the directors of the Company. The Company has made specific enquiries in writing to the directors, and each of the directors has confirmed his/her compliance with the Model Code in connection with the transactions of the Company's securities in the reporting period.

CLOSURE OF SHARE REGISTER

1. Annual General Meeting

The H share register of members of the Company will be closed, for the purpose of determining shareholders' entitlement to attend the Annual General Meeting, from Wednesday, 27 May 2015 to Friday, 26 June 2015 (both days inclusive), during which period no transfer of H shares will be registered. In order to attend the Annual General Meeting, all transfer documents, accompanied by the relevant share certificates, must be lodged for registration with Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, not later than 4:30 p.m. on Tuesday, 26 May 2015. H share shareholders who are registered with Computershare Hong Kong Investor Services Limited on 26 June 2015 are entitled to attend the Annual General Meeting.

2. Proposed Final Dividend

The Board proposes a final dividend of RMB0.0931 per share (pre-tax) for the year ended 31 December 2014. The dividend proposal will be submitted for consideration at the Annual General Meeting to be held on 26 June 2015. If such proposed dividend distribution is approved by the shareholders, the final dividend will be distributed to those shareholders whose names appear on the register of members of the Company on Monday, 13 July 2015. The register of members will be closed from Wednesday, 8 July 2015 to Monday, 13 July 2015 (both days inclusive). In order to be entitled to the final dividend, H share shareholders who have not registered the transfer documents are required to deposit the transfer documents together with the relevant share certificates at Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong at or before 4:30 p.m. on Tuesday, 7 July 2015. Dividends will be denominated and declared in Renminbi. Dividends on domestic shares will be paid in Renminbi, whereas dividends on H shares will be paid in Hong Kong dollars. The relevant exchange rate will be the average of the mid-point rates of Renminbi to Hong Kong dollars as announced by the People's Bank of China for the week prior to the date of the approval of declaration of dividends at the Annual General Meeting.

The Company shall be obliged to withhold and pay income tax on behalf of overseas non-resident enterprise shareholders and overseas resident individual shareholders of H shares whose names appear on the Company's H share register of members on Monday, 13 July 2015 according to the following regulations:

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 a rate of 10%. 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 lower than 10%, the Company will withhold the individual income tax at a 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 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 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 a tax rate of 10% on behalf of the overseas non-resident enterprise shareholders.

Should the shareholders of the H shares of the Company have any doubt in relation to the aforesaid arrangements, they are recommended to consult their tax advisors for relevant tax impact in Mainland China, Hong Kong and other countries (regions) on the possession and disposal of the H shares of the Company.

In respect of the final dividend for the year ended 31 December 2014 to be paid by the Company to the investors who have invested in the shares of the Company listed on the Main Board of the Stock Exchange via the Shanghai Stock Exchange, the Company is in the process of consulting with the relevant PRC authorities regarding the arrangement relating to withholding and paying tax on behalf of those investors (if any). The Company will make further announcement(s) as soon as practicable after such arrangement is finalised.

ANNUAL REPORT

The annual report for the year ended 31 December 2014 will be dispatched to shareholders and made available on the website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (www.chinaccs.com.hk) in due course.

FORWARD-LOOKING STATEMENTS

The Company would also like to caution readers about the forward-looking nature of certain of the above statements. These forward-looking statements are subject to risks, uncertainties and assumptions, which are beyond our control. Potential risks and uncertainties include those concerning the growth of the telecommunications industry in China, the development of the regulatory environment and our ability to successfully execute our business strategies. In addition, these forward-looking statements reflect our current views with respect to future events and are not a guarantee of future performance. We do not intend to update these forward-looking statements. Actual results may differ materially from the information contained in the forward-looking statements as a result of a number of factors.

Beijing, PRC, 25 March 2015

As at the date of this announcement, our executive directors are Mr. Sun Kangmin, Mr. Si Furong and Ms. Hou Rui, our non-executive directors are Mr. Li Zhengmao and Mr. Zhang Junan, and our independent non-executive directors are Mr. Wang Jun, Mr. Zhao Chunjun, Mr. Wei Leping and Mr. Siu Wai Keung, Francis.