

President's Statement



Dear Shareholders,

I am very pleased to present the operating results of the Group in 2010.

In 2010, the Group recorded total revenues of RMB45,417 million, representing a year-on-year growth of 15.0%. Profit attributable to equity shareholders amounted to RMB1,818 million, representing a year-on-year growth of 13.7%. The sustained and healthy growth of our operating results was mainly attributable to the successful expansions by the Group in the domestic non-operator market and overseas market, as well as the prompt response to the demands for support services from domestic telecommunications operators.

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In 2010, costs of revenues of the Group amounted to RMB38,018 million, representing a year-on-year growth of 14.8%, which was slightly lower than its revenue growth. The Group was committed to developing businesses with relatively higher profit margin and strengthening cost control, and its gross profit margin and net profit margin were 16.3% and 4.0%, respectively, remaining stable over the past three years. As a result of increasing requirement for working capital driven by the rapid growth of businesses, its free cash flow for the year declined on a year-on-year basis, but remained at a healthy level of RMB628 million.

In 2010, the Group achieved a continuous and stable growth in all of its three main businesses. The Group's revenues from telecommunications infrastructure ("TIS") services saw a year-on-year increase of 12.2%, accounting for 47.6% of revenues. Among which, TIS revenues from domestic operators grew by 3.7%, as the Group continued to provide domestic operators with capacity expansion services for mobile, wireline and data networks and seized the business opportunities triggered by broadband network upgrading. In addition, TIS revenues from domestic non-operator and overseas customers increased significantly by 50.9%, accounting for 24.2% of total TIS revenue, as the Group vigorously expanded such markets, fully demonstrated its integrated service capability in the informatization sector and focused on leading companies of the industry and key projects.

In 2010, revenues from business process outsourcing services achieved a year-on-year increase of 16.1%, accounting for 40.8% of revenues. In particular, maintenance service, being one of the key development focuses, sustained rapid growth and recorded a growth rate of 22.6% over the previous year. The rapid growth in revenue was mainly due to the Group's prompt response to the increasing demand from domestic operators for network optimization and maintenance. Moreover, distribution of telecommunications services and products business grew steadily under the Group's effective control and management.

In 2010, applications, content and other ("ACO") services grew rapidly and increased by 23.6% over the same period last year, and its proportion of revenues further increased to 11.6%. Driven by the industrial opportunities emerging from the informatization of society and the development of mobile Internet business, the revenues from IT applications and Internet services achieved rapid growth of 26.5% and 68.8%, respectively. After a period of incubation, the revenue growth from ACO business started to accelerate, and this would be beneficial to the enhancement of the overall profitability of the Group.

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While providing in-depth services to the domestic telecommunications operators in all aspects, the Group made great efforts to expand the domestic non-operator market and the overseas market and achieved remarkable results with the further optimized customer structure. In 2010, the revenues from domestic telecommunications operators amounted to RMB29,464 million, representing a year-on-year growth of 7.2% and accounting for 64.9% of revenues. The revenues from domestic non-operator customers amounted to RMB13,728 million, representing a year-on-year growth of 27.8% and accounting for 30.2% of revenues, which has become an important driving force of the Group's revenues. The overseas business maintained a high-speed growth, and the revenues from overseas market amounted to RMB2,225 million, representing a year-on-year growth of 73.0%, and its proportion of revenues increased to 4.9%. The Group's further expansions of domestic non-operator customers and overseas customers not only helped optimize the customers revenue structure, but also provided a strong guarantee for the rapid development of the Group.

To achieve successful market expansion, the Group continued to optimize its business management model and internal resource allocation. On the one hand, the Group coordinated its resources to enhance operational efficiency, achieved synergistic development of businesses and enhanced execution capability on cross-functional services, so as to satisfy the development requirements of domestic non-operator customers and overseas customers. On the other hand, the Group integrated specialized resources and progressively pushed forward the internal legal entities integration to optimize resources allocation and achieve effective operation. Meanwhile, the Group attached importance to the functional management and organizational innovation, continued to improve its refined management ability, construct an efficient management model and enhance corporate management and control ability, with a view to reducing cost, increasing efficiency and effectively avoiding systematic risks.

Human resource management is an important means for the Group to strengthen its core competence. Therefore, it proactively explored innovative incentive mechanism and has constructed a market-oriented remuneration policy. By focusing on the high-value added segments along the industry chain, the Group has been tilting human resources towards high-end and strategic businesses, and endeavored to transform itself into a "technology and management focused" business model.

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Looking forward, the Group will set the objective as a “hundred billion” leader of the producer services in the informatization sector. It will focus on key areas and expand proactively, strengthen R&D and enhance cooperation and innovation. The Group will endeavor to perform the following main tasks in 2011 and thus maintain its leading position in the industry:

- Fully support the full-service operations of the domestic telecommunications operators, and capture industry opportunities such as optical-fiber network and mobile Internet, and thus maintaining its leading position in domestic operator market.
- Exploit the huge market potential triggered by China's urbanization, informatization and the Three Networks Convergence, focus on the demand for informatization for government agencies and sectors such as transportation facilities, energy and construction, and vigorously explore domestic non-operator market.
- Strengthen its overseas market expansion by focusing on regions such as Africa, the Middle East, Latin America and the Asian Pacific, and continue to reinforce its strategic cooperation with telecommunications equipment manufacturers in order to achieve the win-win situation.
- Exert great efforts in incubating the ACO business by introducing strategic cooperation partners, focusing on the niche-market of mobile Internet, and accelerating the innovation of new products, services and incentive mechanism.
- Reinforce our effective operation by further leveraging on the advantage of its complementary resources, and innovating its management structure and system, with a view to enhancing its core competence and resource utilization efficiency.



Zheng Qibao

President

Beijing, PRC
30 March 2011