

Chairman's Statement



Dear Shareholders,

In the past 5 years since the Company's initial public offering in December 2006, the Company has extended its position from a "services provider for telecommunications operators" to a "leading provider of producer services in the informatization sector". With the corporate vision of becoming a "world-class information network builder", the Company has achieved remarkable results through its innovative and pro-active business initiatives. The Group has recorded revenues of over RMB50 billion for the first time in the past 5 years and saw corresponding growth in its profit as well, both of which have more than doubled since its initial public offering. These excellent operating results have also given rise to favorable investment returns for shareholders in the form of yearly increases in dividends, thus realizing the simultaneous increase in the value of both the Group and its shareholders.

Operating Results

The Group achieved outstanding growth in 2011, with total revenues reaching RMB53,507 million, representing a year-on-year growth of 17.8%. Profit attributable to equity shareholders was RMB2,115 million, representing a year-on-year growth of 17.2%. Having considered the interests of and returns to our shareholders, the Board has proposed to maintain 40% dividend payout ratio⁽¹⁾ and pay a final dividend of RMB0.1222 per share⁽²⁾ for the financial year ended 31 December 2011.

⁽¹⁾ Dividend payout ratio = total dividend ÷ profit attributable to equity shareholder

⁽²⁾ Calculated on the basis of the total share capital of the Company after the rights issue on 8 February 2012

Further Reinforcing the Leading Position in Domestic Telecommunications Operator Market

As a result of the proliferating informatization trends, domestic telecommunications operators accelerated their development and increased their capital expenditures steadily in 2011. Driven by the increasing popularity of smart terminals, mobile Internet development and the "Broadband China" strategy, domestic telecommunications operators further increased their investment in areas such as fiber optic broadband and mobile network upgrade and expansion. Under such circumstances, the Group has been closely monitoring the change in customer requirements and supporting the full-service operations of domestic telecommunications operators. It has also actively participated in the network construction and provided network optimization and maintenance businesses which have been brought about by the expansion of networks. As a result, the Group further reinforced its market leading position. The revenue from the domestic telecommunications operator market achieved a rapid growth of 15.9%, representing 63.8% of total revenues.

Vigorously Expanding into Domestic Non-operator Market and Overseas Market

The accelerating industrial informatization and urbanization of China has generated a large scale of investment, which has in turn created a significant domestic non-operator market for the Group to develop. The Group, with its capacity, resources and successful experience gained from serving domestic telecommunications operators for many years, is able to provide integrated communications solutions for domestic non-operator customers, and focused on government agencies and key industries such as infrastructure, transportation, energy, and financial sectors. In 2011, the revenue from domestic non-operators market increased by 15.7%, representing 29.7% of total revenues.

In 2011, the revenue of the Group from overseas markets achieved a rapid growth of 56.0%, and its proportion to total revenues further increased to 6.5%. The Group further promoted its cooperation with large-scale state-owned enterprises, equipment manufacturers and financial institutions. It also rapidly expanded and cultivated turnkey projects, and developed subcontracting projects with enlarged scale and in an efficient manner. Whilst the Group is eager to expand its presence in overseas markets, it is also concerned about risk management and gradually improves its operational support mechanism for its overseas operations. During the year, the Group signed strategic alliance agreements with financial institutions to guard against financial risks in its overseas operations through measures such as credit insurance. The above measures are to ensure that scale breakthrough in overseas markets can be achieved in a prudent manner.

Strengthening Core Capability through Innovation

The Group bears changes in customer needs in mind and actively strives for new models of joint venture and cooperation in order to further accelerate its rapid growth. In 2011, the Group sought out global leading strategic partners such as Sybase, Inc. and Bytemobile, Inc. to form joint ventures for collaboration in areas such as mobile Internet and network optimization. By leveraging its partners' advanced technologies, the Group is able to provide its customers with more comprehensive solutions to their requirements. Beyond this, the Group increased its investment in research and development for its products and services, and participated in the construction and operation of new technology projects such as cloud computing center and Customer Premises Network (CPN), thereby driving the Group forward as a management and technology oriented enterprise.

Enhancing Efficiency through Strengthened Management

Over the course of the year, the Group further promoted high-efficiency management practices focusing on six core areas including collaboration management, subcontracting management, human resource management, fund management, projects management and contract management. Among which, remarkable progress and results were achieved in the integration of legal entities within the Group, business collaboration and centralized fund management. The above measures further enhanced the Group's operational efficiency and bolstered the Group's simultaneous enhancement in scale and efficiency.

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 and is in the process of enhancing its IT support system for internal control in order to improve its corporate governance standards and transparency. The Group's persistent efforts in fostering sound corporate governance have been recognized by capital market: the Group was once again awarded a Gold Award in "The Asset Corporate Awards 2011" and recognized as one of "China's Most Promising Companies 2011" in the telecommunications category by *The Asset*, a respected financial magazine in Asia. Moreover, the Group was given one of the "Best Investor Relations by a China Company" awards in the "Asian Excellence Recognition Awards" 2011 by *Corporate Governance Asia*, a respected journal on Corporate Governance in Asia.

Corporate Social Responsibility

The Group has always been committed to corporate social responsibility. The Group has been actively participating in the rescue and relief work in the provinces along the Yangtze River and providing emergency communications support and maintenance for domestic telecommunications operators. All of these demonstrated our sound social responsibilities. In addition, the Group also received high profile recognition by the government and the media by undertaking the construction and maintenance of communications systems for major national events proactively, such as the Xi'an Horticultural Expo and the Universiade Shenzhen 2011, and promoting energy saving and emission reduction.

Rights Issue

With strong shareholder support, the Group successfully completed the rights issue of H shares and domestic shares in February 2012 and recorded over-subscription for the rights shares. The Group believes the proceeds from the rights issue will provide strong financial support for the implementation of various opportunities, including its expansion into domestic non-operator market and overseas market, strategic acquisitions and joint ventures, as well as research and development, thus bolstering the Group's long-term development.

Prospects

With the constant evolution in communications technologies, domestic telecommunications operators are striving to transform into integrated information services providers. Their continual investment in 3G, mobile Internet, Wifi and broadband will lay a solid foundation for the future sustainable development for the Group. Furthermore, the large-scale investment in informatization driven by government policies, technological and social development, as well as the huge demand from overseas markets for informatization infrastructure and telecommunications facilities, have allowed the Group to identify two new growth engines with great potential: the domestic non-operator market and the overseas market. The Group is confident about the future and will continue with its customer-focused innovative service strategies. Following the principle of "leading through innovation and enhancing efficiency through intensive management", the Group will tap further into the needs of the domestic telecommunications operators market while simultaneously expanding into the domestic non-operator market and overseas market, with the aim of building up a "hundred-billion enterprise" which creates more value for its customers and shareholders through its consistently excellent performance.

Finally, on behalf of the Board, I would like to express my sincere gratitude to all of the Group's shareholders, customers and all sectors of society for their long-standing care and support to the Group.



Li Ping
Chairman

Beijing, PRC
29 March 2012