

## President's Statement



Dear Shareholders,

I am very pleased to present the operating results of the Group in 2011.

### Financial Performance

In 2011, the Group recorded total revenues of RMB53,507 million, representing a year-on-year growth of 17.8%. Profit attributable to equity shareholders amounted to RMB2,115 million, representing a year-on-year growth of 17.2%. The sustained and rapid growth of our operating results was mainly attributable to the deliberate allocation of resources by the Group to reinforce its share in its core market, capturing the development opportunities arising from the network upgrade and expansion and broadband construction of the domestic telecommunications operators, while simultaneously expanding into the domestic non-operator market and overseas market.

The cost of revenues of the Group amounted to RMB44,998 million, representing a year-on-year increase of 18.3%, and the gross profit margin was 15.9%. Selling, general and administrative expenses amounted to RMB6,401 million, representing a year-on-year increase of 13.6%. As a result of the Group's measures to enhance operational efficiency, such as centralized fund management and collaborative management, and the realization of economies of scale, net profit margin was 4.0% and remained stable over the past few years. As the Group devoted more efforts in market development, there was an increasing demand for working capital, and free cash flow<sup>(1)</sup> for the year was RMB414 million, representing a decline on a year-on-year basis.

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

## Business Development

In 2011, the Group sustained its sound growth momentum in all of its three main businesses. The revenue from telecommunications infrastructure ("TIS") services realized a year-on-year increase of 16.1%, accounting for 46.9% of total revenues. The Group allocated its resources flexibly as the market environment required and has committed resources to support domestic telecommunications operators on key projects such as the upgrade and expansion of the mobile network and fiber optic broadband network. TIS revenue from domestic telecommunications operators increased by 15.1% over the same period last year, and was the major driving force for the growth of TIS services during the period. In addition, in response to the enormous demand for domestic informatization construction and telecommunications infrastructure construction from overseas customers, the Group devoted more efforts to the development of the domestic non-operator market and the overseas market. The TIS revenues from these two markets grew by 19.1% year-on-year in aggregate, and those two markets have become important driving forces for the future growth of TIS business.

In 2011, business process outsourcing ("BPO") services achieved a year-on-year increase of 20.6%, accounting for 41.7% of total revenues. Within this, network maintenance services secured relatively rapid growth and realized a year-on-year increase of 23.6%. By leveraging its advantages in delivering integrated services, the Group provided ancillary services such as the distribution of telecommunications machineries in response to customer requirements. The Group's revenues from the distribution of telecommunications services and products ("Distribution Business") achieved a year-on-year increase of 20.8%, which led to the fast growth of BPO revenue. The Group will actively manage and control the development of its Distribution Business, and strike a proper balance between scale of development and economic efficiency.

In 2011, applications, content and other ("ACO") services grew steadily and its revenue achieved a year-on-year increase of 15.3%, accounting for 11.4% of total revenues. During the period, the Group took advantage of the opportunities created as a result of industry developments, such as the informatization of the community and mobile Internet, and used its best endeavours to promote an innovative business development model. This included the proactive introduction of strategic cooperation partners, increased investment in research and development and the promotion of innovation of services and products. All of the above facilitated the Group's market development and value enhancement.

## Expansion of Customer Groups

The Group has been focusing on three major markets. While reinforcing its leading position in the domestic telecommunications operator market, the Group also actively explored the domestic non-operator market and the overseas market. In 2011, the revenues from the domestic telecommunications operator market amounted to RMB34,151 million, representing a year-on-year growth of 15.9%, accounting for 63.8% of total revenues. The revenues from the domestic non-operator market amounted to RMB15,885 million, representing a year-on-year growth of 15.7%, accounting for 29.7% of total revenues. The overseas business maintained rapid growth, and the revenues from the overseas market amounted to RMB3,471 million, representing a year-on-year growth of 56.0%, and its revenue contribution to total revenues increased to 6.5%. The domestic non-operator market and the overseas market have enormous market potentials, and in the future will provide a strong impetus to the sustainable and rapid development of the Group.

## Operation Management

The Group has laid a solid foundation in management, and has strived to improve its mechanisms and systems as well as promoting its intensive high-efficiency management to enhance operational efficiency and management capability. During the year, the Group's operational efficiencies were enhanced by strengthened collaborative management and the construction of strategic units in different professional areas such as design business. In addition, the Group promoted centralized internal fund management and enhanced its efficiency in the utilization of funds. The Group has focused upon the integration of internal resources, the optimization of its organizational structure and the reduction of the number of legal entities. The Group believes the above measures will provide cogent assurance for the Group's simultaneous growth in scale and efficiency.

The Group also enhanced its human resource management. As a result of the Group's innovation of incentive mechanisms to attract and retain core talents, staff are able to realize their career development and share the benefits of the Group's growth. In order to help fulfill its future development strategies, the Group adopted an innovative approach in personnel allocation, and has focused its personnel allocation on its high-end businesses. On the other hand, through the outsourcing of low-end business, the Group effectively mitigated the impact of wage increases. Moreover, the Group focused on building an expert team specializing in the fields of project management and overseas development in order to properly serve the Group's increased requirements resulting from rapid business growth.

### Prospects for 2012

Looking ahead, the Group will strive to promote its businesses with a substantial development through innovation, efficiency enhancement, and targeting its goal of becoming a "hundred-billion enterprise" with excellent performance. The Group will mainly focus on the following areas during 2012 in order to maximise returns for shareholders and contribute to society:

- Tap further into the domestic telecommunications operator market: The Group will reinforce its leading position in the domestic telecommunications operator market and further participate in businesses such as mobile network construction, broadband, wireless city, and will proactively push forward business collaboration;
- Explore and develop domestic non-operator market: By leveraging the opportunities arising from informatization of society and urbanization, the Group will focus on key industries and actively develop businesses regarding dedicated communications networks, system integration, consolidated cabling, pipeline engineering, intelligent buildings and mobile Internet;
- Further expand its operational scale in overseas market: The Group will devote more resources for turnkey projects, and conduct subcontracting projects with focus on efficiency. The Group will also promote business collaboration, enhance risk management and target to achieve scale development in the overseas market;
- Drive the innovation of ACO business: The Group will focus on the management of the existing joint venture projects, promote innovation in its mechanisms and products, and endeavour to create a new model in business growth;
- Further promote intensive management: The Group will further promote centralized fund management and business collaboration, improve mechanisms for project management and subcontracting management, strengthen contract management and build up a team of experts who are adaptive to the swiftly changing market. With the above measures, the Group will be able to enhance its competitiveness and management capability, and thus realize healthy and sustainable growth.



**Zheng Qibao**  
*President*

Beijing, PRC  
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# Market Focusing and Services Innovation





Meticulously develop  
the **domestic  
telecommunications  
operator market**,  
vigorously expand the  
**domestic  
non-operator  
market** and  
develop the **overseas  
market** in a scale  
manner.

