

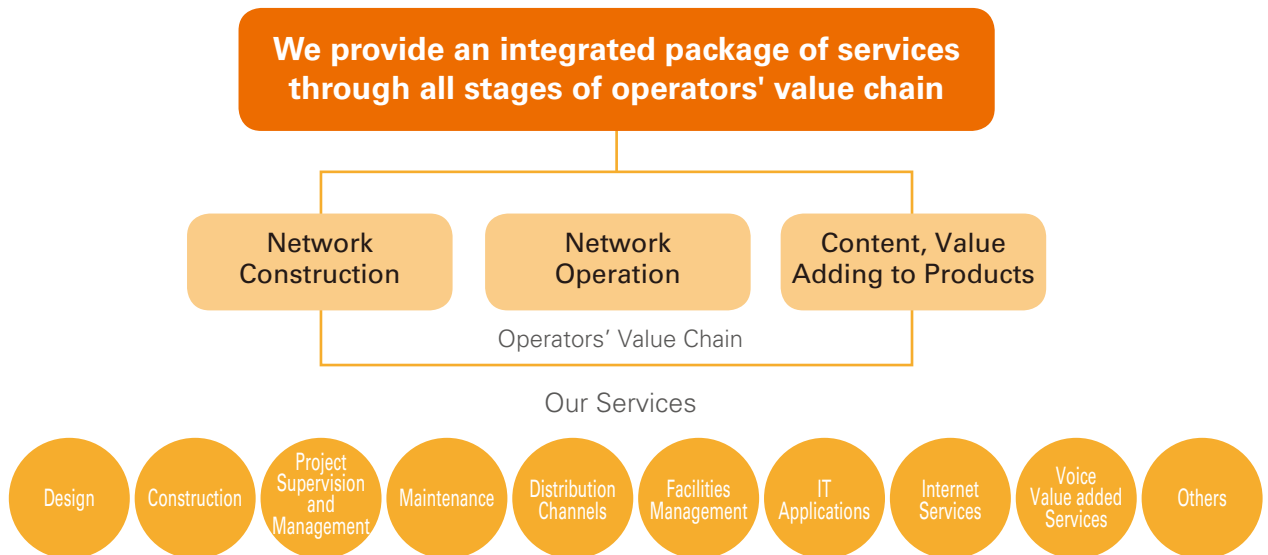
Business Overview

The Group is a leading service provider in the PRC that provides integrated support services in the informatization sector including telecommunications, media and technology. The Group provides integrated solutions, including telecommunications infrastructure services, business process outsourcing services as well as applications, content and other services to telecommunications and media operators, telecommunications equipment manufacturers as well as government agencies, corporate and industrial customers.

The Group's business covers China and over 50 countries and regions in the world, where overseas expansion is mainly focused on markets such as Africa, Middle East, Latin America and Asia Pacific.



**Signing Ceremonies for
Joint-Venture and
Cooperation Projects**



Customer Services and Market Expansion

In 2011, through meticulous operation and innovative expansion initiatives, the Group further reinforced its leading market position in the domestic telecommunications operator market, achieved steady businesses development in the domestic non-operator market and recorded rapid business growth from the overseas market. As such, the Group achieved a rapid growth of total revenues, which amounted to RMB53,507 million in 2011, representing a year-on-year growth of 17.8%.

In 2011, the Group attained a more balanced customer mix, and revenue contribution from key customers continued to increase. Revenue from domestic telecommunications operator customers increased by 15.9% to RMB34,151 million, accounting for 63.8% of total revenues; revenue from domestic non-operator customers increased by 15.7% to RMB15,885 million, accounting for 29.7% of total revenues and revenue from overseas market increased by 56.0% to RMB3,471 million, with its contribution to total revenues increased by 1.6 percentage points over last year to 6.5%.



(In RMB million except percentages)	2011		2010		Change over 2010
	Revenue	Percentage to total revenue	Revenue	Percentage to total revenue	
Domestic telecommunications operator customers	34,151	63.8%	29,464	64.9%	15.9%
Of which: China Telecom	22,956	42.9%	19,925	43.9%	15.2%
China Mobile and China Unicom	11,195	20.9%	9,539	21.0%	17.4%
Domestic non-operator customers	15,885	29.7%	13,728	30.2%	15.7%
Overseas customers	3,471	6.5%	2,225	4.9%	56.0%
Total	53,507	100.0%	45,417	100.0%	17.8%

In 2011, benefitted from the “Broadband China” strategy, the accelerated development of mobile Internet and the proliferation of smart phones, the domestic telecommunications operators devoted more resources to the expansion and upgrade of fiber optic broadband and mobile network, and the capital expenditure remained stable with a mild uptrend. As such, by leveraging the advantages in communication services industry, the Group continued to improve its marketing initiatives, services quality and the response time to market. The Group realized rapid growth in construction, supervision, network maintenance, distribution of telecommunications services and products and IT applications businesses. Revenues from the domestic telecommunications operators increased rapidly and our position in the industry was further reinforced.

It is particularly noteworthy that the project which the Group participated in – “China Telecom Prime IP Backbone Network (CN2) Construction Project” was awarded “National Prime-Quality Project Gold Award”, which was the first national gold award won by the communications industry in China. Such recognition fully demonstrated the Group’s leading position in the communications construction industry.

Based on the experiences in serving customers over the past years, the Group believes that the capital expenditure by the domestic telecommunications operators will remain relatively stable in the coming years given the continuing growth of their customer base, network scale as well as the continued introduction of new technologies and new services. The Group is also endeavored to explore the market in Northern China and establishes Shandong Communications Service Company Limited. The Group believes that revenue from domestic telecommunications operators will maintain a steady growth in future.



“Safe City” Projects



The Group continually innovated the business development model and mechanism in the expansion of domestic non-operator market. On top of the replication of its experiences and technologies in serving the telecommunications operators, the Group extends its ability, pursues informatization innovation and proactively provides services regarding informatization, city pipelines, weak current engineering, video surveillance and cloud computing center construction to government agencies, telecommunications equipment manufacturers, customers in the industries of construction, transportation, finance, energy, education and etc., and small and medium-sized enterprises. In 2011, the Group captured the opportunities of urbanization and informatization in China, improved its product structure,



**Project Sites for
Domestic Non-
operator Customers**



Overseas Project Sites

strengthened its business collaboration and thus achieved breakthroughs in many industries and participated in several sizable construction projects such as “Safe City” in Chongqing, Xi’an Horticultural Expo, Shenzhen Universiade, and Cloud Computing Center in Zhenjiang. All the above significantly enhanced the Group’s brand awareness and marketing capability and led to steady revenue growth from its domestic non-operator customers.

In 2011, the Group continued to firmly implement its overseas expansion strategy and overcame the negative impact from the political instabilities in Middle East and North Africa. The revenue from overseas markets was RMB3,471 million in 2011, representing an increase of 56.0% over last year. The Group focused on its expansion in turnkey projects such as FTTH project in Saudi Arabia, ADSS backbone fiber optic network project in Nepal and IDC project in Indonesia for customers including telecommunications operators, government agencies and large enterprises, and had achieved substantial breakthroughs. Moreover, the Group implemented the strategic cooperation agreements with many telecommunication equipment manufacturers and revenue from them increased rapidly. The Group strengthened business cooperation with large-scale state-owned enterprises, explored ICT system integration projects such as the weak current engineering system integration project for the new ferry terminal at Macau and achieved preliminary success. The Group also strives to minimize operational risks in overseas. In 2011, the Group entered into strategic cooperation agreements with financial institutions such as banks and insurance companies and kept improving the construction of fundamental legal and financial mechanisms and IT systems for overseas subsidiaries to improve its risk management capability. In view of the enormous market potential in overseas market, the Group will endeavor to achieve scale breakthrough in overseas market in a prudent manner.

Telecommunications Infrastructure Services

As the largest telecommunications infrastructure service provider in China, the Group is in possession of the highest-grade qualifications in the communications construction industry in China. In 2011, the Group's revenue from telecommunications infrastructure services amounted to RMB25,115 million, representing a year-on-year growth of 16.1%.

The Group provides a full range of telecommunications infrastructure services to telecommunications operators in China and overseas. These services include planning, design, construction and project supervision for fixed line, mobile, broadband networks and support systems. The Group endeavored to support the construction of mobile network for the domestic telecommunications operators and built more than 130 thousand WiFi hotspots during the year. In 2011, revenue of telecommunications infrastructure services of the Group from domestic telecommunications operators amounted to RMB18,889 million, representing a year-on-year growth of 15.1%, which demonstrated the Group's solid leading position in the market.



Development of
Overseas Customers





The Group also provides integrated solutions for ancillary communications networks and integrated solutions for informatization to domestic non-operator customers such as government agencies, telecommunications equipment manufacturers and broadcasting and television enterprises and overseas customers. The Group continued to achieve breakthroughs domestically in “safe city” and “smart city”, as well as in the overseas market. Revenue of telecommunications infrastructure services from domestic non-operator market and overseas market amounted to RMB6,226 million, representing a year-on-year growth of 19.1%.

The Group believes that there is still ample potential for development of telecommunications infrastructure services. Domestic telecommunications operators will continue to increase their investments in the construction of broadband network, mobile network, cloud computing and projects on energy saving and emission reduction. Their capital expenditure is expected to remain relatively stable with a mild uptrend in the near future, so the market size of telecommunications



**Telecommunications
Infrastructure Projects**

infrastructure services from domestic telecommunications operators will also remain relatively stable. Following the further development of urbanization and informatization in China, there will be enormous investments in infrastructure construction, informatization and new technologies, which result in broad space for the development of domestic non-operator market. There are also huge demands in the construction of telecommunication infrastructure network, mobile network and informatization from many overseas countries. The Group will capture the strategic opportunities to realize the stable development of telecommunications infrastructure services.

Business Process Outsourcing Services

The Group is a leading provider of business process outsourcing services for the communications industry in China. Leveraging our advantage in providing integrated service along the value chain of the communication industry, the Group provides network maintenance, distribution of telecommunications services and products ("Distribution") and facilities management to domestic telecommunications operators, government agencies and enterprise customers. In 2011, revenue of business process outsourcing services amounted to RMB22,315 million, representing a year-on-year growth of 20.6%.



The Group provides maintenance services to telecommunications operators in relation to fiber optic cables, electric cables, base stations, network equipment and user terminals. Such business scales have been continuously expanded following the increasing demand for higher network quality and the outsourcing of non-core businesses. In 2011, the Group's revenue of network maintenance business amounted to RMB5,276 million, representing a rapid increase of 23.6% over last year.

The Distribution services of the Group include the sales and distribution of communications machineries and handsets, logistics, procurement agency services and telecommunications agency services. Our major customers are telecommunications operators, telecommunications equipment manufacturers, government agencies and medium to large-sized enterprises. The Group sells mobile handsets for and supplies telecommunication machineries



**Network Optimization
and Maintenance Services**

to telecommunications operators. These services enable the Group to build closer relationship with customers and increase its revenue and profit. They also have the advantages of fast funds turnover and comparatively high return on investment and high labor productivity. In 2011, the revenue of the Distribution business of the Group amounted to RMB14,443 million, representing a steady increase of 20.8% over last year. Adhering to the principle of efficiency, the Group will devote more efforts to the management and control of Distribution services, centralize resources for Distribution services and build a unified brand.

The Group provides facilities management services on machinery buildings and high-end office buildings for domestic telecommunications operators and non-operator customers. In 2011, revenue of the facilities management services amounted to RMB2,596 million, representing an increase of 13.8% over last year.



**Distribution of
Telecommunications
Services and Products**

Applications, Content and Other Services

The Group is a provider of value-added services in the communications industry of China with great potential. It provides IT system integration services (including the development and construction of the operator’s OSS, BSS and MSS and industry applications), Internet services and voice value-added services for telecommunications operators, government agencies and other industrial customers. In 2011, revenue of applications, content and other services amounted to RMB6,077 million, representing a year-on-year growth of 15.3%.

The implementation of the national “Broadband China” strategy and the proliferation of the mobile Internet industry will stipulate further demands in informatization and Internet applications. To seize these market opportunities, the Group speeds up the cooperation on mobile Internet and wireless network optimization with Sybase, Inc., a global leading software enterprise, and Bytemobile, Inc., an industry leading wireless data optimization company. By leveraging their advanced technologies and well-developed customer solutions and combining our advantages in customer relationship, distribution channels and localized services, the Group will create more value for its customers. In the meantime, the Group will also increase investment in research and development, accelerate the innovation in business and incentive mechanism, acquire core talents in order to enhance its core competitiveness.

Business Transformation and Products Innovation



Mobile Internet and IT Applications Services



Promote **business
innovation,**

duplicate well-developed
models, manage
cooperation and joint-venture
projects and devote to
research and development.

