

## PRESIDENT'S STATEMENT



**Zheng Qibao**  
President

**Dear Shareholders,**

**I am very pleased to present the operating results of the Group in 2012.**

### Financial Performance

In 2012, the Group recorded total revenues of RMB61,517 million, representing a year-on-year growth of 14.4%. Profit attributable to equity shareholders amounted to RMB2,407 million, representing a year-on-year growth of 13.0%. The sustained and stable growth of our operating results was mainly attributable to the adaptive resources allocation by the Group and seizure of business opportunities arising from the continued spending in network construction and operational maintenance by the domestic telecommunications operators, as well as the Group's proactive efforts to expand into the domestic non-operator market.

The cost of revenues of the Group amounted to RMB51,732 million, representing a year-on-year increase of 14.5%. Through measures such as costs control and synergistic operations, the Group alleviated the cost and market pressure effectively, and maintained a relatively stable gross profit margin and net profit margin of 15.9% and 3.9%, respectively. In addition, the Group repaid interest-bearing debt and enhanced centralized fund management, and saved finance cost by 59.7% as compared with last year. During the year, there was an increasing demand for working capital due to the increased efforts in market development of the Group, and free cash flow<sup>1</sup> decreased as compared with last year to RMB166 million.

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

## Business Development

In 2012, the Group maintained sound growth in all of its three major businesses. The revenue from telecommunications infrastructure ("TIS") services continued to grow stably, representing a year-on-year increase of 12.0% and accounting for 46.2% of total revenues. During the year, the Group focused on key areas such as fiber optic broadband and upgrade and expansion of networks, actively participated in LTE trial construction, and provided comprehensive and thorough services to domestic telecommunications operators. The TIS revenue from domestic telecommunications operators achieved a year-on-year growth of 18.1%. Among them, the TIS revenue from China Mobile and China Unicom increased rapidly, representing a year-on-year growth of 25.2%, which reflects customers' recognition over the Group's continuous improvement of its service quality.

In 2012, the revenue from business process outsourcing ("BPO") services grew by 17.8% over the last year and accounted for 42.7% of total revenues. The Group firmly seized the continued demand of operation and maintenance outsourcing as a result of the full-service operations of domestic telecommunications operators, and the revenue from network maintenance services continued a rapid growth of 21.6%. In addition, the Group fully leveraged its advantages in delivering integrated services, and the revenue from the distribution of telecommunications services and products achieved a steady growth of 17.3% over the last year.

In 2012, the Group endeavored to seek business transformation and continued to promote mechanism and product innovation. The revenue from applications, content and other ("ACO") services achieved a year-on-year increase of 11.9%, accounting for 11.1% of total revenues. Among that, revenue from IT applications grew rapidly and recorded a year-on-year increase of 24.8% due to the broadened market driven by the informatization. Meanwhile, in order to become a management and technology oriented enterprise, the Group devoted more efforts in research and development in the areas such as cloud computing, mobile Internet and Internet of Things.

## Market Expansion

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 2012, the revenue from the domestic telecommunications operator market amounted to RMB39,745 million, representing a rapid year-on-year growth of 16.2%, accounting for 64.6% of total revenues. The revenue from the domestic non-operator market amounted to RMB18,361 million, representing a year-on-year growth of 15.5%, accounting for 29.9% of total revenues, showing a good developing momentum. The revenue from the overseas market amounted to RMB3,411 million, representing a year-on-year decrease of 7.0%, accounting for 5.5% of total revenues. Despite the temporary decrease in overseas revenue during the year, the Group continued to consolidate the foundation of overseas turnkey projects, with the confidence that the overseas market will become the key driver for its growth in the future.

## Enhancement of Management Efficiency

The Group has actively promoted management enhancement activities, optimized organization structure and enhanced institutional construction to effectively raise its operational and management capabilities. During the year, the Group enhanced resources integration capability through synergistic operation, and saved finance cost through strengthened capital management and the use of funding pool.

The Group further adopted the talents management strategy and developed market-oriented teams. During the year, the Group continued to enhance the market-oriented incentive policy while allocating human resources to key strategic areas such as domestic non-operator market and overseas market, and thus securing the human resources support for the Group's sustained and healthy development.

## Prospect for 2013

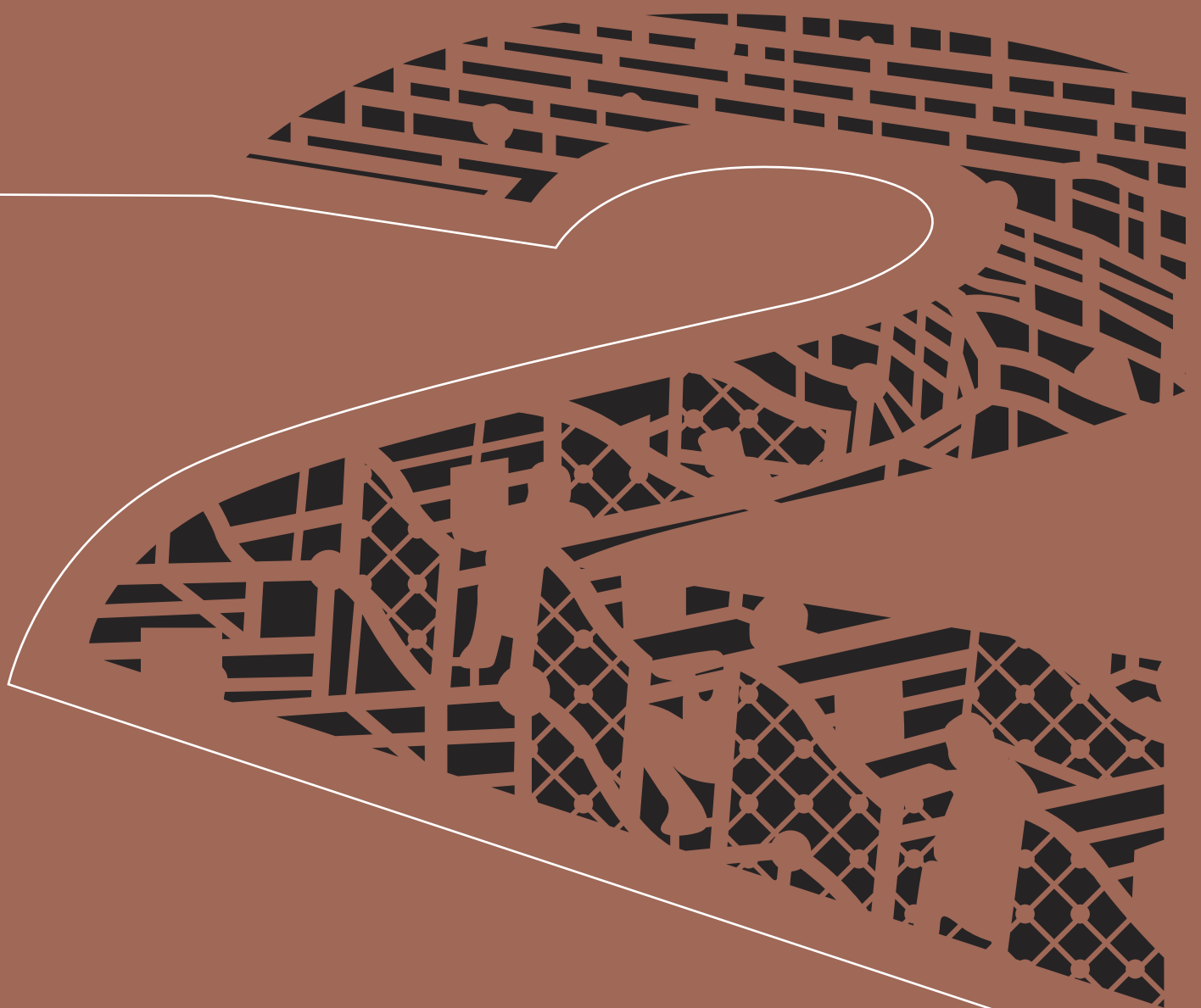
Looking forward, with the aim to build a "hundred-billion enterprise" with superior performance and a culture of harmony and happiness, we will unwaveringly seek innovation and transformation. The Group has determined to focus on the following tasks during 2013 so as to create greater value for both its customers and shareholders:

- Strengthen our leading position in domestic telecommunications operator market: Seize the valuable investment opportunities arising from 4G licensing, participate in LTE construction projects actively, continuously promote our service standard, and develop high-end maintenance and operation businesses;
- Seek scale development of domestic non-operator market: Capture the market opportunities driven by urbanization and informatization, focus on key customers such as government, industrial customers and small and medium-sized enterprises, with a specific focus on the development of "Smart City" projects, particularly "intelligent building" projects, by providing top level design consulting and key application services;
- Foster key projects and key regional markets overseas: Centralize resources allocation, promote synergistic operation in subcontracting project, realize breakthrough in scale of overseas turnkey projects through synergistic marketing, and enhance overseas risk management;
- Strengthen our efforts in research and development synergistically and enhance product innovation: Enhance product innovation and promote business transformation actively, devote more R&D resources to areas such as LTE, "intelligent building" and Big Data; and
- Promote synergistic management and enhance resources integration: Further promote centralized fund management, enhance marketing capability by strengthening brand building, strengthen risk management, and thus realize healthy and sustainable development of the Group.



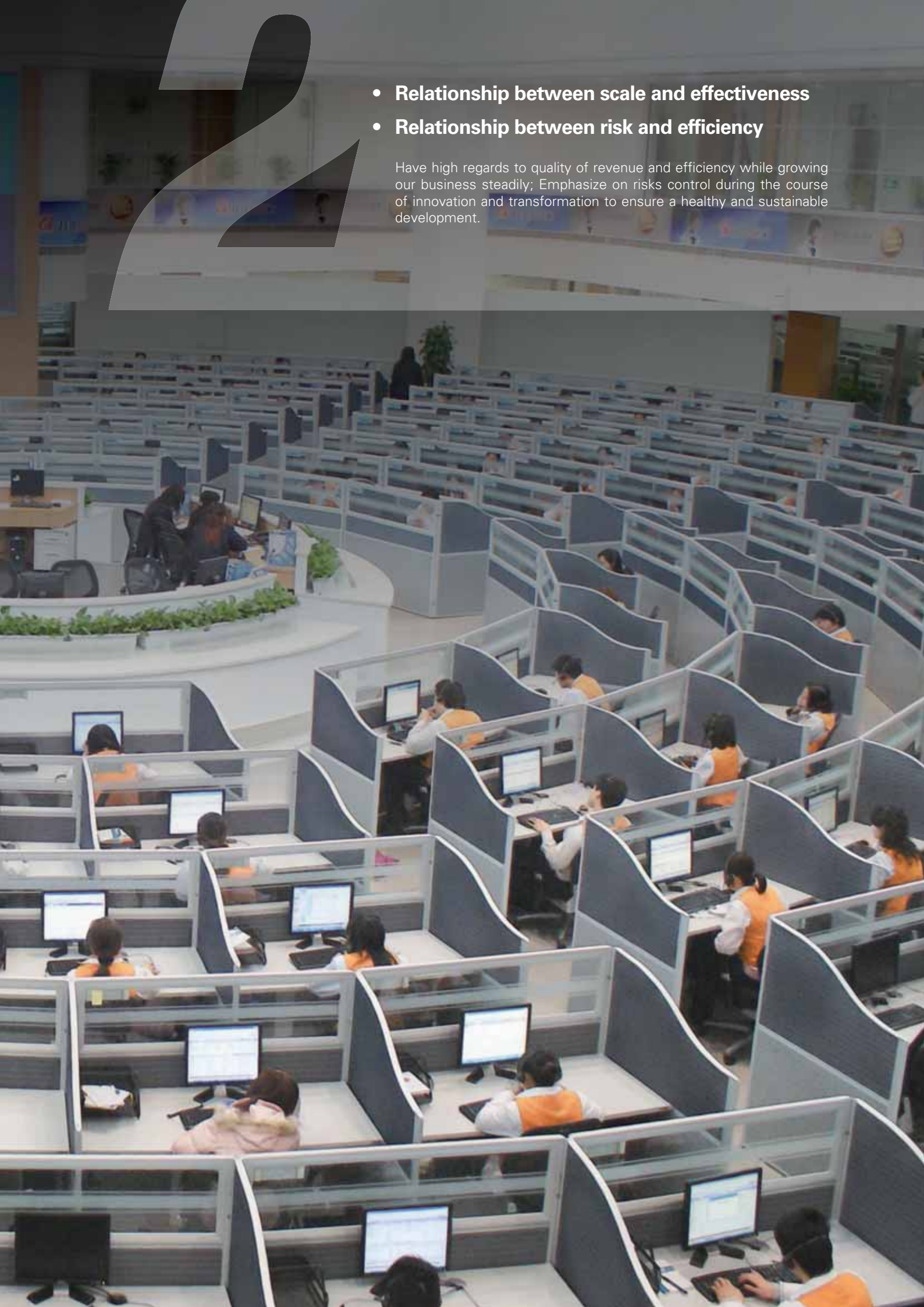
**Zheng Qibao**  
*President*

Beijing, PRC  
27 March 2013



## 2 Relationships



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- **Relationship between scale and effectiveness**
  - **Relationship between risk and efficiency**

Have high regards to quality of revenue and efficiency while growing our business steadily; Emphasize on risks control during the course of innovation and transformation to ensure a healthy and sustainable development.