

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 operators, government agencies, industrial customers and small and medium enterprises.

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

Customer Services and Market Expansion

In 2012, guiding by innovations and enhancing efficiency through synergistic management, the Group reinforced its leading market position in the domestic telecommunications operator market, actively explored into the domestic non-operator market and proactively developed overseas market. As such, the Group achieved a stable growth of total revenues, which amounted to RMB61,517 million in 2012, representing a year-on-year growth of 14.4%.



The Company participated in exhibitions

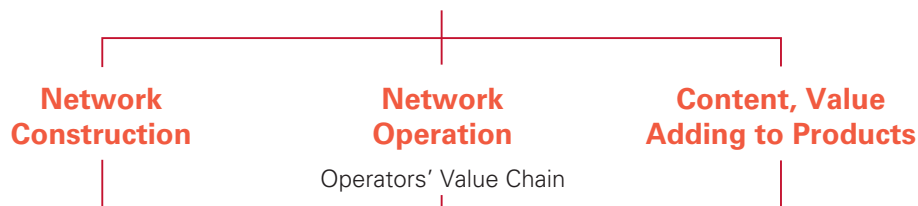




In 2012, the Group attained a relatively stable customer mix. Revenue from domestic telecommunications operator customers increased by 16.2% to RMB39,745 million, accounting for 64.6% of total revenues, among which revenue from China Mobile and China Unicom increased by 21.8% to RMB13,665 million, accounting for 22.2% of total revenues; revenue from domestic non-operator customers increased by 15.5% to RMB18,361 million, accounting for 29.9% of total revenues and revenue from overseas customers decreased by 7.0% to RMB3,411 million, accounting for 5.5% of total revenues.

(In RMB million except percentages)	2012		2011		Change over 2011
	Revenue	Percentage to total revenues	Revenue	Percentage to total revenues	
Domestic telecommunications operator customers	39,745	64.6%	34,213	63.6%	16.2%
Of which: China Telecom	26,080	42.4%	22,996	42.8%	13.4%
China Mobile and China Unicom	13,665	22.2%	11,217	20.8%	21.8%
Domestic non-operator customers	18,361	29.9%	15,901	29.6%	15.5%
Overseas customers	3,411	5.5%	3,666	6.8%	-7.0%
Total	61,517	100.0%	53,780	100.0%	14.4%

We provide an integrated package of services through all stages of operators' value chain



In 2012, with continuous promotion of “Broadband China” strategy and acceleration of development in domestic mobile Internet, the domestic telecommunications operators devoted more resources to the expansion and upgrade of fiber optic broadband and mobile network, and increased their capital expenditure suitably compared with the past years. Accordingly, the Group took advantage of its service capacity of integrated communication services and continuously promoted its service quality. Revenue from the domestic telecommunications operators increased rapidly and its position in the industry was further reinforced.

After being awarded the “National Prime-Quality Project Gold Award” in 2011, the Group participated in the China Mobile’s project of TD-SCDMA trial network on network technology and application in 2012, and again won such gold award. It is also the second project that was won by China’s communications industry, which has fully demonstrated the Group’s leading capacity in the communications construction industry.

Based on the judgment of the development trend of the communications industry and experiences in serving customers over the past years, the Group believes that the



“Smart Nanjing” Project



Projects for Transportation Industry

capital expenditure by the domestic telecommunications operators will keep increasing stably in the coming years given the continuing growth of their customer base and network scale, as well as the continued introduction of new technologies and businesses related to LTE and cloud computing data center. More investment will be put into the optimization and maintenance of the network by telecommunications operators. All of the above will bolster the continued steady business development of the Group in the domestic telecommunications operator market.

The Group has endeavored to expand the domestic non-operator market. In addition to replicating its experiences and technologies in serving domestic telecommunications operators, the Group proactively provides services, such as city pipelines engineering, intelligence building and cloud computing data center construction, to key customers such as government agencies and customers in the industries of construction and property, transportation, etc. In 2012, the Group captured the opportunities of industrialization, informatization and urbanization in China, improved its product offering and thus achieved breakthroughs in the expansion of many industrial customers. Subsequent to certain completed projects such as "Safe City" in Chongqing and Xi'an Horticultural Expo, the Group won several sizable projects during the year, including Integrated Management, Operation and Service Platform Development Project for "Smart Nanjing", Integrated Public Safety Management System Platform Construction Project in Fujian province, pipelines engineering related projects of Shenzhen Metro, etc. All of the above have significantly enhanced the Group's brand awareness and market influence and led to steady revenue growth from its domestic non-operator customers.



Telecommunications Infrastructure Project



Network Optimization Project



Overseas Construction Sites

In 2012, the Group stuck to its “Overseas-focus and Four-steps” Strategy, and developed overseas business at a steady pace. During the year, the Group focused on its expansion in turnkey projects and made groundbreaking steps in winning new projects for customers including telecommunications operators, government agencies and large enterprises, such as construction of overseas POP project for domestic telecommunications operator, Phase II SCPT national backbone fiber optic network project in Congo-Kinshasa, Mobily FTTH project in Saudi Arabia. Meanwhile, the Group deepened the execution of the strategic cooperation agreements with telecommunications equipment manufacturers, actively promoted synergistic subcontracting, and firmly adhered to efficient development.



Development of Overseas Customers

During the year, revenue from overseas market declined slightly over the last year due to implementation delay in certain turnkey projects. The Group will further enhance its marketing capability and risk management in overseas market, endeavoring to achieve scale breakthrough in overseas market in a prudent manner.



Submarine Cable Projects

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 2012, the Group's revenue from telecommunications infrastructure services amounted to RMB28,413 million, representing a year-on-year growth of 12.0%.

The Group provides a full range of telecommunications infrastructure services to telecommunications operators



Submarine Cable Construction Equipment

in China and overseas. These services include planning, design, construction and project supervision for fixed line, mobile, broadband and support systems. In 2012, revenue of telecommunications infrastructure services of the Group from domestic telecommunications operators amounted to RMB22,375 million, representing a year-on-year growth of 18.1%, which demonstrated the Group's solid leading position in the market.



The Group also provides integrated solutions for ancillary communications networks and integrated solutions for informatization to domestic non-operator customers such as government agencies, financial institutions, broadcasting and television enterprises and construction enterprises as well as overseas customers. In 2012, the Group continued to achieve breakthroughs in projects of Smart Nanjing, Safe Xinjiang, Safe Guangdong and Fujian Safety.

The rapid development of broadband network, mobile Internet, as well as popularization of cloud computing and 4G constructions will lead to stable growth of capital expenditure from domestic telecommunications operators. Besides, with further development of informatization and urbanization in China, there will be more investments in infrastructure construction, new technologies, and etc. Moreover, there are still huge demands in the construction of telecommunications infrastructure network, mobile network from many emerging overseas countries. The Group believes that there is ample potential for development of telecommunications infrastructure services. The Group will capture the strategic opportunities to realize the stable development of telecommunications infrastructure services.



Base Station Maintenance Projects



Retail Store for Handsets



Network Maintenance Projects

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 capability in various services along the value chain of the communications industry, the Group provides network and equipment maintenance, distribution of telecommunications services and products ("Distribution") and facilities management to domestic telecommunications operators, government agencies and enterprise customers. In 2012, revenue of business process outsourcing services amounted to RMB26,304 million, representing a year-on-year growth of 17.8%.

The Group provides maintenance services to telecommunications operators in relation to fiber optic cables, electric cables, base stations, network equipments and user terminals. Firmly seizing the continued demand of operation and maintenance outsourcing as a result of the full-service operations of domestic telecommunications operators, the Group improved its service quality, thereby achieved a continuous and rapid growth in the revenue of network maintenance business. In 2012, the Group's revenue of network maintenance business amounted to RMB6,414 million, representing a rapid year-on-year growth of 21.6%.

The distribution services of the Group include the wholesale and distribution of communications machineries and handsets, logistics, procurement agency services. Our major customers are telecommunications operators, telecommunications equipment manufacturers, government agencies and medium to large-sized enterprises. Benefitted from the huge demand in smart phones in the domestic market, the Group seized the opportunity, optimised resources allocation, and enhanced the cooperation on the supply chain, achieving fast development in the distribution services. In 2012, the revenue of the distribution services of the Group amounted to RMB16,944 million, representing a steady year-on-year growth of 17.3%. The Group would make further efforts on the management of the distribution services, drive innovations in sales model, and strive for efficient development of its distribution services.

The Group provides facilities management services on machinery buildings and high-end office buildings for both domestic telecommunications operators and non-operator customers. In 2012, revenue of the facilities management services amounted to RMB2,946 million, representing a year-on-year growth of 13.0%.

Applications, Content and Other Services

The Group provides system integration, software development, system operation and maintenance support and voice value-added services to the domestic telecommunications operators, industrial customers and etc. In 2012, revenue of applications, content and other services amounted to RMB6,800 million, representing a year-on-year growth of 11.9%, among which, the revenue of IT applications which mainly comprises of system integration services, demonstrated a year-on-year growth of 24.8%.

In 2012, the Group made more efforts in product research and popularization. The Group's strength in mobile Internet, wireless network optimization and software development was further enhanced. Besides, the Group enhanced mechanism and system innovation that certain IT companies of the Group have implemented shares ownership scheme by core staff to energize their innovation and enterprise vitality, so as to support the rapid growth of business. Meanwhile, in order to develop products with core competitiveness and support its market expansions, the Group continued to carry out technology innovation and to explore models for new businesses, and enhanced co-operations with equipment manufacturers, universities and research institutions.

In the second half of 2012, the Group established specific fund for encouraging innovation to guide the direction of research and development strategically. In the future, the Group will continue to manage the innovation fund well, to boost the transformation to a technology and management oriented enterprise.



Video Surveillance Centers



Cloud Computing Centers



Voice Call Centers





**3 Major
Markets**

- **Domestic telecommunications operator market**
- **Domestic non-operator market**
- **Overseas market**

Focus on three major markets: reinforcing our leading position in domestic telecommunications operator market, exerting extra efforts in cultivating domestic non-operator market and overseas market as our two “new growth engines”.

