

CHAIRMAN'S STATEMENT



Li Ping
Chairman

Dear Shareholders,

The Group has maintained a steady and favourable development since its listing by continuously enhancing its operating and management capabilities. In 2013, the fundamentals of the Group remained solid although the Group recorded a negative profit growth for the first time due to various factors, including changes in our industry environment. During the year, the expansion into the two new markets that the Group has strived to explore and the development of our innovative businesses have gradually shown positive results, signifying its right strategic positioning and development direction. Our operating environment will still be challenging in the future, however, we believe that the national policies on comprehensive and in-depth reforms, information consumption and 4G licensing will continue to create new opportunities for the long-term development of the Group. The Group remains confident in its future development, and will adhere to its "Five Development Strategies"¹ so as to facilitate a sustainable growth in the future.

OPERATING RESULTS

In 2013, the Group achieved a stable business growth and recorded total revenues of RMB68,459 million, representing a year-on-year growth of 11.3%. Profit attributable to equity shareholders was RMB2,238 million, representing a year-on-year decrease of 7.0%. Having considered the interests of and returns to our shareholders, the Board proposed to maintain a 40% dividend payout ratio and pay a final dividend of RMB0.1293 per share for the financial year ended 31 December 2013. Total dividend amount is approximately RMB896 million.

The changes of our operating results in 2013 were attributable to various factors, mainly including the slowdown in revenue growth and decrease in gross profit margin. In 2013, the issuance of 4G licenses in China and the new industry regulatory policies affected our operating environment and imposed greater pressure on the Group. The report herein as well as the President's Statement will elaborate on details of the above-mentioned issues.

¹ Strategy of Maintaining a Leading Position in the Domestic Telecommunications Operator Market, Strategy of Differentiation and Cooperation in the Domestic Non-operator Market, Strategy of Overseas Market-Focused and Four-Step Approach, Strategy of Talents Management and Strategy of Synergistic Operation.

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MAINTAINED LEADING POSITION IN THE DOMESTIC TELECOMMUNICATIONS OPERATOR MARKET

In 2013, in light of the progress of 4G license issuance in China, the domestic telecommunications operators were overall more prudent in network construction investment. In addition, the industry landscape was also affected by the structural changes in capital expenditures of the domestic telecommunications operators and the implementation of new industry regulatory policies, which accelerated the openness and competition in the communications market. Near the end of 2013, the Group gradually undertook more 4G-related network construction projects which have begun to drive the revenue growth of the Group. In 2013, the revenue of the Group from domestic telecommunications operators increased by 9.0% compared to that of last year, representing 63.3% of the total revenues.

EXPANDED STEADILY INTO THE TWO NEW MARKETS WITH FAVOURABLE DEVELOPMENT MOMENTUM

In 2013, the Group effectively implemented the "Strategy of Differentiation and Cooperation in the Domestic Non-operator Market" and "Strategy of Overseas Market-Focused and Four-Step Approach"². The favourable development by the Group in the two new markets made important contribution to the growth of revenue, and the aggregate revenues from such markets increased by 15.4% over the last year.

In 2013, the progress of new urbanization and informatization in China continued to accelerate, and the construction of "Smart City" was also burgeoning. Driven by strong domestic demands in information consumption, the Group proactively explored governmental customers and participated in "Smart City" projects by offering high-end consulting services, which achieved satisfactory results. Furthermore, the Group endeavoured to solicit customers from real estate construction and transportation industries, and steadily promote small and medium-sized enterprises ("SME") customers, which showed a favourable development momentum. In 2013, the revenue from domestic non-operator customers increased by 16.1% compared to that of last year, representing 31.1% of the total revenues.

² The "Strategy of Overseas Market-Focused and Four-Step Approach" involves sub-contracting projects, turnkey projects, operation outsourcing and equity acquisition.

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In 2013, demands for communications network construction in the overseas market remained strong. The Group further optimized its overseas revenue structure and vigorously developed large turnkey projects, increasing revenue contribution from overseas turnkey projects remarkably. In addition, the Group started to implement the third step of its "Strategy of Overseas Market-Focused and Four-Step Approach" by undertaking an operation and management outsourcing project for an overseas operator. In 2013, the revenue from overseas customers increased by 11.8% compared to that of last year, representing 5.6% of the total revenues.

BREAKTHROUGHS IN EXTERNAL COOPERATION AND MECHANISM INNOVATION

In 2013, the Group made breakthroughs in business development of applications, content and other ("ACO") services with the benefits of robust development of and demands for Big Data, cloud computing and mobile Internet applications. In 2013, the Group implemented core staff share participation in its key subsidiaries engaging in ACO services. In addition, the Group successfully established cooperation with SAP in the area of cloud computing to jointly promote the application of cloud products in SMEs in China. During the year, "Gripay (掌錢)", the mobile financial services platform developed by the Group was officially launched. Through the introduction of the above-mentioned products and services, the Group further strengthened its service capability and competitive edges.

CORPORATE SOCIAL RESPONSIBILITY

The Group has always been committed to corporate social responsibility. During the year, the Group kept abreast with latest labour policies and continued to regulate its employment management. In addition, the Group strengthened its supervision and inspection and enhanced the safety awareness of its front-line employees to prevent production safety risk. During the year, the Group continued to establish an all-round emergency and rescue mechanism and actively participated in post-disaster maintenance and repairing of communication facilities after the Sichuan Ya'an earthquake. Moreover, the Group actively explored and promoted products and services related to energy-saving and emission reduction, making contributions to promote energy-saving and environmental protection in the society.

CORPORATE GOVERNANCE

In 2013, the Group continued to strengthen corporate governance and enhance risk management. Mr. Si Fulong, who has extensive experience in operation and management in telecommunications industry, has been recently appointed as the president and executive director of the Company. We believe his appointment will help the Company maintaining a high-level of corporate operation and management. During the year, the Group received many recognitions in the capital market for its achievement in corporate governance. The Group was awarded as No. 3 of the "Best Managed Companies in China", No. 2 of the "Best CEO in China" and No. 2 of the "Best CFO in China" by *FinanceAsia*. The Group was also awarded as "The Best of Asia – Icon on Corporate Governance" by *Corporate Governance Asia*, and the Gold Award by *The Asset* for four consecutive years.

PROSPECTS

Although the challenges currently faced by the Group will continue to weigh in its operation and management, the comprehensive and deepened reforms promoted by the government have further motivated social and economic development and brought new opportunities for long-term growth in all businesses of the Group. Domestic telecommunications operators will accelerate the strategic transformation. Their demands for the infrastructures of 4G, cloud valley and data centre, their continuous operation and maintenance outsourcing, the implementation of the "Broadband China" strategy and issuance of virtual operator licenses by the government will bring various opportunities to the Group. Meanwhile, the government is promoting new urbanization and information consumption, and devoting more efforts to develop the information industry as a new driver of economic growth, all of which brought opportunities for the Group to accelerate the expansion into the domestic non-operator market. Regarding the overseas market, emerging regions saw a continuous increase in the demand for establishing "Broadband Countries, Smart Capitals and Regional Hubs". The Group will also speed up its expansion into the overseas market with the support of national policies. Looking forward, the Group will continue to firmly implement the "Five Development Strategies", deepen its innovation and transformation, and strive to improve its synergistic operation and management, so as to create greater value for customers and shareholders.

Finally, on behalf of the Board, I would like to express my sincere gratitude to Mr. Zheng Qibao, who resigned as the president and executive director of the Company in December 2013, for his outstanding contributions to the Group. I would also like to take this opportunity to welcome Mr. Si Furong to join the Board. Furthermore, I would like to express my sincere gratitude to shareholders and customers of the Group and all sectors of society for their long-standing care and support to the Group.



Li Ping
Chairman

Beijing, PRC
26 March 2014