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, media operators, telecommunications equipment manufacturers, government agencies, industrial customers and small and medium enterprises ("SMEs").

The Group's business covers China and over 50 countries and regions globally. Its overseas expansion is mainly focused on markets in Africa, Middle East and Asia.

CUSTOMER SERVICES AND MARKET EXPANSION

In 2013, the Group overcame the operating pressure caused by the changing market conditions and further consolidated its leading position in the domestic telecommunications operator market through enhanced marketing activities. On the other hand, the Group also actively expanded into the domestic non-operator market and overseas market. The fundamentals of the Group remained strong. Near the end of 2013, the issuance of 4G licenses also created new business opportunities for the business expansion of the Group. During the year, the overall development of the Group remained sound and continued its stable growth in its total revenues. The Group realized total revenues of RMB68,459 million in 2013, representing a year-on-year growth of 11.3%.

Meeting with Tanzania Minister of Communications

The Company participated in overseas exhibitions

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

Network Construction   **Network Operation**   **Content, Value Adding to Products**

Operators' Value Chain

Our Services

Design   Construction   Project Supervision and Management   Network Maintenance   Distribution   Facilities Management   System Integration   Software Development and System Support   Value-added Service   Others

In 2013, the Group maintained favourable business development in the three major markets and its efforts in innovation and transformation achieved initial success. Incremental revenues from domestic non-operators and overseas customers accounted for almost half of the total incremental revenues and their proportion to total revenues also increased. In 2013, revenue from domestic telecommunications operator customers increased by 9.0% to RMB43,326 million, accounting for 63.3% of the total revenues; revenue from domestic non-operator customer increased to RMB21,321 million, accounting for 31.1% of the total revenues, representing a growth rate of 16.1%, which was higher than that of last year and the second consecutive year recording a growth rate of over 15%. Revenue from overseas customers increased by 11.8% to RMB3,812 million, accounting for 5.6% of the total revenues.

Overseas Construction Sites in Desert Area

(In RMB million except percentages)	2013 Revenue	2013 Percentage to total revenues	2012 Revenue	2012 Percentage to total revenues	Changes over 2012
Domestic telecommunications operator customers	43,326	63.3%	39,745	64.6%	9.0%
Of which: China Telecom	29,231	42.7%	26,080	42.4%	12.1%
China Mobile and China Unicom	14,095	20.6%	13,665	22.2%	3.1%
Domestic non-operator customers	21,321	31.1%	18,361	29.9%	16.1%
Overseas customers	3,812	5.6%	3,411	5.5%	11.8%
Total	68,459	100.0%	61,517	100.0%	11.3%

BUSINESS OVERVIEW

In 2013, the Group maintained its leading position in the industry in terms of telecommunications network building capacity. The projects undertaken by the Group was awarded the "National Prime-Quality Project Gold Award" for three consecutive years. The Group is the only company in the industry granted such award for three consecutive years.

In 2013, the domestic telecommunications operators were prudent in their network investment due to the progress of 4G licenses issuance. 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. All the above affected the Group's development in the domestic telecommunications operator 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. Based on the understanding of the development trend of the telecommunications industry in China and experiences in serving customers over the past years, the Group believes that there is still new room of market development for domestic telecommunications operators. Firstly, the capital expenditure, as well as the investment in the network optimization and maintenance of domestic telecommunications operators will maintain steady growth. Secondly, the PRC government has implemented the policy of "Broadband China", issued virtual operator licenses, promoted the new type of urbanization and information consumption, thus increasing its investments in the information industry. Thirdly, industry development including big data, cloud computing, platform, mobile Internet and customer premises network have generated huge demands for business support and customer service systems.

The Group regards the domestic non-operator market as one of the two new growth drivers, and it strives to expand into the market proactively and grow its business systematically. Through its own research and development efforts and the external cooperation, the Group provides government agencies, industrial customers and SMEs with Smart City integrated solutions, industrial application solutions and IT outsourcing projects, respectively. In addition, the Group also provides city pipelines engineering, intelligence building, video surveillance and construction of cloud

Smart Nanjing Project

China Comservice Smart City Engineering Institute was officially established

Cloud Computing Center in Inner Mongolia

computing center to key industrial customers, such as customers in construction, property and transportation industries, as well as SMEs. In 2013, the Group achieved breakthroughs in various sectors by strengthening the external cooperation. For instance, the Group entered into strategic cooperation agreements with a number of well-known enterprises and cooperated with SAP in cloud computing. Such cooperation not only enriched the products and services of the Group, but also raised the brand awareness of the Group, promoting the rapid growth in domestic non-operator market.

In 2013, the Group continued to adhere to its "Strategy of Overseas Market-Focused and Four-Step Approach" by focusing on developing turnkey projects, undertaking operation and management outsourcing projects, strengthening overseas risk management, increasing revenue portion of overseas market and refining overseas business structure. In 2013, the Group focused on its development of turnkey projects with telecommunications operators, government agencies and large enterprises and achieved breakthroughs. These projects included Niger project, Congo (K) phase II project and Brunei telecom projects. Revenue from turnkey projects accounted for 42% of the total revenue of the overseas market, representing a year-on-year increase of 9 percentage points. In addition, the Group strengthened its cooperation with China Telecom to jointly undertake the operation and management outsourcing project in Congo (K), representing a step forward to the third stage in the "Four-Step" Strategy. In addition, by strengthening the cooperation with commercial banks, the Group utilised financial tools effectively to enhance the cash cycle of overseas projects. The Group also proactively controlled overseas risks by various measures, including arranging

Overseas Submarine Cable Projects

BUSINESS OVERVIEW

insurance for major projects. The capability of the Group in overseas telecommunications infrastructure construction was widely recognized by the industry and there were several quality overseas projects, including the "National Prime-Quality Project Gold Award" for the Phase I of the Tanzania Project and the "National Prime-Quality Project Award" for the Phase I of Congo (K) Project in 2013. The Group believes that the demand for establishing "Broadband Countries, Smart Capitals and Regional Hubs" in emerging regions will continue to increase. Overseas business will continue to be regarded as the other new growth driver of the Group in the future.

TELECOMMUNICATIONS INFRASTRUCTURE SERVICES

As the largest telecommunications infrastructure service provider in China, the Group possesses all the highest grade qualifications in the communications construction industry in China. It is also able to provide worldwide operators with comprehensive telecommunications infrastructure services including planning, design, construction and project supervision for fixed-line, mobile, broadband networks and supporting systems. In 2013, the Group's revenue from telecommunications infrastructure services amounted to RMB32,036 million, representing a year-on-year growth of 12.8%.

Infrastructure Projects for
Domestic Telecommunications Operators

Base Station Installation &
Supervision for Domestic Telecommunications Operators

In 2013, the Group fully supported the network construction of three major telecommunications operators in China, and revenue of telecommunications infrastructure services of the Group from domestic telecommunications operators amounted to RMB24,903 million, representing a year-on-year growth of 11.3%, which demonstrated the Group's solid leading position in the market.

The Group also provides integrated solutions for ancillary communication networks, informatization and intelligent buildings to domestic non-operators, such as government agencies, financial institutions, broadcasting and television enterprises and construction enterprises as well as overseas customers. In 2013, the Group achieved remarkable results in the expansion of governmental customers. Its major projects, including Smart Nanjing and Safe Xinjiang, became model examples in the industry. The Group also steadily developed industrial customers, SMEs and overseas customers and achieved satisfactory results. In 2013, revenue of telecommunications infrastructure services of the Group from domestic non-operator customers and overseas customers reached RMB7,133 million, representing a year-on-year growth of 18.1%, which supported the growth of the revenue of the Group from telecommunications infrastructure services.

Jiangsu-Huning Highway Informatization Projects

BUSINESS OVERVIEW

Smart Information System in the 2nd Asian Youth Games

The Group believes that there is ample potential for development of telecommunications infrastructures services. Firstly, as domestic telecommunications operators will put more efforts in 4G construction, their capital expenditure will show a steady growth. Secondly, pan-operators[1] will have a great demand for data centers, customer premises network and virtual operation. Thirdly, the further development of urbanization and informatization in China will bring huge opportunities for the development of infrastructure such as fibre optic broadband and cloud valley. Fourthly, as there are still booming demands for telecommunications infrastructure network and informatization construction from many countries and regions, the potential for development of overseas market is huge.

BUSINESS PROCESS OUTSOURCING SERVICES

The Group is a leading provider of business process outsourcing services for the communications industry in China. Extending the telecommunications infrastructure services along the value chain of the communications industry, the Group mainly provides services including network maintenance, distribution of telecommunications services and products ("Distribution") and facilities management. The target customers include domestic and overseas telecommunications operators, government agencies and enterprise customers. In 2013, revenue of business process outsourcing services amounted to RMB29,012 million, representing a year-on-year growth of 10.3%.

The Group provides network maintenance services to telecommunications operators in relation to fiber optic cables, electric cables, base stations, network equipments and user terminals. In response to the increase in telecommunications equipments, our addressable market has been expanding, which facilitated the development of network maintenance business of the Group. In 2013, the Group's revenue of network maintenance business amounted to RMB6,884 million, representing a year-on-year growth of 7.3%.

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. In 2013, the revenue of the Distribution services of the Group amounted to RMB18,934 million, representing a year-on-year growth of 11.7%. The Group will continue to strengthen distribution services management, centralize resources, develop high-end customer base, promote innovations in service model, and strive for efficient development of its Distribution services on the premise that risks are controllable.

The Group provides facilities management services on machinery buildings and high-end office buildings for domestic telecommunications operators and non-operator customers, respectively. In 2013, revenue of the facilities management services amounted to RMB3,194 million, representing a year-on-year growth of 8.4%.

[1]   "Pan-operators" means companies including but not limited to internet companies and virtual operators.

The Company, SAP and China Telecom
jointly launched the SAP Cloud products in China

APPLICATIONS, CONTENT AND OTHER SERVICES

The Group provides system integration, software development and system support, and value-added services to telecommunications operators, industrial customers and SMEs. In 2013, revenue of applications, content and other services amounted to RMB7,411 million, representing a year-on-year growth of 9.0%, among which, system integration business demonstrated a rapid year-on-year growth of 17.3%.

In 2013, the Group actively promoted cross-sector innovation of products and services, and introduced SAP as its strategic cooperation partner by successfully entering into a cooperation agreement regarding "virtual cloud" with SAP to jointly offer the first public cloud service in China. The Group focused on the "Sweet Spot" of communication, finance and mobile Internet to develop a mobile finance service platform. "Gripay (掌錢)", the Group's first mobile financial services solution, was jointly launched by the Group and commercial banks. During the year, the Group has further carried out mechanism innovation. Certain subsidiaries have completed their shareholding reforms and implemented employee share participation, which stimulated the innovation capability and facilitated the rapid business growth.

The Group will further consolidate and expand the scope of cooperation, accelerate its innovation and transformation, adopt diversified ownership structure in subsidiaries focusing on knowledge and technology, launch the pilot accountability system for project manager and establish a sharing system of resources and talents, with an aim to boost the Group's vitality and impetus for sustainable development.

The Company launched Mobile
Finance Service Platform – Gripay (掌錢)

CLIMBING
THE PEAK

Communication base station at Mount Everest, the highest mountain in the world