

CHAIRMAN'S STATEMENT



Sun Kangmin
Chairman

As China's economy entered into a "new normal" phase and the government promoted the comprehensive and deepened reforms in China, the Group captured opportunities arising from the comprehensive and deepened reforms to promote innovation in operational management and business models, and strengthen external cooperation, with a view to laying a solid foundation for further development of the Group.

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Dear Shareholders,

In 2014, China's economy entered into a "new normal" phase and the government promoted the comprehensive and deepened reforms in China. The operation of the Group was collectively affected by the changes of the macro-economic conditions and the development environment of the industry. During the year, the Group adopted a market-oriented approach to tackle the challenges proactively. The Group managed to maintain its stable and healthy development through proper allocation of resources and optimisation of business structure to enhance the quality of development. Meanwhile, the Group captured opportunities arising from the comprehensive and deepened reforms to promote innovation in operational management and business models, and strengthen external cooperation, with a view to laying a solid foundation for further development of the Group.

OPERATING RESULTS

In 2014, the Group recorded total revenues of RMB73,176 million, representing a year-on-year growth of 6.9%. Profit attributable to equity shareholders of the Company was RMB2,150 million, representing a year-on-year decrease of 3.9%, but such decrease was lowered as compared with that of 2013¹. Free cash flow² was RMB833 million, reaching a record high in the recent five years. Having considered the interests of and returns to our shareholders and the funding requirement for the Group's future development, the Board proposed to pay a final dividend of RMB0.0931 per share for the financial year ended 31 December 2014.

MAINTAINING LEADING POSITION IN THE DOMESTIC TELECOMMUNICATIONS OPERATOR MARKET

In 2014, affected by the progress of 4G licenses issuance in China, the domestic telecommunications operators showed an imbalanced pace of network construction investment between the first half and second half of the year. The Group closely followed the pace of network construction investment, accelerated its business development later in the year, grasped the opportunities arising from the increasing demand of outsourcing maintenance services from our customers by leveraging on our advantages in integrated services of construction and maintenance, and provided quality and differentiated solutions for telecommunications operators. In 2014, revenue from domestic telecommunications operators increased by 8.8% compared to that of the last year, representing 64.4% of the total revenues. The domestic telecommunications operators remained the most important contributors of the operating results of the Group.

PERSISTING IN EFFICIENT EXPANSION OF TWO NEW MARKETS

In 2014, adhering to the principle of "efficient development", the Group actively expanded the domestic non-operator market and overseas market. While pursuing reasonable growth, the Group scaled down the development of certain businesses with low operating efficiency, and focused more on the optimization of revenue structure and the enhancement of income quality. Total revenues from these markets increased by 3.7% as compared with the previous year, of which revenue from domestic non-operator customers reached a year-on-year growth of 4.4% and represented 30.4% of the total revenues, and revenue from overseas customers recorded a year-on-year decline of 0.6% and represented 5.2% of the total revenues. In view of the transformation and upgrade of the domestic economy and the complicated and ever-changing foreign environment, the Group believes that the continuous enhancement of the development quality in the two new markets provides a favourable pre-requisite for the sustainable development of the Group.

¹ Profit attributable to equity shareholders of the Company for 2013 was RMB2,238 million, representing a year-on-year decrease of 7.0%.

² Free cash flow = Profit for the year + Depreciation and amortization – Changes in working capital – Capital expenditure

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PROMOTING COMPREHENSIVE AND DEEPENED REFORMS AND EXTERNAL COOPERATION

In 2014, the Group focused on the innovation of operational management and business models. The Group adjusted the organizational structure of its headquarters in accordance with market needs and the development strategies of the Company, and reduced the management layers of some specialized subsidiaries and deployed more personnel to handle front-line marketing activities. The Group also explored the feasibility of professional operations and projects cooperation for certain business segments to reduce its operating costs and focus more on market development.

During the year, the Group successfully developed several typical informatisation turnkey projects, such as "Smart Qianhai", "Guanlan Cloud Computing Centre" and "China Life Data Centre". The Group entered into strategic cooperation and centralised procurement agreements with well-known local and overseas enterprises for future cooperation in the development of "Smart City" and "Safe City". The Group also entered into contracts with 18 companies for the sale of Success Factors, a human resources management solution jointly promoted by the Group and SAP. "Gripay", an Internet mobile financial service platform of the Group, has built up its client base and gained brand awareness locally.

PREFERENTIAL TREATMENT AND NON-COMPETITION ARRANGEMENTS WITH THE TOWER COMPANY³

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In 2014, pursuant to the arrangement for the establishment of the Tower Company, the Group commenced the relevant work in relation to our preferential treatment and non-competition arrangements with the Tower Company, and undertook some construction and maintenance businesses.

CORPORATE SOCIAL RESPONSIBILITY

The Group has always been committed to corporate social responsibility. In 2014, the Group immediately reconnected the communication networks affected by natural disasters in some areas in Hainan, Guangxi and Yunnan to assist operators in ensuring the normal operation of telecommunications network. Meanwhile, the Group adhered to its environmental protection philosophy. While minimising energy consumption, the Group also developed and promoted energy-saving products to build a resource-conservation society.

³ Tower Company refers to China Tower Corporation Limited (formerly known as China Communications Facilities Services Corporation Limited).

CORPORATE GOVERNANCE

In 2014, the Group received the Gold Award from *The Asset* at "The Asset Corporate Awards 2014" for its financial performance and corporate governance. The Group was again awarded "The Best of Asia – Icon on Corporate Governance" by *Corporate Governance Asia* at the tenth session of the "Corporate Governance Asia Recognition Award 2014". The Group was also recognised as "The Best Investment Value Listed Company" by *Tai Kung Pao* at the fourth session of the "China Securities Golden Bauhinia Awards". These awards demonstrated the Company's achievements in results performance and corporate governance over the years and the high recognition of the Company by the capital market.

PROSPECTS

Currently, the Group is facing many new situations and changes as brought by the macro economy and industry environment, but we believe that there will be more opportunities than challenges ahead. On 27 February 2015, the Ministry of Industry and Information Technology announced the issuance of operation permit for the "LTE/4G digital cellular mobile service (LTE FDD)". It is expected that domestic telecommunications operators will put more effort in network construction and will continue to outsource their maintenance business so as to focus on their core business, which will bring valuable opportunities to the Group to expand such market. Meanwhile, China is developing strategic emerging industries, accelerating informatisation of the society and boosting information consumption, all of which will provide ample opportunities in the domestic non-operator market of the Group. Currently, the demand of telecommunications infrastructure in the Middle East and Africa remains strong. In light of the "Going Abroad" of Chinese capital and enterprises and "One Belt and One Road"⁴ strategies of China, it is believed that the potential of overseas market is huge. Besides, the Group will have new business opportunities under the preferential treatment and non-competition arrangements with the Tower Company.

On the other hand, the Group will continue to capture the opportunities from the comprehensive and deepened reforms to cope with the challenges, and enhance vitality and capability of the Group by pursuing system and mechanism innovation. The Group will further optimise its internal structure in accordance with market needs so as to meet customers' requirement flexibly. The Group will promote the specialization and integration of high-value business to improve its ability to provide integrated services throughout the entire industry chain. The Group will consolidate internal advantageous resources, actively track and reserve new technologies, devote more investments to research and development and enhance external cooperation to continuously develop products with core competitiveness. The Group will also promote innovation in business model to enhance its market development ability and profitability to prevent operation risks.

⁴ "One Belt and One Road" refers to the "New Silk Road Economic Belt" and the "21st Century Maritime Silk Road".

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In 2015, the Group will adhere to the principles of “innovation and transformation, seeking steady development, and pursuing efficient development” to strengthen the value-driven principle. The Group will strike a reasonable balance between development pace and quality in pursuit of greater value for shareholders and customers.

Finally, on behalf of the Board, I would like to express my sincere gratitude to Mr. Li Ping, who resigned as the Chairman of the Company in January 2015, for his outstanding contributions to the Group. I would also like to take this opportunity to express my sincere gratitude to shareholders and customers of the Group and all sectors of society for their longstanding care and support to the Group.



Sun Kangmin

Chairman

Beijing, PRC
25 March 2015