

PRESIDENT'S STATEMENT



Si Furong
President

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15

Dear Shareholders,

I am very pleased to present the operating results of the Group in 2014.

FINANCIAL PERFORMANCE

In 2014, in face of the complex and volatile internal and external operating environment, the Group adhered to its market-oriented approach, allocated its resources adaptively for the expansion of the three major customer¹ markets, and closely followed the pace of network construction and higher outsourcing demand of maintenance of domestic telecommunications operators. The Group recorded total revenues of RMB73,176 million for the year, representing a year-on-year increase of 6.9%. During the year, the reduction of service charge and the implementation of the “VAT Reform²”, Labour Contract Law³ and other new industry policies imposed extra pressures on the Group in terms of competition and costs. In addition, the Group adopted a more prudent approach in financial management in 2014. As a result of the aforementioned factors, profit attributable to equity shareholders of the Company amounted to RMB2,150 million for the year, representing a year-on-year decrease of 3.9%. Gross profit margin and net profit margin were 14.6% and 2.9%, respectively. Basic earnings per share amounted to RMB0.310.

¹ Three major customers refer to domestic telecommunications operators, domestic non-operator customers and overseas customers.

² VAT Reform refers to the replacement of business tax with value added tax.

³ Labour Contract Law refers to the amended PRC Labour Contract Law.

PRESIDENT'S STATEMENT

The Group continued to strengthen the management of cash flow and accounts receivable through effective settlement and collection work. Free cash flow for the year was RMB833 million, representing a significant improvement from RMB324 million for 2013.

BUSINESS DEVELOPMENT

In 2014, benefiting from the demands of 4G development of domestic telecommunications operators, the revenue from telecommunications infrastructure ("TIS") services achieved a year-on-year increase of 6.2%, accounting for 46.5% of the total revenues. The revenue of TIS services from China Telecom recorded a year-on-year increase of 7.9% whereas revenue of TIS services from the overseas market recorded a year-on-year increase of 10.8%.

In 2014, the revenue from business process outsourcing ("BPO") services achieved a year-on-year increase of 7.6%, accounting for 42.6% of the total revenues. In addition to our focus on the business opportunities from the capital investment of domestic telecommunications operators, the Group also sought business opportunities from their operating expenditure and continuous demand of maintenance outsourcing. Revenue from network maintenance increased by 18.3%, more than doubled in terms of the growth rate as compared with the previous year⁴, and the relevant incremental revenue accounted for nearly 27% of total incremental revenues.

16

In 2014, the revenue from applications, content and other services ("ACO") achieved a year-on-year increase of 7.3%, accounting for 10.9% of the total revenues. During the year, the Group focused on the development of key areas including "Smart City" and "Safe City", and continued to promote the relevant competitive products and solutions. Moreover, there were breakthroughs in the number of users of our typical innovative products, such as Success Factors, a human resources management solution and "Gripay", an Internet mobile financial service platform.

CUSTOMER DEVELOPMENT

In 2014, the Group focused on three major customer markets and allocated more resources on important areas of business development. Revenue from domestic telecommunications operator market was RMB47,117 million, representing a year-on-year growth of 8.8%. Revenue from China Telecom achieved a year-on-year growth of 9.3%, accounting for 43.7% of the total revenues while the aggregate revenues from China Mobile and China Unicom achieved a year-on-year growth of 7.6%, accounting for 20.7% of the total revenues. The Group optimized the revenue composition of domestic non-operator customers and overseas customers, and the revenue growth for businesses of less profitability slowed down significantly. Revenue from domestic non-operator customers amounted to RMB22,269 million, representing a year-on-year growth of 4.4% and accounting for 30.4% of the total revenues. Revenue from overseas customers amounted to RMB3,790 million, accounting for 5.2% of the total revenues. While reinforcing our presence in certain important markets, including Congo (K), Tanzania and Nigeria, we also successfully achieved new breakthroughs in winning turnkey projects in Niger and Gabon, and the proportion of revenues from turnkey projects increased to 51% of the revenue from overseas market.

⁴ In 2013, revenue from network maintenance of the Group was RMB6,884 million, representing a year-on-year increase of 7.3%.

MANAGEMENT INNOVATION

In 2014, the Group captured opportunities arising from the comprehensive and deepened reforms and undertook various innovative measures, including adjusting its organizational structure, streamlining the management layers of specialized subsidiaries and reforming certain business segments so as to enable the Group to keep in pace of the market development. For precise management, the Group has further identified the principle of "value-driven" and established a system that integrated budget, assessment and resource allocation on the basis of cash flow and profit contribution in order to enhance the operating efficiency of the Group. The Group established a long-term mechanism for management of accounts receivable, and put extra effort in the collection of long outstanding receivables, thereby effectively accelerated cash collection. The Group also further enhanced the risk prevention capability by conducting internal special audits.

PROSPECTS FOR 2015

In 2015, adhering to the principle of "value-driven and efficient development", the Group will focus on expanding the three major markets, promoting reforms and innovation, lowering cost and enhancing efficiency, so as to create greater value for both its shareholders and customers through the following measures:

1. The Group will consolidate our leading position in the domestic telecommunications operator market by seizing business opportunities arising from 4G development. The Group will fully support the construction of 4G network by seizing the opportunities arising from investment in network construction by operator customers. The Group will also focus on the opportunities from the operating expenditure and needs of customers to provide competitive one-stop construction and maintenance solutions. The Group will vigorously develop businesses in network maintenance and network optimization, and strive for breakthroughs in high-end maintenance, collaborative logistics and energy-preserving products.
2. The Group will strengthen the establishment of its organization structure to support further expansion of domestic non-operator market. The Group will accelerate the establishment of five key systems relating to marketing, products, procurement, delivery and financing to create synergistic effects in market expansion. The Group will establish a vertically integrated marketing system and focus on the informatisation demand of government, industries and small-and-medium enterprises. The Group will establish product lines both in the group and regional level to promote representative products, such as "Smart City", "Intelligent Building", "Smart Transportation", "Smart Security" and "SAP Cloud Computing". The Group will strengthen the synergistic development of products across different regions to enhance market penetration.
3. The Group will adopt a new operational model to boost the leaping development in the overseas market. The Group will focus on the markets in the Middle East, Africa and Southeast Asia which have demand for "Broadband Countries", "Smart City" and "Regional Information Hubs". The Group will also review its products offerings and promote products and services with distinctive competitive advantages to secure large scale turnkey projects. The Group will adopt new business model to initiate projects through consultation and planning, to launch projects through investment and finance and to develop projects through operation and maintenance. The Group will refine its presences in the overseas market by enhancing differentiated management and resources allocation to businesses and regions with higher profitability.

PRESIDENT'S STATEMENT

4. The Group will implement the preferential treatment and non-competition arrangements with the Tower Company. The Group will focus on customers' needs, coordinate at various levels within the Group, and provide full service support.
5. The Group will integrate internal and external resources to develop core products. The Group will track and reserve new technologies and increase its investment in research and development in key areas, including cloud computing, Internet of Things and information security. The Group will allocate innovation funds to establish product bases. The innovation of product, mechanism and business model will be fully integrated for the development of more competitive core products.
6. The Group will enhance efficiency by strengthening precise management. The Group will further refine the organizational structure of provincial-level subsidiaries and specialized subsidiaries, strengthen project management and sub-divide performance evaluation units so as to promote cost reduction and achieve higher profitability. The Group will improve capital management to improve the efficiency of utilization of funds, and strengthen its financial control to prevent operational risks.

18

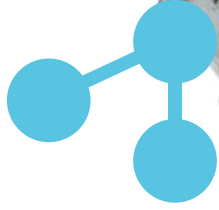
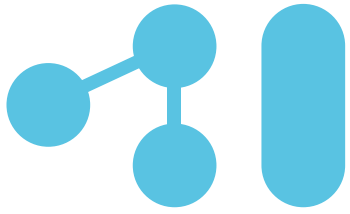


Si Furong

President

Beijing, the PRC

25 March 2015

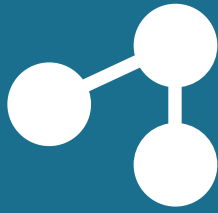


Pursuing

Development

with Efficiency





The Group will accelerate its business development. While capturing the opportunities arising from the capital expenditure investment in infrastructure construction by telecommunications operators, the Group will further develop its business along the industry value chain by focusing on the upstream and downstream businesses, including the operating expenditure in high-end maintenance services and industrial applications so as to optimise the business structure. While focusing on domestic telecommunications operators, the Group will also expand its customer base by developing domestic non-operator customers, overseas customers and Internet companies. Geographically, the Group will expand its regional presence from southern to northern China, and from domestic to overseas market.

