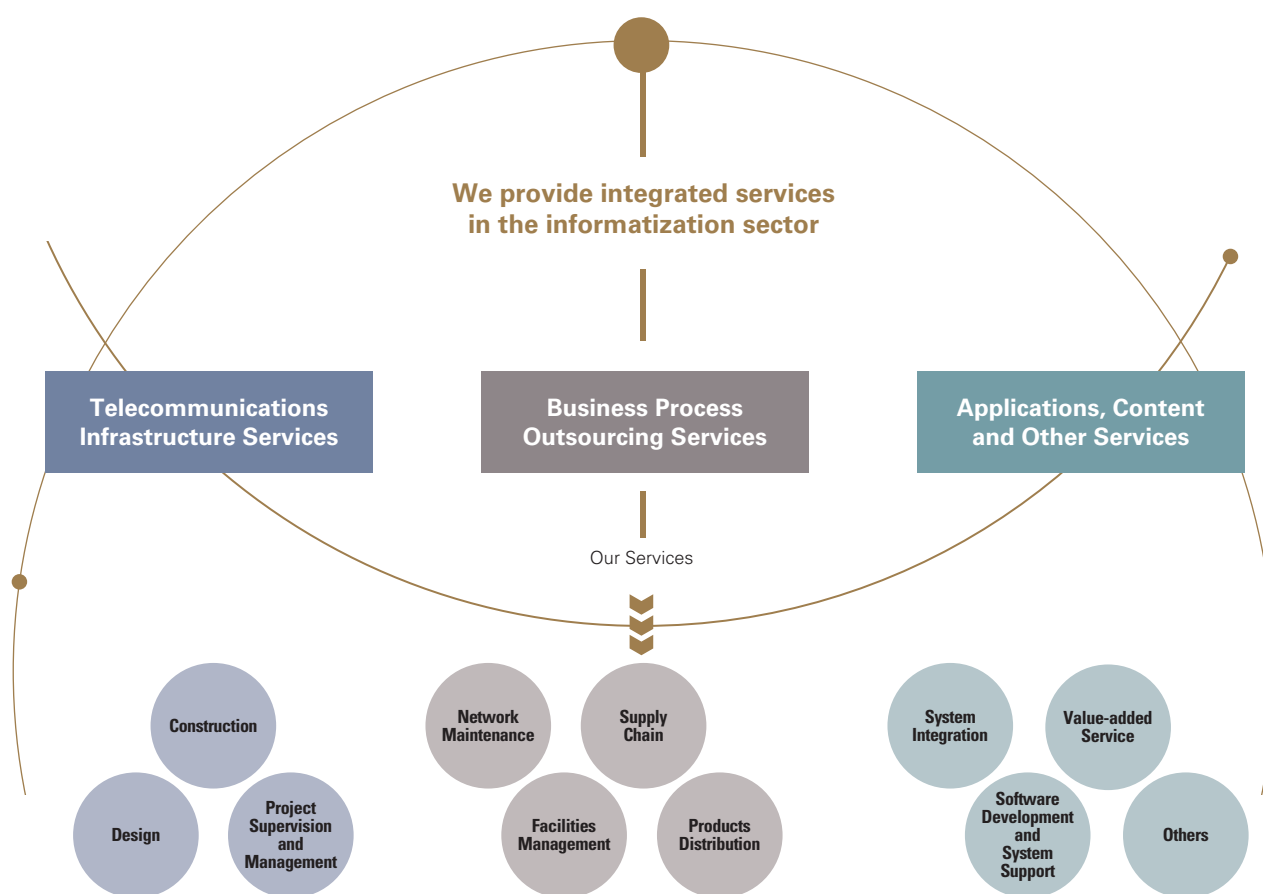


# BUSINESS OVERVIEW

The Group is a leading service provider in the PRC that provides integrated support services for 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, telecommunications infrastructure providers as well as government agencies, industrial customers and small-and-medium enterprises (“SMEs”).

The Group’s business spans across China and dozens of countries and regions globally, with overseas customers mainly located in Africa, the Middle East and Southeast Asia.



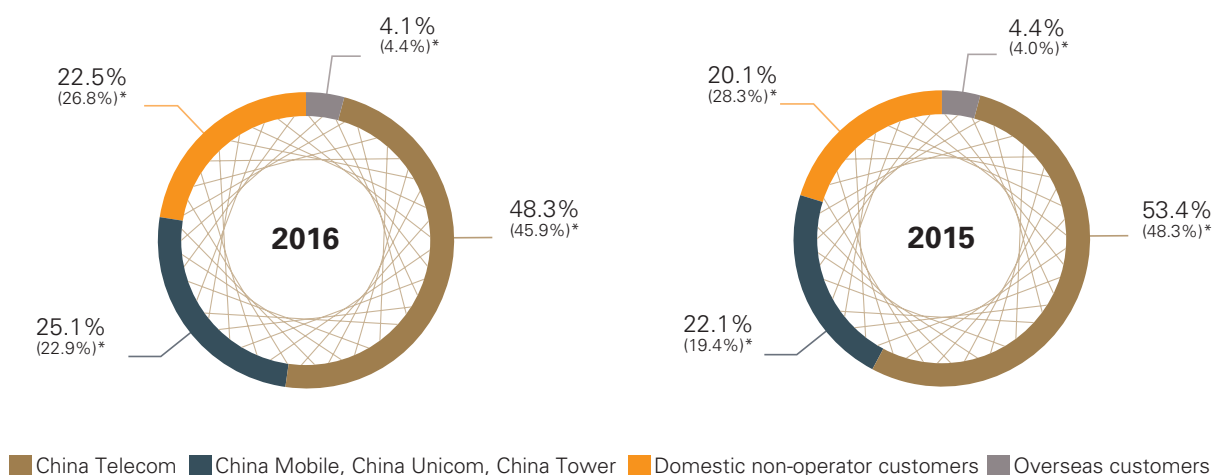
(In RMB million, except percentages)	Revenue in 2016	Revenue in 2015	Change
Domestic telecommunications operator customers	<b>60,889</b>	54,793	11.1%
Of which: China Telecom	<b>40,597</b>	39,130	3.7%
China Mobile, China Unicom, China Tower	<b>20,292</b>	15,663	29.6%
Domestic non-operator customers	<b>23,714</b>	22,942	3.4%
Overseas customers	<b>3,846</b>	3,225	19.3%
<b>Total</b>	<b>88,449</b>	80,960	9.3%

### MARKET EXPANSION

In 2016, the Group upheld the management philosophy of “value-driven, seeking steady yet progressive growth and efficient development”. While seeking further development of its traditional businesses, the Group also focused on the OPEX-driven businesses of the domestic telecommunications operators, thereby guaranteed the stable development of its businesses. On the other hand, the Group also achieved major breakthroughs in domestic non-operator customer market and focused on development of overseas turnkey projects and achieved efficient development of the Company. In 2016, the Group focused on “optimizing structure, sustaining growth, strengthening capabilities and enhancing efficiency” and further optimized the business structure by proactive control on products distribution business with low efficiency, achieving a high single-digit growth in business revenue. The total revenues of the Group for the year amounted to RMB88,449 million, representing a year-on-year growth of 9.3%.

In 2016, the Group continued to reinforce its market expansion and achieved steady growth in revenue from domestic telecommunications operators. In 2016, revenue from domestic telecommunications operator customers (including China Tower Corporation Limited) amounted to RMB60,889 million, representing a year-on-year increase of 11.1%. Revenue from domestic non-operator customers amounted to RMB23,714 million, representing an increase of 3.4%, in which the core revenue excluding products distribution business increased by 28.7%. Revenue from overseas customers amounted to RMB3,846 million, representing an increase of 19.3%.

The following charts show the revenue contribution of each customer group in terms of core businesses excluding products distribution business:



Note: The figures in bracket are the revenue contribution to the total revenues (including revenue from products distribution business).

In 2016, the Group focused on the development of both “CAPEX and OPEX-driven”<sup>1</sup> businesses in the domestic telecommunications operator market. Leveraged on the opportunities of construction of fiber optic broadband network, upgrade and optimization of mobile network and scale development of tower construction and maintenance business in China, the Group further increased its market share and accelerated the expansion into OPEX business. The Group overcame the pressure from the decrease in the investment and unit price decline of domestic telecommunications operators and realized steady revenue growth. Revenue from domestic telecommunications operator customers amounted to RMB60,889 million, representing a year-on-year growth of 11.1%, of which revenue from China Telecom amounted to RMB40,597 million, representing a year-on-year growth of 3.7%, and aggregate revenues from operator customers other than China Telecom amounted to RMB20,292 million, representing a year-on-year rapid growth of 29.6%. During the year, business from China Tower achieved a significant growth, which was the largest contributor to the Group’s incremental revenue from domestic telecommunications operators.

<sup>1</sup> CAPEX and OPEX refer to the capital expenditure and operating expenditure of domestic telecommunications operators, respectively.

In 2016, we grasped the growing demand from informatization of the sector and the new ICT infrastructure construction, and proactively expanded the domestic non-operator customers market. The Group developed a common goal and strengthened internal collaboration amongst its products, qualifications, marketing and delivery to promote constructive and interactive development between its emerging and traditional businesses. Revenue from domestic non-operator customers market amounted to RMB23,714 million, representing a year-on-year growth of 3.4%. Excluding products distribution business with low efficiency which was proactively controlled by the Group, the revenue from core businesses of domestic non-operator market<sup>2</sup> recorded a year-on-year growth of 28.7%, which became the major contributor to the incremental revenue of the Group during the period. The Group strengthened its promotion of the six major group-level products including smart city, smart security, smart industrial park, intelligent building, cloud computing services and e-certification. Currently, the sales and marketing system of the Group covers 83% of professional companies with 4,000 sales and marketing staff. The Group has been devoted to the expansion of customers in sectors such as government, transportation, internet and IT, and power, and won certain high value projects including overall integrated network planning, construction and commissioning for the G20 Summit and the Third World Internet Conference. Currently, annual contracted revenue generated from customers in each sector of government, transportation, internet and IT, construction and property exceeded RMB1 billion. By grasping important opportunities arising from the opening-up of certain businesses in electricity distribution and sales subsequent to the implementation of national power reforms, the Group applied and obtained 80 business licenses covering power network construction turnkey projects and sales of electricity, which equipped us with strategic reserves for scale development and breakthroughs in the power sector in the future.



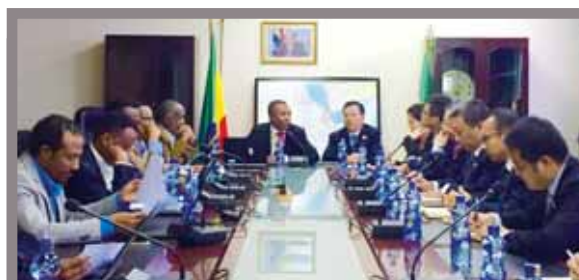
The Group undertook the communications system support for large-scale conferences (including overall integrated network planning, construction and commissioning)



In 2016, revenue from overseas business of the Group resumed steady growth after a five-year bottleneck period and reached RMB3,846 million, representing a year-on-year growth of 19.3%. During the year, the Group continued to optimize the presence and development direction for overseas market and established its overseas business management and decision-making office in Ethiopia in order to further keep abreast of the market. Development of our large scale projects also achieved progress. The "China-Africa Partnership Program in Trans Africa Information Superhighway" Project achieved initial progress. During the year, we facilitated the signing of a cooperative agreement between the Ministry of Industry and Information Technology of PRC and the Ministry of Communications and Information Technology of Ethiopia and formulated and refined technology and project financing proposals to facilitate project execution. Currently, we are pushing forward to set up an industry investment fund with our business partners to finance the scale development of overseas business. Encouraging developments were achieved in several projects including the construction of horizontal fiber cables across 19 African countries, fiber network interconnection project connecting the four East African countries and construction of submarine cable



The Group signed strategic cooperation agreements with its business partners under the "Belt and Road" Initiative



The Group held the working group meeting with telecommunications clients in Ethiopia

<sup>2</sup> Core businesses of domestic non-operator market include telecommunications infrastructure services, business process outsourcing services (excluding products distribution), and applications, content and other services.



in East Africa. The Group closely followed the national “Belt and Road” Initiative and continued to expand proactively the regional markets including Africa, the Middle East and South East Asia. Among which, sound progress was made in several turnkey projects such as national optic cable backbone network project (Phase III) in Tanzania and the education network project in Cameroon. Breakthroughs were achieved in education informatization and power grid construction projects in respective regions.

**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. In 2016, revenue from telecommunications infrastructure services amounted to RMB45,887 million, representing a year-on-year growth of 17.0%.

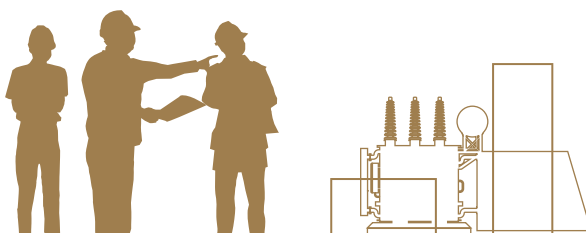
The Group has the capabilities to provide worldwide telecommunications operators with comprehensive telecommunications infrastructure services including planning, design, construction and project supervision for fixed-line, mobile, broadband networks and supporting systems. In 2016, the Group fully addressed the needs of customers including the three domestic telecommunications operators and China Tower, and maintained its solid market leading position. The Group’s revenue of telecommunications infrastructure services from domestic telecommunications operator customers amounted to RMB35,832 million, representing a year-on-year growth of 13.3%.



The Group proactively expanded its overseas market



The Group undertook domestic telecommunications network upgrade projects





The Group also provides construction services of ancillary communications networks, and integrated solutions for informatization and intelligent buildings to domestic non-operator customers, such as government agencies, financial institutions, broadcasting and television enterprises, construction enterprises, transportation and electricity sectors as well as overseas customers. The Group continuously achieves breakthroughs in the construction projects for smart city, intelligent building, data centre and power projects. In 2016, revenue of telecommunications infrastructure services from domestic non-operator customers amounted to RMB7,450 million, representing a year-on-year growth of 46.8%. The growth momentum has been further strengthened which has a significant contribution to the overall sustainable growth of telecommunications infrastructure services.

Despite the anticipated decline of the investment of domestic telecommunications operators, through the increase of its market share and the capturing of the demand on integrated construction and maintenance services from China Tower, the Group expects to develop its traditional business of domestic telecommunications operators steadily. With the further implementation of national strategies of "Network and Information Country" and "Cyberpower", demands on related services such as smart city and safe city will increase. Overseas opportunities brought by the national "Belt and Road" Initiative, and the growing demands on the construction of communications infrastructure network and mobile infrastructure network, and informatization, will create new opportunities for the growth of the Group.



## BUSINESS PROCESS OUTSOURCING SERVICES

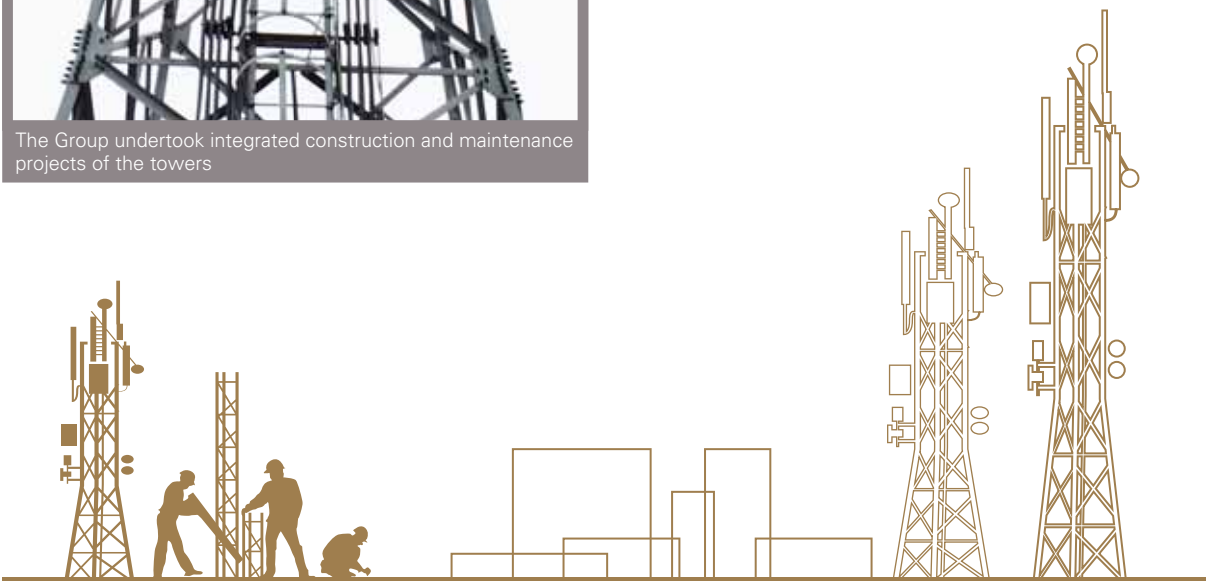
The Group is the largest integrated provider of business process outsourcing services in the communications industry in China. We keep extending our business scope from core networks to access networks along the communications business value chain, and provide services including management of infrastructure for information technology ("Network Maintenance"), general facilities management, supply chain<sup>3</sup> and products distribution<sup>3</sup>. The targets of our services include domestic and overseas operator customers, government agencies and enterprises customers. In 2016, the Group focused on the OPEX-driven business of domestic telecommunications operators and the revenue from the Core BPO Services<sup>4</sup> amounted to RMB22,054 million, representing a year-on-year growth of 10.7% while the overall revenue from the business process outsourcing services (including products distribution business which is proactively controlled by the Group) amounted to RMB32,533 million, representing a year-on-year decrease of 1.5%.



The Group undertook integrated construction and maintenance projects of the towers

The Group provides Network Maintenance services for telecommunications operators covering fiber optic cables, electric cables, mobile base stations, network equipment and terminals. In 2016, the Group proactively undertook on-site integrated maintenance services from the three domestic telecommunications operators and China Tower, facilitated a relatively fast development in maintenance services of the Group with a revenue of RMB10,685 million, representing a year-on-year growth of 9.5%.

The Group provides general facilities management services to domestic telecommunications operators and domestic non-operator customers for their data centres, cloud computing centres, commercial buildings, high-end residential buildings, high-speed railway stations, airports and other high-end office buildings. During the year, the Group continued to develop brand-building of intelligent building, and proactively promoted the construction of IT platform of intelligent building to enhance the synergistic operation of general facilities management service. In 2016, revenue from the general facilities management business of the Group was RMB4,160 million, representing a year-on-year growth of 10.4%.



<sup>3</sup> Since 2016, the Group sub-divided the former distribution of telecommunications services and products business under the BPO services into supply chain business and products distribution business.  
<sup>4</sup> Core BPO Services include management of infrastructure for information technology (network maintenance), general facilities management and supply chain.



In 2016, the Group announced a new brand of distribution business called “中通福” and set up 92 distribution chain stores. The management system was consolidated with the management capability for nationwide chain stores and it is expected that the number of “中通福” stores will reach 3,000 within the next three years. The Group strives to develop “中通福” as the core distributor recognized by operators and a large nationwide chain store recognized by consumers. China Comservice Supply Chain Management Company Limited (the “Supply Chain Company”) commenced its operation and established a unified IT logistics system and a comprehensive and integrated logistics operating system, which offers nationwide integrated logistics service to its customers. In the future, the Supply Chain Company will capitalize its leading role to drive for the expansion of the Group’s supply chain business. In 2016, the Group’s revenue in supply chain service was RMB7,209 million, representing a year-on-year increase of 12.7%.



The Group announced a new brand of distribution business called “中通福”

Products distribution business mainly involves distribution of telecommunications products. The Group provides terminals distribution and device distribution services to domestic telecommunications operator customers and provides distribution and procurement services of IT devices, auxiliary machinery and equipment to domestic non-operator customers. In 2016, the Group proactively controlled the development of products distribution business with low efficiency and realized revenue of RMB10,479 million, representing a year-on-year decrease of 20.0%.

The Group believes that the OPEX business of domestic telecommunications operators have enormous room and potential to grow, and the domestic non-operator customers also have strong demands in business process outsourcing services. The business process outsourcing business is characterized by high customer loyalty, low accounts receivable turnover days and good cash flow. The Group will further allocate its advantageous resources to carry out professional operation in certain business sectors with high value to realize a more efficient development.



The Group undertook network maintenance projects for domestic telecommunications operators

**APPLICATIONS, CONTENT AND OTHER SERVICES**

The Group provides system integration, software development and system support as well as value-added services to customers including domestic telecommunications operators, government, industrial customers and enterprises customers. In 2016, revenue from the applications, content and other services amounted to RMB10,029 million, representing a faster year-on-year increase of 14.8%. In particular, both the revenue and incremental revenue from domestic non-operator customers exceeded those from domestic telecommunications operator customers.

In 2016, the Group increased its investments in research and development through innovation fund, expert committees and other mechanisms, and introduced a number of products widely recognized by its customers. In particular, the smart highway was awarded the Supreme Award for New Technological Innovation by the National Development and Reform Commission, the smart industrial park was awarded the Gold Award for the 20th International Software Exhibition of China, the smart city was awarded the second prize for the 2016 Nationwide Superior Communications Engineering Consultative Projects by China Association of Communications Enterprises, and the smart security platform was awarded the Golden Bridge Award by Technology Market Association of China.

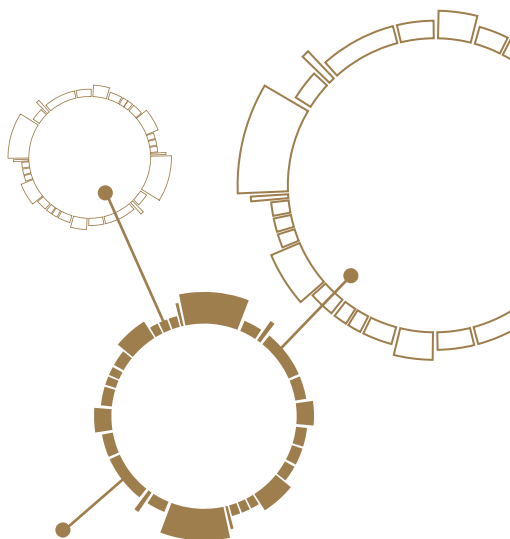
The Group believes that national Supply-side Structural Reform, industrial internet, internet of things, Internet+, big data and cloud computing will bring opportunities to the sector. The Group will closely follow the demands arising from the transformation and upgrade of domestic operators towards intelligentization and construction of informatization infrastructure for industrial customers, and will fully capitalize on its existing products and customer base, and strengthen its competitiveness in providing integrated services to facilitate its development through system and mechanism innovation.



The Group undertook "Smart Transportation" projects for highway clients



The Group undertook "Smart Security" projects



The Group undertook data centre projects for domestic tobacco companies