

## Chairman's Statement

Dear Shareholders,

In the first half of 2011, China's economy continued to develop favourably. Driven by the waves of informatization, domestic telecommunications operators accelerated their pace of transformation and development, and progressively increased their investment in information network infrastructures. In this situation, the Group firmly captured the industrial development opportunities and adhered to its customer-focused innovative service strategy. As a result, our operating results steadily increased and our revenue structure achieved continued optimization, thus laying a solid foundation to realize our strategic goal of becoming a "hundred-billion enterprise" with excellent performance.

### FINANCIAL REVIEW

In the first half of 2011, the Group recorded a stable and relatively rapid growth of revenues, which amounted to RMB25,189 million, representing an increase of 16.0% over the same period last year. Cost of revenues amounted to RMB21,241 million, representing an increase of 15.7% over the same period last year. Gross profit grew by 17.3% over the same period last year to RMB3,948 million. The Group persisted in optimizing revenue structure and therefore our high-value businesses recorded faster growth rate than the Group's average; the Group also enhanced cost management, as a result of these, the Group managed to improve its gross profit margin to 15.7%, slightly higher than the same period last year. Profit attributable to equity shareholders of the Company grew by 16.3% over the same period last year to RMB1,053 million. Basic earnings per share were RMB0.182.

### BUSINESS REVIEW

In the first half of 2011, telecommunications infrastructure services ("TIS") achieved sustained, rapid and healthy growth, and the revenue from TIS services amounted to RMB12,186 million, representing an increase of 17.7% over the same period last year and its percentage of revenues further increased to 48.4%. In the period, we proactively expanded our high-value businesses, among which our design and supervision businesses grew rapidly and increased by 18.4% and 29.5% as compared to the same period last year respectively. Furthermore, the Group fully supported domestic telecommunications operators in meeting their business demands for the upgrade of optical-fiber networks as well as the expansion of mobile, fixed-line and data networks. Revenue of telecommunications infrastructure services from domestic telecommunications operators increased by 22.5% over the same period last year, and our leading position in the market was further strengthened.

In the first half of 2011, business process outsourcing services ("BPO") achieved a more favourable business structure by our effective control on low-end businesses. Revenue from BPO services amounted to RMB10,483 million, representing an increase of 13.2% over the same period last year and accounting for 41.6% of revenues. The Group proactively captured business opportunities brought by the full-service operations of the domestic telecommunications operators; as a result our maintenance business achieved favourable development and its revenue increased rapidly by 22.1% as compared to the same period last year.

In the first half of 2011, applications, content and other services ("ACO") sustained rapid growth. Revenue from ACO services amounted to RMB2,520 million, representing an increase of 19.6% over the same period last year and accounting for 10.0% of revenues. We proactively explored new businesses, seized the most attractive development opportunities brought by the informatization construction of domestic non-operator customers and the mobile Internet growth of telecommunications operators. We also put more efforts into the cultivation and marketing of application products for different industries. As a result, revenues from IT applications and Internet services recorded rapid increases of 35.4% and 30.4% over the same period last year respectively. In the period, we proactively and prudently introduced strategic partners and signed a partnership agreement with Sybase Inc., to jointly expand mobile Internet and system integration businesses, and to provide our customers with leading software solutions.

## Chairman's Statement (continued)

In the first half of 2011, the Group provided strong support to the full-service operations of the domestic telecommunications operators and further strengthened our leading position in the domestic telecommunications operator market. Revenues from domestic telecommunications operators amounted to RMB15,931 million, representing an increase of 19.1% over the same period last year, of which, revenue from China Telecom increased by 16.6%, accounting for 40.3% of revenues. Our service quality was further recognized by China Mobile and China Unicom and revenues from them in aggregate rapidly increased by 23.8%, and the proportion of such revenues increased to 23.0%. Revenue from domestic non-operator customers was RMB7,968 million, representing an increase of 9.9% over the same period last year and accounting for 31.6% of revenues. The slowdown of revenue growth in the domestic non-operator market was mainly due to the Group's proactive control over the development pace of businesses with low profit margin so as to optimize the revenue structure. In the period, though revenue from overseas was impacted by the turbulent political situation in certain areas in the Middle East and Africa, the Group managed to ensure its staff's personal safety, planned prudently and avoided foreseeable risks proactively, while continuing its strategy of penetrating overseas markets and fully executing various key projects. Moreover, the Group enhanced its cooperation with major equipment manufacturers, financial institutions and state-owned enterprises to realize overseas expansion synergies. As a result, revenue from overseas market amounted to RMB1,290 million, representing an increase of 17.5% over the same period last year and accounting for 5.1% of revenues.

## CORPORATE MANAGEMENT

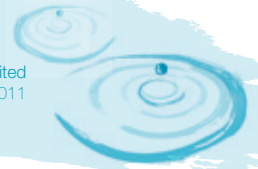
The Group continued intensive operation and management innovation and improved its resource allocation to enhance the overall operation efficiency and profitability. In the period, we strengthened centralized cash management, gradually established a unified cash management system, and coordinated cash resources allocation in order to support business development. In addition, the Group continued its human resources management strategy by exploring an innovative incentive system and optimizing the structure of the work force, which continuously increases staff productivity, and provides strong support for the rapid development of the Group in future.

## CORPORATE SOCIAL RESPONSIBILITIES

The Group was actively involved in communication services restoration works during various flood emergencies and other disaster relief situations, and provided reliable emergency communications support services to our customers and society. All of these demonstrated a high degree of corporate social responsibility. We are committed to promoting energy saving and emission reduction, and have strived to reduce cost and enhance efficiency. While achieving the Group's healthy growth, we endeavored to develop our Group in a way that is harmonious and unified with the social environment.

## CORPORATE GOVERNANCE AND RIGHTS ISSUE

With reference to relevant regulations, the Group continuously strengthened internal controls and risk management, and improved corporate governance and governance transparency. In the first half of 2011, the Company proposed to its shareholders a rights issue scheme of not more than RMB4 billion, and obtained their approval. Equity financing is expected to effectively enhance the Group's financial strength, and enable us to build a stronger capital foundation, thus enabling us to expand into new markets and support the long-term development of the Company. In addition to the rights issue, we also plan to actively leverage on debt financing and reinforce internal cash management so as to meet future funding requirements. We believe the above measures will provide a solid basis for capturing the Group's new development opportunities, such as the expansion into the overseas and domestic non-operator customer market, strategic acquisitions and joint ventures, as well as R&D, push forward the Group's transformation into a management and technology focused enterprise, and create higher value for our shareholders.



## Chairman's Statement (continued)

### PROSPECTS

Looking forward, with the ever advancing information communications technologies, the rapid development of 3G applications, optical-fiber broadband networks, mobile Internet and 4G/LTE has pushed the information industry into a new era of strategic opportunities, and domestic telecommunications operators will continue to invest in information network infrastructures. Accelerated informatization process in government and industry sectors, the ongoing developments in Three Networks Convergence, and the strong demand for telecommunications services from overseas emerging markets, will enable the Group to expand into broader markets beyond the domestic telecommunications operator market. In addition, there are industrial opportunities underlying the rapid development of new technologies, such as cloud computing and Internet of Things, which will be further explored by us. Based on our strategic position as a leader of producer services in the informatization sector, the Group will endeavor to support the full-service operations of domestic telecommunications operators, put more efforts into the expansion of domestic non-operator customers, and drive our scalable development in overseas markets so as to build an enterprise with excellent performance which has strong capabilities in capturing market opportunities, outstanding core competencies, integrated efficient operation and steady value growth.

Finally, on behalf of the board of directors, I want to express my sincere thanks to our shareholders, customers and society for their long-term care and support to the Group.

**Li Ping**

*Chairman*

Beijing, PRC

30 August 2011