

Chairman's Statement

Dear Shareholders,

In the first half of 2012, the Group firmly captured market opportunities and adhered to its customer-focused innovative service strategy. Following the principle of “leading through innovation and enhancing efficiency through intensive management”, the Group enhanced its management capability and continued to achieve satisfactory results in the challenging market, recording rapid growth of both total revenues and net profit. As a result, the Group is well positioned to embrace the second five-year period since its listing.

Financial Review

In the first half of 2012, the Group recorded continuous and rapid growth of total revenues, which amounted to RMB29,356 million, representing an increase of 16.4% over the same period last year. Cost of revenues amounted to RMB24,836 million, representing an increase of 16.8% over the same period last year. Gross profit grew by 14.4% over the same period last year to RMB4,520 million. During the period, with the enhanced cost management, the Group managed to maintain its gross profit margin and net profit margin at relatively steady levels of 15.4% and 4.1%, respectively. Profit attributable to equity shareholders of the Company grew by 15.7% over the same period last year to RMB1,209 million. Basic earnings per share were RMB0.180.

Business Review

In the first half of 2012, telecommunications infrastructure (“TIS”) services sustained its sound growth momentum, and revenues from TIS services amounted to RMB13,812 million, representing an increase of 13.1% over the same period last year and accounting for 47.0% of total revenues. By firmly capturing the opportunity of steadily increasing capital expenditure from domestic telecommunications operators, the Group focused on key investment areas such as the upgrade and expansion of broadband and mobile network, which further reinforced its market leading position. The TIS revenues from domestic telecommunications operators achieved a rapid growth of 20.7% over the same period last year, and were the major driving force for the growth of TIS business during the period.

In the first half of 2012, revenues from business process outsourcing (“BPO”) services amounted to RMB12,886 million, representing an increase of 22.9% over the same period last year and accounting for 43.9% of total revenues. During the period, due to the continuous expansion of networks, the outsourcing demand for network services from domestic telecommunications operators continued to increase. Taking advantage of such market opportunities, the Group continued to maintain a rapid growth in its revenues from network maintenance services, representing an increase of 27.7% over the same period last year. In addition, the Group reinforced its capability to deliver integrated services by offering ancillary services such as the distribution of telecommunications machineries and products as well as the collaborative logistics services in response to customer requirements. The Group's revenues from the distribution of telecommunications services and products increased by 23.0% over the same period last year.

In the first half of 2012, revenues from applications, content and other (“ACO”) services amounted to RMB2,658 million, representing an increase of 5.5% over the same period last year and accounting for 9.1% of total revenues. During the period, the Group further increased its investment in the research and development for its core technologies and products, and gradually improved a model of open innovation. We believe that, after incubation for a period of time, ACO business will be able to achieve a breakthrough in the future as driven by the accelerating industrial developments such as informatization of the community and mobile Internet.



Chairman's Statement (Continued)

In the first half of 2012, the Group continued to focus on three major markets and allocated its resources in an adaptive manner. As a result, revenues from the domestic telecommunications operator market amounted to RMB19,055 million, representing an increase of 19.4% over the same period last year and accounting for 64.9% of total revenues. In particular, the revenue from China Telecom increased by 20.6% over the same period last year, accounting for 41.7% of total revenues, and revenues from China Mobile and China Unicom in aggregate increased by 17.5% over the same period last year and the proportion of these revenues to total revenues increased to 23.2%, which reflected the continuous improvement of the Group's service quality. Our business in the domestic non-operator market recorded steady growth, with revenues of RMB9,138 million, representing an increase of 14.6% over the same period last year and accounting for 31.1% of total revenues. The Group has been expanding into overseas market in a proactive and prudent manner. Revenues from overseas market amounted to RMB1,163 million, representing a decrease of 9.8% over the same period last year and accounting for 4.0% of total revenues. The decrease in revenues from overseas market in the first half of the year was mainly due to the delayed construction of certain large turnkey projects and the Group's increasing emphasis on efficiency development and proactive risk management. Meanwhile, the Group continued to focus on key overseas markets such as Congo-Kinshasa, Tanzania and Saudi Arabia, and has achieved promising progress in the exploration and cultivation of turnkey projects, which laid a solid foundation for its further scale development in overseas market.

After successful completion of the rights issue, the Group acquired equity interests and assets in relation to several telecommunications infrastructure service companies in Ningxia and Xinjiang as well as 51% equity interests in Sino-British Submarine System Co., Ltd. ("SBSS")¹ in the first half of the year. These acquisitions enabled the Group to further expand its business coverage in the domestic market, enhance its servicing ability in the overseas businesses and add new source of income from the construction and maintenance of submarine fiber-optic cable. The Group has applied its proceeds from the rights issue as planned in various areas, including expansion into domestic non-operator market and overseas market, strategic acquisition and joint ventures, as well as research and development, which will push forward the Group's transformation into a management and technology oriented enterprise and create greater value for our shareholders.

Corporate Management

The Group further promoted high-efficiency management practices focusing on six core areas, including collaboration management, management of construction service procurement, human resource management, fund management, project management and contract management, and strengthened its internal control and risk management procedures to enhance the overall operational efficiency and management capability. During the period, the Group further strengthened its operation and management of collaboration units in the design business and other professional areas. Meanwhile, the Group also promoted centralized fund management, which effectively saved finance costs. In addition, the Group strived to build up and develop a team of talents who are adaptive to the swiftly changing market. In order to achieve sustainable development, the Group further optimized the human resources structure and adopted incentive mechanisms to motivate its core talents.

¹ Please refer to the announcement of the Company dated 20 June 2012 for details of the acquisitions. As at 30 June 2012, the acquisition of equity interests and assets in relation to several telecommunications infrastructure service companies in Ningxia and Xinjiang were completed, and the relevant results have been consolidated into the financial statements and historical figures before acquisition have been restated according to relevant accounting standards. Acquisition of equity interest in SBSS was completed on 26 July 2012 and the relevant results have not been consolidated into the financial statements of the Group as at 30 June 2012.



Chairman's Statement (Continued)

Corporate Social Responsibility

The Group has always been committed to corporate social responsibility. On the one hand, the Group provided reliable communications rescue and relief services to its customers and the society in the event of natural disasters. On the other hand, the Group also promoted energy saving and emission reduction and actively developed certain energy saving products and technologies for the establishment of an energy-efficient community. All of these demonstrated a high degree of corporate social responsibility.

Prospects

Looking forward, the PRC government will push forward the development of the information industry through promoting the integration of informatization and industrialization as part of its initiatives under the “12th Five-Year Plan”. The PRC government has also clearly indicated to launch the “Broadband China” strategy and promote the commercialization of LTE. All of these will bring valuable business opportunities to the Group. In addition, the accelerating informatization in China, the further construction of “Smart City”, the rapid development of mobile Internet and the huge demand for telecommunications construction from overseas emerging markets also present broader market space and stronger growth momentum for the Group. Meanwhile, the Group faces certain challenges including volatile macro-economy and more intense market competition. Nevertheless, the Group is confident about the future. The Group will further reinforce its leading position in the domestic telecommunications operator market while also vigorously expand into the domestic non-operator market as well as the overseas market. With these measures, the Group aims to build up a “hundred-billion enterprise” with excellent performance, which has strong capabilities in capturing market opportunities, outstanding core competencies, integrated efficient operation and steady value growth, and to create greater value for its customers and shareholders.

On 28 June 2012, the Company successfully completed the election of the directors for the third session of the Board. On behalf of the Board, I would like to express my sincere gratitude to Mr. Wu Shangzhi and Mr. Hao Weimin, who retired as directors upon expiry of their terms of office, and Mr. Chan Mo Po, Paul, who resigned as an independent non-executive director of the Company, for their valuable contributions to the Group. In addition, I would like to take this opportunity to welcome Mr. Wei Leping and Mr. Siu Wai Keung, Francis to join the Company as independent non-executive directors. Finally, on behalf of the Board, I would like to express my sincere gratitude to all of the Group's shareholders, customers and all sectors of society for their long-standing care and support to the Group.

Li Ping
Chairman

Beijing, PRC
29 August 2012