

Chairman's Statement

Dear Shareholders,

During the first half of 2013, by making greater efforts to innovate and transform with firm confidence for development, the Group fortified its position in the domestic telecommunications operator market and expanded further into the domestic non-operator market and the overseas market with favorable results, and achieved further increase in revenue contributions from these two markets. As a result, the Group recorded a steady growth in operating results against a slowdown in overall capital expenditure of the telecommunications industry. Looking forward, investments to be triggered by the issuance of 4G licenses will bring new development opportunities for the Group.

Financial Review

The Group reported stable growth in total revenues for the first half of 2013, reaching RMB32,361 million, up by 9.6% over the same period last year.¹ Cost of revenues amounted to RMB27,390 million, representing an increase of 9.8% over the same period last year. Gross profit grew by 8.5% over the same period last year to RMB4,971 million. Gross profit margin was relatively stable at 15.4% as the Group attached great importance to efficiency of business development and strengthened cost management, and favorable quality of business development sustained. Due to the impact of fixed costs and the relatively rapid increase in selling, general and administrative expenses during the period, profit attributable to equity shareholders of the Company was RMB1,242 million, up by 1.7% over the same period last year, while net profit margin declined slightly to 3.8%. Basic earnings per share amounted to RMB0.179.

Business Development

During the first half of 2013, telecommunications infrastructure ("TIS") services achieved a stable growth and revenue from TIS services amounted to RMB15,339 million, representing an increase of 9.7% over the same period last year and accounting for 47.4% of total revenues. Despite the decline in overall capital expenditure of the domestic telecommunications industry during the period due to industry factors including the 4G licenses having not been issued, the Group still reported an 8.3% year-on-year growth in TIS revenues from domestic telecommunications operators by enhancing service capabilities. In addition, the Group made further progress in overseas turnkey projects development and TIS revenue from overseas market recorded a rapid growth of 58.9% over the same period last year, effectively driving growth of overall TIS revenue.

Revenue from business process outsourcing ("BPO") services for the first half of 2013 amounted to RMB14,035 million, representing an increase of 8.9% over the same period last year and accounting for 43.4% of total revenues. The Group has always been adhering to the principle of profitable business development and proactively managing the development of certain businesses with lower operating efficiency. The development of distribution of telecommunications services and products was effectively managed, and revenue growth decelerated to 10.4% as compared to the same period last year. The revenue growth of network maintenance services also slowed down to 4.2%.

Revenue from applications, content and other ("ACO") services for the first half of 2013 amounted to RMB2,987 million, representing an increase of 12.4% over the same period last year and accounting for 9.2% of total revenues. The Group focused on three types of domestic non-operator customers from government, key industries and small and medium-sized enterprises, and endeavored to develop large-scale turnkey projects, such as "Smart City" projects, industrial solutions and operation outsourcing projects. As a result, system integration business² grew rapidly with revenue increased by 31.3% over the same period last year. The Group will continue to deliver products and services with core competence by introducing strategic partners with strong brand names and technological edges, and leveraging its own local strengths.

¹ On 26 July 2012, the Company completed the acquisition of the 51% equity interests in Sino-British Submarine System Co., Ltd. Relevant results were consolidated into the consolidated financial statements in accordance with the accounting standards and historical figures for periods preceding the acquisition were restated. For details please refer to the note to the unaudited financial statements.

² Starting from 1 January 2013, the Company has adjusted the business classification among ACO in accordance with its business development focus. This change in classification has no effect on total revenues. The comparative figures have been reclassified to conform to current period's presentation.

Chairman's Statement (Continued)

Market Expansion

During the first half of 2013, the Group persisted in its focus on the three major markets. The Group continued to reinforce its leading position in the domestic telecommunications operator market during the period, and revenue from this market continued to grow by 7.1% against the backdrop of a slowdown in network construction investments by domestic telecommunications operators³, reaching RMB20,416 million and accounting for 63.1% of total revenues. In particular, revenue from China Telecom increased by 8.6% over the same period last year, accounting for 41.1% of total revenues, while revenues from China Mobile and China Unicom increased by 4.5% in aggregate over the same period last year, accounting for 22.0% of total revenues. During the period, the Group actively participated in various work in relation to the LTE trial networks of the domestic telecommunications operators, including construction, network planning and design, in a move to prepare for opportunities arising from the issuance of 4G licenses.

The Group continued to vigorously expand into the domestic non-operator market and the overseas market, and revenues from such markets increased by 14.0% in aggregate over the same period last year, becoming the major growth driver for the total revenues in the first half of 2013. During the period, the Group adhered to its "Differentiation and Cooperation Strategy" in domestic non-operator market, and revenue from the domestic non-operator market increased by 11.8% over the same period last year to RMB10,266 million, accounting for 31.7% of total revenues. Meanwhile, the Group continued to implement its "Overseas-Focus and Four-Steps Strategy" and endeavored to develop overseas turnkey projects with favorable results. Revenue from overseas market grew to RMB1,679 million, representing a rapid increase of 30.0% and accounting for 5.2% of total revenues.

Corporate Governance and Management

The Group continued to strengthen its risk management and internal control, with a view to maintaining a high standard of corporate governance and enhancing corporate transparency on an ongoing basis. The Group's continued efforts were highly recognized in capital market in the first half of 2013. The Company ranked 3rd among the "Best Managed Company in China" in the 2013 "Asia's Best Managed Companies" hosted by *Finance Asia*, an authoritative financial magazine in Asia, and was also awarded among "The Best of Asia" and "Icon on Corporate Governance" elected by *Corporate Governance Asia*.

The Group continued to promote centralized efficient operations and enhance its management including the construction service procurement, human resources management, fund management, project management and contract management, so as to continuously improve its operating efficiency and management capability. During the period, the Group continued to optimize its human resources allocation and improve its market-oriented appraisal and incentive regime to support its business development. Meanwhile, the Group strengthened its management of account receivables while further centralizing its funds and optimizing the operation of its funding pool to offer strong support for its corporate development.

³ According to data from Ministry of Industry and Information Technology of the PRC, fixed assets investment in the telecommunications industry for the first half of 2013 was RMB129.7 billion, decreased by 12.7% over the same period last year.

Chairman's Statement (Continued)

Corporate Social Responsibility

With its commitment to corporate social responsibility, the Group undertook the tasks of emergency communications for relief operations in the events of the earthquake in Ya'an, Sichuan and flood disasters, restoring a large number of damaged communications facilities in a timely manner to ensure uninterrupted communication in such areas. In addition, the Group actively engaged in energy conservation and emission reduction initiatives such as the development of energy-saving products and technologies, and contributed to the establishment of an energy-efficient community.

Prospects

Looking forward, new business opportunities are anticipated from the nation's move to bolster information consumption, promote in-depth integration of industrialization and informatization, implement the "Broadband China" strategy and accelerate the construction and upgrade of networks and communications infrastructures. In the telecommunications industry, particularly the investment to be brought by the upcoming issuance of 4G licenses will also create new opportunities for the Group's development in the domestic telecommunications operator market. Furthermore, the enormous demands for informatization services of society driven by urbanization, including projects related to "Smart City" and industry informatization, as well as the robust demand for communications construction in emerging overseas countries, will also provide the Group with favorable room for further development in the domestic non-operator market and the overseas market. Meanwhile, we are also facing challenges arising from changes in the industry landscape and regulatory policies as well as intensifying competition in the market, which will bring further pressure on the operating conditions of the Group. Nevertheless, we are confident about the future. While further strengthening its position in the domestic telecommunications operator market, the Group will continue to expand into the domestic non-operator market and the overseas market with vigorous efforts, striving to build a "hundred-billion enterprise" with superior performance and a culture of harmony and happiness, so as to deliver greater value to our customers and shareholders.

Finally, on behalf of the Board, I would like to express my sincere gratitude to Mr. Yuan Jianxing, who resigned as an Executive Vice President and Executive Director of the Company in August 2013, for his outstanding contributions to the Group. I would also like to express my sincere gratitude to all shareholders and customers of the Group and all sectors of society for their long-standing concern and support to the Group.



Li Ping
Chairman

Beijing, PRC
28 August 2013