

Dear Shareholders,

In the first half of 2017, the Group achieved solid operating performance and gradually enhanced operating efficiency by adhering to the overall philosophy of “value-driven, seeking steady yet progressive growth and efficient development” and the principle of “market-oriented, creating value for customers”. Through capturing the window of opportunity from network construction of domestic telecommunications operators, continuing to focus on the “Two New Markets”¹, and further controlling the development of businesses with lower efficiency, the Group realized steady growth in revenue and profits, continued optimization in business structure, maintained largely stable profit margins, and its free cash flow² continued to sustain at a healthy level. The above indicated the quality of the Group’s development was further reinforced, and new impetus for future development are emerging.

Overall Performance

During the first half of 2017, the Group overcame the challenges brought by the overall decline in the network construction investment of the telecommunications industry and maintained a stable fundamental operating performance by focusing on both the “CAPEX and OPEX-driven”³ businesses and firmly capturing the various opportunities in the domestic telecommunications operator market. At the same time, the Group also strived to expand the domestic non-operator market while proactively controlled the products distribution business. As a result, the Group realized total revenues of RMB44,888 million, representing a year-on-year growth of 6.4%. Cost of revenues was RMB39,179 million, up by 6.5% compared to that of last year. Gross profit was RMB5,709 million, representing a year-on-year increase of 5.9%. Benefitting from the effective control of the products distribution business with lower efficiency and encouraging growth of high-value businesses, gross profit margin was 12.7% with a moderated downward trend. Selling, general and administrative expenses were RMB4,347 million, accounting for 9.7% of the total revenues and represented a continuous decline further from the corresponding period last year. Profit attributable to the equity shareholders of the Company was RMB1,469 million, representing a year-on-year growth of 5.9%, and net profit margin was 3.3%, maintaining at the same level as compared to the corresponding period last year. Basic earnings per share amounted to RMB0.212. Free cash flow sustained at a high and healthy level and amounted to RMB2,002 million.

Structure Optimization

During the first half of 2017, although the revenue from the products distribution business recorded a year-on-year decrease of over 30%, the Group’s revenue from its Core Businesses, which includes telecommunications infrastructure (“TIS”) services, core business process outsourcing (“BPO”) services⁴, as well as applications, content and other (“ACO”) services, amounted to RMB41,073 million, representing a year-on-year growth of 12.0%. The revenue proportions of Core Businesses to the total revenues increased by 4.5 percentage points to 91.5%. The Group’s overall business structure was further optimized, and demonstrated remarkable results in its innovation and transformation.

¹ Two New Markets refer to domestic non-operator market and overseas market.

² Free cash flow = Profit for the year + Depreciation and amortisation – Changes in working capital – Capital expenditure

³ CAPEX and OPEX refer to the capital expenditure and operating expenditure of domestic telecommunications operators, respectively.

⁴ Core BPO services include management of infrastructure for information technology (network maintenance), general facilities management and supply chain.

Business Development

During the first half of 2017, the Group's revenue from TIS services amounted to RMB24,071 million, representing a year-on-year growth of 11.0% and accounting for 53.6% of the total revenues. We developed the domestic telecommunications operator market vigorously by capturing the important opportunities from the three domestic telecommunications operators including the window of opportunity for the construction of 4G network and fiber optic broadband network, etc., which assisted our customers to build superior and intelligentized networks, as well as capturing the construction and maintenance opportunities from China Tower⁵. By focusing on the flourishing demand from informatization construction of various industry sectors in China, we stepped up our effort to develop the TIS business of the domestic non-operator customers through cross-sector operation and cooperation among businesses. Among the revenue from TIS services, the revenue from China Telecom recorded a year-on-year growth of 16.9%, and the revenue from domestic telecommunications operator customers other than China Telecom recorded a year-on-year growth of 6.4%, while the revenue from domestic non-operator customers recorded a year-on-year growth of 20.3%. Rapid growth of the revenue of TIS services from domestic non-operator customers strongly supported the favourable overall development of such business, and such customer is becoming the new impetus for the future growth of the overall TIS business.

During the first half of 2017, the Group's revenue from BPO services amounted to RMB15,864 million, representing a year-on-year decrease of 1.7% and accounting for 35.4% of the total revenues. The decrease was mainly due to the Group's persistence in transformation towards high-end businesses and continuous proactive control on the development of the products distribution business, which caused the revenue from such business to record a year-on-year decrease of 30.6%. Excluding such factor, the OPEX-related businesses, which has been the Group's development focus, recorded favourable development, and the revenue from the Core BPO services recorded a year-on-year growth of 13.2%, maintaining a double-digit growth momentum in the recent two years, and provided a stable source of revenue for the Group. Among that, the revenue from the maintenance business recorded a year-on-year growth of 17.0%, and the revenue from the supply chain business also recorded a year-on-year growth of 10.2%.

During the first half of 2017, the Group's revenue from ACO services amounted to RMB4,953 million, representing a year-on-year growth of 14.0% and accounting for 11.0% of the total revenues. The Group seized the intelligentization and informatization opportunities from customers, placed a strong emphasis on the development of high-value businesses and continued to facilitate the operation of its innovation fund. The commercialization of projects such as Smart Security, Smart Industrial Park, Cloud Security, etc., has achieved initial success. We proactively cooperated with external parties to create industrial ecosystem, and cooperated with renowned domestic and international manufacturers and organizations to jointly develop the big data business. We also had strategic cooperation with the government and industry partners in the quantum communications market of front edge technology.

Customer Development

During the first half of 2017, the Group leveraged on both "CAPEX and OPEX-driven" businesses as the dual growth drivers, and the revenue from the domestic telecommunications operator market amounted to RMB29,758 million, representing a year-on-year growth of 9.2% and accounting for 66.3% of the total revenues. Among that, the revenue from China Telecom was RMB18,273 million, representing a year-on-year growth of 11.2% and accounting for 40.7% of the total revenues. Attributable to the revenue from China Tower recording a robust year-on-year growth of 57.7%, the revenue from domestic telecommunications operator market other than China Telecom increased by 6.3% compared to the same period of last year and amounted to RMB11,485 million, accounting for 25.6% of the total revenues which remained at the same level compared to the corresponding period of last year.

⁵ The full name of China Tower is China Tower Corporation Limited.

During the first half of 2017, the Group's revenue from the domestic non-operator market was RMB13,748 million, representing a year-on-year increase of 7.5% and accounting for 30.6% of the total revenues. In particular, the revenue from the Core Businesses from domestic non-operator market recorded a year-on-year increase of 20.3%, accounting for 81.5% of the total revenues from such customer and representing an increase of approximately 8.7 percentage points compared to that of last year. During the first half of the year, while the revenue from products distribution business of such customer decreased by 26.7%, the Core Businesses of such customer recorded rapid growth, contributing to almost 70% of the Group's overall incremental revenues during the first half of 2017. Businesses with traditional advantages and businesses with potential both achieved favourable development in the domestic non-operator market and provided new impetus for the continuous growth of the Group's performance. In respect of our market expansion, we focused on key industries including government, transportation, Internet & IT, electricity, construction and property, etc., and obtained 170 large-scale projects with a scale of more than tens of millions of renminbi each, demonstrating a continued breakthrough from the existing business scale. The Group's effort in allocating resources to the targeted industries, further optimization of the sales and marketing mechanism, strengthening cooperation with operators to enhance our capabilities in synergistic development, has been bearing fruit gradually.

Due to the enhanced risk management of overseas businesses and active control of the development of overseas businesses with low efficiency by the Group, and impacts from cyclical fluctuations of overseas projects, the development of the Group's overseas business experienced temporary fluctuations. During the first half of 2017, revenue from overseas business amounted to RMB1,382 million, representing a year-on-year decrease of 35.8% and accounting for 3.1% of the total revenues. Despite the temporary decrease in revenue from overseas business, the Group continued to build project reserves proactively for turnkey projects in Africa and the Middle East, featuring FTTH, education network, and the upgrade and transformation of power networks. The preparation work for the trials in the four East African countries on the "China-Africa Partnership Program in Trans Africa Information Superhighway" Project has also been progressing.

Innovation and Transformation

The Group is committed to innovation and transformation. During the first half of 2017, we focused on the OPEX-driven maintenance business and launched the "Comservice Craftsmanship" competition to facilitate maintenance skills enhancement and promote integrated maintenance business vigorously. The Group continued to enlarge the scale of distribution chain stores, and the number of stores in China exceeded 1,000, while the number of stores under the unified brand of "中通福" (ZhongTongFu) increased further. The Group also unified the brand for the facilities management business and completed the trademark registration for "中通服置業" (ZhongTongFu Zhiye) and "中通服物業" (ZhongTongFu Wuye). In addition, the establishment of Comservice Capital Holding Company Limited (通服資本控股有限公司) indicated a meaningful step for the Group in entering the finance sector related businesses to facilitate the consolidation of internal financial resources, improvement in capital utilization efficiency and the integration of finance with industrial development which ultimately push forward project development through investment and financing.

Corporate Governance

The Group's standardized and effective corporate governance standards have always been highly recognized in the capital market. In the "7th Asian Excellence Recognition Awards" organized by *Corporate Governance Asia*, a renowned corporate governance journal in Asia, myself and Ms. Hou Rui, the Chief Financial Officer and Executive Vice President of the Company, were once again awarded the "Best CEO" and "Best CFO" respectively. Meanwhile, the Group also won the "Best Investor Relations" Award. In 2017, the Group ranked 79th in the "2017 FORTUNE China 500" released by *FORTUNE China*.

Social Responsibilities

As a leading service provider in the informatization sector in China, the Group has always endeavoured to fulfil its social responsibilities, taking practical action to reward customers and the society.

In April 2017, the 2017 Global Future Network Development Summit was held in Nanjing. Acting as the communications security unit for this Summit, the Group deployed staff of construction, maintenance, and security for approximately 300 person-times to test and optimize the communication network of the conference venue and its surrounding areas to ensure stable network operation and normal communication signal coverage in key areas. Our work was highly recognized by the organizer of the Summit.

The Group has always fought on the frontline for communications restoration in disaster relief. In the first half of 2017, shortly after Typhoon Merbok made landfall in Guangdong and floods occurred in the Jiangxi, Hunan, and Guangxi region, the Group promptly initiated contingency plans, organized manpower to commence repair works, and restored a total of nearly 2,800 communications facilities.

Prospects

2017 marks a significant year for the Group's innovation and transformation. Society informatization develops rapidly, industrial internet brings new opportunities, and operators' transformation towards its ecosystem indicates that the ecological competition has become a prominent trend. Adhering to our overall philosophy of "value-driven, seeking steady yet progressive growth and efficient development", we will transform our impetus of growth in accordance with changes in the market environment, accelerate business deployment, solidify the foundation for development through promoting corporate vitality, enhancing capabilities and strengthening executions of the Group, thereby grasping the new opportunities brought by the intelligent informatization era.

The domestic telecommunications operator market is the Group's business development fundamentals. To secure a stable fundamental operating performance, we will adhere to the direction of the government's supply-side structural reform, adjust our mindset of development, closely follow the opportunities brought by the transformations of operators, capture the window of opportunity from CAPEX and leverage OPEX as the driving force for growth. At the same time, we will focus on expanding high-value integrated maintenance business and assist operators to build intelligentized and superior networks. The Group will also seize the opportunities from integrated construction and maintenance of China Tower and reinforce its market share in such market. Through the provision of maintenance services and penetration into the operators' ecosystem of businesses, the Group could facilitate the enhancement of our service value and customer loyalty. Meanwhile, the Group will extend its maintenance capabilities and experience of serving operators to speed up business deployment over other aspects, innovate business model, thus laying the foundation for future businesses expansion.

The domestic non-operator market is one of the new growth engines for the Group's future development, and we will put more emphases of our development on such market. We will continue to leverage on our existing business capabilities into the development of such market, devote more efforts on resource allocation, optimize the sales and marketing mechanism and strengthen cooperation in wider aspects and cross-sector operation. We will focus on achieving breakthroughs in key customers as represented by the industry sectors such as electricity, transportation, information security, etc., with a view to enlarging revenue scale, nurturing pan-operators customer, as well as developing sustainable and recurrent businesses. In order to adapt to new market demands, we will continue to integrate resources, actively develop group-level products, and facilitate the commercialization of our projects and services, with a view to building our brand in the emerging ICT sector.

In terms of overseas market development, the Group believes that national policies support becomes more explicit as the implementation of the "Belt and Road" Initiative deepens, which implies a huge development potential for the future. We will capture the opportunities, especially those arising from Africa, the Middle East and Southeast Asia, and strive to develop businesses with competitive advantages. The Group will leverage on existing experience and project cases to develop the overseas market of various industries such as electricity, education, etc. With the goal to increase overseas market revenue scale and expedite the Group's development, we will strengthen cooperation with financial partners and continue to push forward our "China-Africa Partnership Program in Trans Africa Information Superhighway" Project.

The Group will remain committed to the innovation of its system and mechanism and the enhancement of management efficiencies by continuous optimization of its organizational structure and construction of a flat structure. The Group will commence in-depth integration of its specialized subsidiaries and broaden the scope of its synergistic business operation to raise operating capabilities. Through the “value-driven” appraisal system and market-oriented remuneration mechanism, the Group will stimulate vitality among its employees and within the Group. We will show our care and share our fruits of development with employees to increase their sense of belonging.

We will seize the most opportune time for development, rise up to challenges, and create a favourable foundation for the future, with a view to generating sound performance in return for the support of our shareholders.

Finally, on behalf of the Board, I would like to express my sincere welcome to Mr. Shao Guanglu for joining the Board in June this year. I would also like to take this opportunity to express my sincere gratitude to the shareholders and customers of the Group and all sectors of society for their long-standing care and support to the Group.



Sun Kangmin

Chairman

Beijing, PRC
30 August 2017