

Chairman's Statement

“In the past three years, our people have continuously explored and improved the mobile and full services integrated operation with their unwavering dedication and passion for innovation. We successfully attained spectacular development with net additions of 100 million mobile subscribers and 30 million wireline broadband subscribers, becoming the world's largest CDMA mobile operator as well as the world's largest broadband operator. The profitability was further enhanced. Grasping the golden opportunities of the current fast proliferating mobile Internet and informatisation applications, we shall leverage our strengths and strive to achieve scale development breakthrough to create more value for our customers and shareholders through dual-leadership in innovation and service provision.”

In 2011, we firmly seized the valuable market opportunities arising from the rapidly proliferating mobile Internet applications and the increasing demand of industry informatisation to continue to deepen our strategic transformation. We pragmatically promoted the development of our Three New Roles – “a leader of intelligent pipeline, a provider of integrated platforms, and a participant in content and application development” and proactively expanded into emerging areas such as mobile Internet. We accelerated the optimisation of business structure and continuously enhanced our operational and management capabilities, facilitating effective promotion in the scale development of our mobile, wireline broadband and industry informatisation services. Revenue and profit continued to maintain robust growth and the Company's overall competitive strengths have been further enhanced.

Operating Results

In 2011, the Company achieved favourable development. The operating revenues amounted to RMB245,041 million. Excluding the amortisation of upfront connection fees, the operating revenues were RMB244,943 million, an increase of 11.7% over last year.

The revenue structure continued to be optimised, laying a solid foundation for future sustainable development. Mobile service revenue reached RMB68,248 million, an increase of 43.0% over last year, further increasing its proportion to 27.9% of total revenue and became the largest service of the Company. Revenue from wireline broadband service was RMB60,801 million, an increase of 12.3% over last year and maintained rapid growth. Wireline voice revenue was RMB49,764 million, its proportion to total revenue declined to 20.3% and the operating risks were further alleviated. EBITDA^{1,2} was RMB94,266 million, an increase of 6.5% over last year while EBITDA margin³ was 40.8%. The profit attributable to equity holders of the Company was RMB16,404 million, an increase of 10.5% over last year, demonstrating concurrent achievement in scale development of subscriber and enhancement in profitability. Basic earnings per share was RMB0.20. Capital expenditure was RMB49,551 million, accounted for 20.2% of revenue and free cash flow⁴ was RMB20,288 million.

Taking into account the return to shareholders, the Company's cash flow and its capital requirements for the forthcoming acquisition of mobile network assets from parent company, the Board of Directors

1 For convenience of investors' analysis, EBITDA was calculated before CDMA network capacity lease fee.

2 Including the amortisation of upfront connection fees, EBITDA was RMB94,364 million, profit attributable to equity holders of the Company was RMB16,502 million, and basic earnings per share was RMB0.20.

3 EBITDA margin was calculated based on EBITDA divided by the operating revenues excluding mobile terminal sales.

4 Free cash flow was calculated from EBITDA (excluding amortisation of the upfront connection fees) minus CDMA network capacity lease fee, capital expenditure and income tax.



has decided to recommend at the forthcoming Annual General Meeting that a dividend being an equivalent of HK\$0.085 per share be declared, which is the same as last year.

Full services development achieving new breakthroughs

Through more than three years of practice and exploration, we have continuously deepened our understanding and grasp of the pattern of full services operation and enriched our operating experience. We effectively promoted the scale development of the Company's three core services, further consolidating and strengthening our competitive advantages.

3G leading mobile service scale expansion

In 2011, China's mobile telecommunications market has gradually migrated from 2G to 3G services. With accelerated growth in 3G services, the market potential was huge and the Company firmly seized this historic opportunity for development. Through a series of development initiatives such as comprehensively promoting the terminal-driven marketing model, optimising channel distribution, enhancing service capability, enriching mobile applications and strengthening brand building, the Company effectively promoted scale development of its mobile service; Through the transformation of self-operated sales outlets to handset speciality stores like electronic appliance stores to strengthen sales and marketing to enhance customers' experience, together with implementation of flexible and effective incentive schemes to motivate open channel sales initiatives, new addition of subscribers increased rapidly; Through cooperation and incentive across terminal value chain to motivate value chain participants, the variety of smartphones, in particular the smartphones priced around RMB1,000, proliferated robustly. Sales volume of 3G smartphones continued to rise, which well supported the rapid expansion of 3G subscribers base; Through continuous innovation in service measures and focusing on the enhancement of electronic channel service capabilities to boost the mobile service scale expansion; Strengthening cooperation with external parties, constantly launching popular mobile Internet applications, through sales and marketing to enhance customers' experience and continuous follow-up marketing strategies to increase the usage and vigorousness level of the applications and promote the development by applications; Targeting the youngster market, the brand "e-Surfing Fly Young" was launched, gathering various resource advantages such as network, applications, service, etc., in order to seize the

mobile Internet active user market. In 2011, the net addition of mobile subscribers was 35.95 million, reaching a total of 126 million and the Company became the world's largest CDMA operator. Our mobile subscriber market share further increased to 13.0%, with 3G subscribers totalling 36.29 million and 3G subscriber market share was 28.5%. The Company's market influence was further enhanced, demonstrating scale benefit driving enhancement in corporate overall profitability.

While we are achieving the scale development of our mobile subscribers base, with a firm foothold in the present and an outlook to the future, we vigorously promoted the transformation from voice-centric to data traffic operation and stand at the forefront for future development: We leveraged our strengths and capabilities in integrated platform and gathered popular Internet applications such as instant messaging, Weibo, group buying and Best Tone services, reinforcing application-driven usage and enriching data content. We leveraged our "Cloud" computing service capability while proactively exploring and expanding the development into emerging services such as mobile payment and positioning services to enhance data traffic value. We innovated the data traffic marketing model, through strengthening sales and marketing to enhance customers' experience and cultivating users' habit of usage to increase data revenue. In 2011, mobile data revenue was RMB29,620 million, an increase of 57.4% over last year.

Broadband upgrade boosting rapid development

Broadband network has become the most important infrastructure in the informatisation society and broadband development will become an important initiative to promote national economic growth. With the growing demand for e-commerce, the continuously enriching applications in the Internet of Things and continuous acceleration in Three Networks Convergence, the demand from high-bandwidth applications has become an important driver for bandwidth upgrade, injecting new vitality into the Company's broadband service development. The Company duly launched the "Broadband China • Fibre Cities" project and accelerated fibre rollout and the upgrade of Fibre-to-the-Home (FTTH), comprehensively implementing bandwidth upgrade to create a superior network for better customer experience, further consolidating our competitive edges. By the end of 2011, all cities in service areas basically had 8Mbps bandwidth access capability, while 20Mbps bandwidth coverage reached 70%. In addition to the broadband upgrade, we vigorously developed products that demanded high bandwidth such as iTV, e-Surfing Video and e-Cloud storage, constantly enriching the content of the "e-Surfing

Broadband" brand. We also proactively introduced bandwidth intensive contents and applications such as popular online games and online videos from our external partners to provide users with a differentiated perception of high-bandwidth, effectively promoting an increase in broadband subscribers and value enhancement: In 2011, the net addition of wireline broadband subscribers was 13.33 million and the total number of wireline broadband subscribers reached 76.81 million.

Key industries – focused development expanding informatisation applications

Industry informatisation is an important area in national economic informatisation. Facing the rich gold mine of industry informatisation applications market, we fully leverage our integrated strengths in ICT and government & enterprise service teams. With the brand "e-Surfing Navigator" as the lead, we focused on industries such as government supervision and enforcement, finance, corporate clients and clustered small to medium-sized enterprises. We developed key applications such as e-Surfing RFID, e-office administration, transport and logistics, digital campus and vehicle information services and accelerated the scale replication and promotion of the products. Riding on the opportunity of assisting customers to establish "digital enterprises", we achieved synergy in integrating our products such as mobile 3G and broadband access into informatisation solutions, effectively driving the scale development of our fundamental services. At the same time, we proactively expanded and developed the "Cloud" service market. We constructed the nationwide "Cloud" resources service management platform on an efficient and centralised basis and proactively promoted "Cloud" computing for industry applications to continuously enhance our capabilities in providing industry informatisation solutions.

Commitment to innovate, "Three New Roles" transformation achieving substantive progress

We broke through from conventional thinking and reinforced our awareness of and capability for innovation, striving to explore the development patterns of emerging services, and increase our innovation initiatives in networks, platforms, products, mechanisms and system. We pragmatically implemented our "Three New Roles" strategy and endeavoured to develop new differentiated competitive edges to promote the scale development of our services.

We actively promoted intelligent pipeline construction: We strived to achieve differentiated allocation of network resources, focusing on enhancing our service assurance capabilities for high-end users, relieving network capacity expansion pressure and saving on capital expenditure. At the same time, we conducted trial of our intelligent bandwidth upgrade products for broadband networks whereby bandwidth resources can be quickly configured according to user's requirement, in order to achieve self-served bandwidth upgrade by broadband access users so as to improve customer's experience.

We accelerated the construction of integrated platforms and open operations: We further optimised our platform structure, gradually incorporating various types of application platform resources into the integrated resource management platform for the implementation of centralised efficient operations. We also increased our efforts in transferring the platform resources into the "Cloud" so as to achieve sharing of user information and capability resources. We built a collective eco-environment for Internet applications and constantly improved our basic support capabilities such as authentication, positioning and billing for the integrated platform. We promoted our capabilities in open platforms to external parties to accomplish exchanging of revenue, subscribers and data traffic.

We strengthened our innovative strengths in content applications and proactively expanded Internet applications: For self-developed applications products, we constantly improved their penetration and vigorousness levels through our integrated offering, preliminarily accomplishing business scale expansion: The number of registered users of five products, including iMusic, e-Surfing apps store and e'game all exceeded 30 million respectively. Emerging services such as e-Surfing Chat instant messaging and positioning services were progressively launched to the market. We formed the "Open Mobile Internet Alliance" and innovated new modes of cooperation. We also proactively introduced premium third-party contents and applications such as Tencent QQ, Weibo and UC Browser, and further promoted collaborative development in areas like "Cloud" applications and e-commerce.

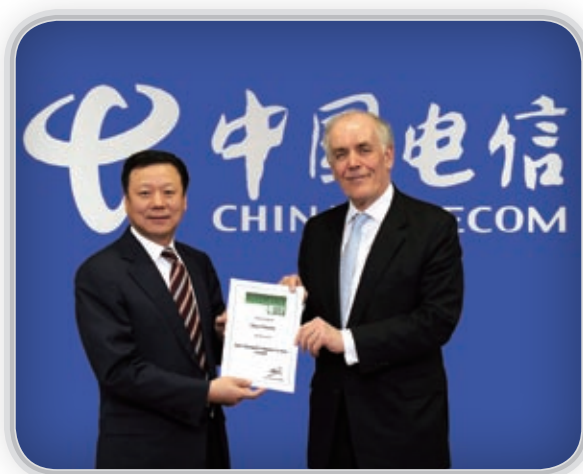
We persisted to promote innovation in mechanism and system: In the field of emerging services, we proactively explored corporatisation reform. We accelerated the pace of the corporatisation reform of emerging services such as business travel, video and payment while implementing flexible incentive schemes to invigourise and create professional corporates with competitive edges for the rapid better development of the emerging services. We established a Business Innovation Department to strengthen our centralised efficient operation of innovative products. We also set up an incubator base to create an internal environment to cultivate innovation and incubate new products in the Internet area, thus initially forming a new system of innovative business operations.

Precision management and improvement in efficiency

We persisted in the direction of value management and continued to strengthen precision management, optimising resource allocation and enhance operational capability: We focused on three aspects, namely mobile network utilisation, marketing resource utilisation and operational efficiency of sales outlets. We further deepened the sub-division of performance evaluation units and diligently increased the corporate operating efficiency. We optimised our investment structure, fully leveraging on the functions of resource allocation in guiding business development. We increased our investment in key networks and services such as broadband and mobile and continuously improved investment return.

We acted in accordance with the development pattern of mobile Internet to strengthen our co-ordination and centralised efficient operations in areas such as sales and marketing systems and to make a concerted effort to expand the market. We further perfected our IT system, making every effort to achieve one-point access and entire-network operation, effectively promoting the development of our mobile Internet service.

We proactively embarked on "serving the public and achieving excellence in performance" program. Based on customers' perception, we enhanced our customer service capabilities in all aspects to continuously improve customer satisfaction, gradually establishing our differentiation advantages: We created superior broadband services, further enhanced our service support capabilities for broadband installation, maintenance and contract renewal and maintained industry-leading service quality level. We focused on 3G service and innovative customer interfaces. Instant messaging services such as QQ have reached scale operation, with the average monthly service volume exceeding two million times. The service capabilities of online channels such as on-line "Palm Service Centre" have also significantly improved, and Weibo has become a key channel to handle customer inquiries. The Company's mobile Internet service capabilities have begun to take shape.



Mr. Neil Osborn, the Publisher of *Euromoney*, presented the "No. 1 Best Managed Company in Asia" award to Mr. Wang Xiaochu, Chairman

Corporate Governance and Social Responsibility

We continue to strive to maintain a high level of corporate governance and corporate transparency to ensure healthy development of the Company and enhance corporate value. In 2011, our persistent efforts in corporate governance have been widely recognised by the capital markets. We have been accredited with a number of awards and appreciation, including "No. 1 Best Managed Company in Asia" by *Euromoney*, being the first company receiving such honour for three consecutive years, the "Overall Best Managed Company in Asia" and "Best Telecom Company in Asia" by *FinanceAsia*, and "Asia's Best Companies in Corporate Governance" and "The Best Corporate Social Responsibility in China" by *Corporate Governance Asia*.

We put great emphasis on environmental protection and vigorously promoted technical improvement for energy savings as well as collaborative building and sharing of mobile base stations. While investing in the conservation of resources, we contributed to energy saving and emission reduction for the community. We proactively practise the concepts of environment-friendly and low-carbon humanistic concept development, fully demonstrating our new image as a green telecom operator. We successfully achieved communications assurance for the Universiade in Shenzhen, the International Horticultural Exposition in Xi'an, and disaster relief, which demonstrated our efforts towards corporate social responsibility and received a high degree of recognition from all sectors of society.

Outlook

At present, 3G service is entering a phase of accelerated growth and will grow explosively. Wireline broadband service is still in a period of high growth. The commercialisation of new services such as mobile Internet, "Cloud" computing and Internet of Things is further accelerating, which will open up a new area for the Company's development. The national policy of promoting cultural development will also provide new development opportunities. However, at the same time, we also face new challenges, such as the integration of the information industry and intensifying market competition.

Looking forward, we are fully confident. The Company will ride on the industry development trend, in alignment with the theme of "promoting scale development through dual-leadership in innovation and services" to create a differentiated competitive edge. We will adhere to the principle of efficiency and continue to accelerate the scale development of mobile, wireline broadband and informatisation applications. We will strive to enhance our strengths in innovation, service, efficient centralisation and operation management, and take more solid steps towards the goal of being a "world-class integrated information service provider" so as to create more value for shareholders.

Finally, on behalf of the Board of Directors, I would like to take this opportunity to express my sincere appreciation to all our shareholders and customers for their support. I would also like to express my sincere thanks to Mr. Shang Bing and Mr. Zhang Chenshuang for their valuable contribution during their tenure of office as Executive Directors of the Company.



Wang Xiaochu

Chairman and Chief Executive Officer

Beijing, China
20 March 2012



“Golden Opportunities” Detected!



FAST PROLIFERATING SMARTPHONES



FABULOUS MOBILE INTERNET APPLICATIONS



ENRICHING CUSTOMERS' LIFE AND VALUE