

Business Review

OVERVIEW

We are a leading integrated provider of specialized telecommunications support services to telecommunications operators in the PRC. We offer telecommunications infrastructure (“TIS”) services, including design, construction and project supervision and management, business process outsourcing (“BPO”) services and applications, content and other (“ACO”) services. We also provide services to government agencies, telecommunications equipment manufacturers and other corporate customers.

In 2006, our revenues increased by 7.2% from 2005 to RMB14,182.80 million; of which, revenue from TIS services, which accounted for 52.7% of our total revenues, increased steadily to RMB7,472.43 million, an increase of 3.8%. Revenue from BPO services, which accounted for 36.3% of our total revenues, grew by 18.1% from 2005 to RMB5,153.54 million. Revenue from ACO services, which accounted for 11.0% of our total revenues, amounted to RMB1,556.83 million, a decrease of 6.8% from 2005.

	2005		2006		Change over 2005
	Revenues	Contribution to our total revenues	Revenues	Contribution to our total revenues	
	(RMB million, except percentages)				
TIS services	7,199.59	54.4%	7,472.43	52.7%	3.8%
BPO services	4,363.15	33.0%	5,153.54	36.3%	18.1%
ACO services	1,669.55	12.6%	1,556.83	11.0%	(6.8%)
Total	13,232.29	100%	14,182.80	100%	7.2%

We have established long term business relationships with major telecommunications operators in PRC. China Telecommunications Corporation (“China Telecom”), China Mobile Communications Corporation (“China Mobile”) and China United Telecommunications Corporation (“China Unicom”) are our three largest customers. In 2006, revenues from these three largest customers increased by 14.9% to RMB9,526.81 million and accounted for 67.2% of our total revenues, a rise of 4.5 percentage points, demonstrating our consolidated leading market position among our major customers.

	2005		2006	
	Revenues	Contribution to our total revenues	Revenues	Contribution to our total revenues
	(RMB million, except percentages)			
China Telecom	5,983.08	45.2%	7,533.92	53.1%
China Mobile	1,702.46	12.9%	1,581.02	11.2%
China Unicom	603.69	4.6%	411.87	2.9%
Others	4,943.06	37.3%	4,655.99	32.8%
Total	13,232.29	100.0%	14,182.80	100.0%

TIS SERVICES

Our Company provides a full range of telecommunications infrastructure services, including telecommunications networks planning and design, construction, and project supervision and management. China Telecom, China Mobile and China Unicom are our three major customers. We have been maintaining a leading position in the TIS market. We have won many awards for design, construction and project supervision services from the PRC Ministry of Information Industry (MII) and provincial telecommunications administrations.

In 2006, revenue from TIS services amounted to RMB7,472.43 million, an increase of 3.8% from 2005; of which, revenue from our three major customers increased by 12.9%.

Design services

We provide telecommunications operators with field survey and design, network planning, operation consultancy and technology consultancy services. We also provide architectural design, intranet design and IT solution services for government agencies and corporate customers. In 2006, many of our design service projects have been given awards by the MII and provincial telecommunications administrations. Examples of these awards are: Both the China Telecom CN2 Network Engineering Feasibility Study and IT Roll Planning (2006-2008) for North Telecommunications Limited Company (北方電信有限公司), a subsidiary of China Telecom, were awarded the first prizes for excellent engineering consultancy by the MII; and China Telecom's "Eleventh Five-Year" International Operation Plan was awarded the first prize for excellent communication project consultancy by the Chinese Association of Communication Enterprises.

In 2006, revenue from design services increased by 12.8% from 2005 to RMB1,621.42 million; of which, revenue from our three largest customers grew by 4.8%, an indication of the noticeable impact of our consolidation of our relationships with operator customers and our exploration of new markets. At the same time, by putting more efforts into developing high-end services such as consultancy, we diversified our sources of revenues and enhanced our competitiveness.

Construction services

The services we provide to telecommunications operators are the laying and installation of duct and cable networks for communications systems, civil engineering works and construction of auxiliary infrastructure, installation, adjustment and testing of communications equipment and telecommunications network optimization. By providing network construction services, we assist operators to expand network capacity and coverage to meet their fast growing business demands. We also provide construction services to government agencies and corporate customers, such as integrated distribution systems for intelligent buildings.

In 2006, our construction services developed steadily. Revenue from construction services increased by 1.2% from 2005 to RMB5,546.37 million; of which, revenue from our three largest customers grew by 16.3% from 2005, an indication that our business development for the operators market had produced remarkable results.

Project supervision and management services

We offer clients communications project supervision, civil engineering project supervision, project management and tender agent services, covering all stages and aspects of a project. We help customers control the quality, progress, cost and security of related projects. Our principal customers are telecommunications operators and large corporate customers such as Huawei Technologies and ZTE Corporation.

Our excellent qualifications in supervision and management services enable us to meet the increasing demands from our customers. In 2006, revenue from supervision and management services continued to rise to RMB304.64 million, an increase of 8.4% from 2005; of which, revenue from our three largest customers increased by 11.6% from 2005.

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BPO SERVICES

We provide comprehensive, high quality BPO services to telecommunications operators, offering a range of network maintenance, distribution of telecommunications services and products and facilities management services. Our target customers include government agencies and corporate customers.

In recent years, it has been a trend for telecommunications operators to outsource certain business processes to control costs and improve service quality. As a specialized leading service provider, we benefited in this regard, and revenue from BPO services continued to grow rapidly. In 2006, revenue from BPO services amounted to RMB5,153.54 million, an increase of 18.1% from 2005; of which, revenue from our three largest customers increased by 46.0% from 2005.

Network maintenance

We offer maintenance and repair services for telecommunications networks and enterprise intranet services for telecommunications operators and corporate customers, including maintenance of telecommunications pipelines, cables and telecommunications related physical premises, mobile telecommunications base stations, communications equipment rooms and telecommunications terminal equipment.

In recent years, the business of network maintenance has remained relatively stable. In 2006, revenue from network maintenance services amounted to RMB576.69 million, decreased slightly by 2.9%.

Distribution of telecommunications services and products

We provide subscriber base development for telecommunications services offered by telecommunications operators, installation and removal of fixed lines and broadband lines, bill delivery and fee collection, distribution of telephone terminals and sale of scratch cards for telecommunications operators. In 2006, revenue from distribution of telecommunications services and products amounted to RMB3,516.02 million, an increase of 36.5% from 2005.

Facilities management

We provide facilities management services for telecommunications operators, government agencies and corporate customers, including the management, maintenance and security of communications premises and equipment rooms, as well as other telecommunications facilities. We also provide the maintenance of intelligent buildings and management services for office buildings, residential and commercial buildings.

In 2006, revenue from facilities management services amounted to RMB1,060.82 million, a decrease of 11.1% from 2005. However, revenue from China Mobile and China Unicom continued to grow, showing that our business development for the mobile operators' market had produced remarkable results.

ACO SERVICES

We offer a variety of IT applications, Internet services, value added voice services and other services for telecommunications operators and corporate customers as well as the public.

In 2006, revenues from these services amounted to RMB1,556.83 million, a decrease of 6.8% from 2005; of which, revenues from value-added voice services and internet services increased by 21.3% and 2.1% respectively, whereas revenue from IT applications services decreased by 15.4%.

IT applications

We offer system integration services, communications network support services and software and hardware development services to telecommunications operators, government agencies and corporate customers.

We continued to cooperate with telecommunications operators to develop and provide comprehensive solutions to satisfy the demands of different customers. In 2006, we organized the construction of an information network in China for an internationally well-known retail stores group to cover its four business regions and 129 stores in different regions across China. The "e-Touch" city security network platform, a security system developed by us, completely meets the needs of the PRC government to pursue the concept of "A Safe City" and has been implemented in Wuhan, Shenzhen and Dongguan in 2006.

In order to avoid the risks of price fluctuations of equipment, in 2006 we significantly reduced equipment purchasing for IT application services, so that we are able to concentrate more on a service-oriented business strategy, which will benefit our business development in the long run.

Internet services

We provide ISP access services, ICP content services either independently or jointly with telecommunications operators, such as Internet information, audio, video, gaming and e-commerce certificate authentication. We also provide electronic payment services and Internet café services.

In 2006, development of our Internet services was smooth and some key products were becoming more mature, such as our audio-visual website "HBOL.net" 鴻波網視, which has over 7 million registered users and ranks in the top three broadband audio-visual websites in the PRC market. Another example is the "ATM easy pay" 銀信ATM交費易 platform we operate in Guangdong, which has nearly 1,000 self-service terminals and a stable customer base of more than one million. Excluding banking systems, this platform is the largest third-party payment system in Guangdong.

Value-added voice services

Our value-added voice services mainly include: call centre services, interactive voice response services (IVR), ring tones and colourful back tones for telephony and PHS users.

In recent years, revenue from value added voice services has been growing rapidly. The revenue for 2006 increased by 21.3% from 2005, which reflected the effective result of our market exploration.

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BUSINESS OUTLOOK FOR 2007

In 2007, on the premise of innovating and enhancing our business and service, our Company will perfect our customer-oriented dedicated marketing teams to provide neutral and professional “one-stop” integrated services and further strengthen our customer service culture. We will proactively form strategic partnership relationship with equipment manufacturers and create a “win-win” cooperation. We will also improve and promote our one-stop service business model. We will establish cross-regional and cross-market coordination mechanism, achieve synergies with the implementation of business resource integration, proactively explore overseas markets and increase our market share. We will continue to participate in the 3G trial projects organized by the PRC government to be prepared for the launch of 3G services. We will nurture competitive and effective business growth drivers and further consolidate our position as a market leader through a combination of organic growth as well as external expansion by strategic acquisition.

TIS Services

We will further consolidate our relationship with operators and boost customer satisfaction. We will also continue to develop high-end services such as consultancy, project contracting and project management so as to diversify our source of revenues. We will continue to expand into non-operator markets and overseas markets together with our partners to maintain the steady growth of our TIS services.

BPO Services

By seizing the opportunities presented by the transformation of telecommunications operators, we shall actively develop BPO services, and increase our efforts in maintenance services, as well as the facilities management business for non-operators, and endeavour to increase market share in high-end businesses, so as to effect transformation from simple maintenance and labour-intensive traditional facilities management to technical maintenance and knowledge-intensive modern facilities management services.

ACO Services

We will focus on key products and services and quickly replicate them through standardization and customization cross-regionally. Working closely with the telecommunications operators, equipment suppliers and software developers, we will strive to meet the needs of customers along the value chain and enhance our profitability.

3G Services

We are well-prepared in respect of technology, people and equipment to seize the opportunities presented by the launch of 3G services. All of our subsidiaries are well-equipped to take on 3G business. We introduced an integrated telecommunications services solution including design, construction and project supervision and management services, that will greatly reduce the difficulty in project management of operators and increase efficiency and shorten the construction cycle, thereby gaining an absolute advantage in the area of 3G communications construction and services. We believe that we can win half of the bids out of the 10 cities for the government's expanded TD-SCDMA trial tests for technology applications in respect of the design, construction and project supervision and management business. For the 3G trial project in Baoding, we adopted our integrated one-stop services business model by providing design, construction and project supervision and management services and the quality was well accepted by the operators.

Business Process Outsourcing (BPO) Services



We provide comprehensive, high quality BPO services to telecommunications operators in China, offering a range of network maintenance, distribution of telecommunications services and products and facilities management services.

Network Maintenance

We offer services for the maintenance and repair of telecommunications network infrastructure and enterprise intranet, including:

- maintenance of telecommunications pipelines, cables and telecommunications related physical premises;
- maintenance of mobile telecommunications base stations, personal handy phone system base stations and communications equipment rooms; and
- maintenance and repair of equipment.

Distribution of Telecommunications Services & Products

We provide distribution channels for telecommunications services and products, including:

- subscriber base development for telecommunications services offered by telecommunications operators;
- installation and removal of fixed lines and broadband lines for telecommunications operators and bill delivery and fee collection for telecommunications operators;
- distribution and sale of scratch cards for telecommunications operators; and
- distribution of other services developed by telecommunications operators.

Facilities Management

We provide facilities management services for telecommunications operators, including the management, maintenance and security of communications premises and equipment rooms, as well as other telecommunications facilities. We also provide the maintenance of intelligent buildings and management services for office buildings, residential compounds, and commercial buildings.

