

Chief Executive Officer's Statement



Dear Shareholders,

I am very pleased to report the robust operating performance of the Company in 2007. During last year, we endeavored to strengthen the development of our core businesses, actively expanded our markets, and thereby achieving good operating results. Since the completion of the acquisition of the businesses of specialized telecommunications support services in 13 provinces (municipality and autonomous regions) from our parent company in August 2007, we also announced the acquisition of China International Telecommunications Construction Corporation ("CITCC") on 3 April 2008, demonstrating the excellent strategic vision and efficient execution capability of the management.

Financial Results

By adhering to the established development strategies, we effectively implemented customer-oriented marketing programs. In 2007, we attained outstanding achievement in market expansion and sound financial results. Our revenue reached RMB23,538.38 million, representing a year-on-year growth of 21.9%. The profit attributable to the equity shareholders/owner was RMB1,167.25 million, representing a year-on-year growth of 42.9%. The basic earnings per share were RMB0.214. By strengthening working capital management and adopting a prudent strategy on capital expenditure, our free cash flow turned positive.

Business Performance

In 2007, we recorded a continued growth in our three main businesses. Of which, telecommunications infrastructure services developed at a steady pace and remained as the Company's major source of revenue, representing 47.1% of our total revenue. The Company captured the opportunities from the telecommunications operators' trend of outsourcing services. It also met the demands of operators as well as government agencies and corporate customers for logistics services relating to procurement of communications accessories. As a result, revenue from our business process outsourcing services grew by

51.8% over the same period of last year, becoming the major driver for revenue growth. During the year, we also strengthened our efforts in business nurturing and cross-regional replication of applications, content and other services. We actively innovated and explored the development of new businesses and products, recording a rapid revenue growth of 39.7% as compared with the same period of last year.

Enhancing Service Capabilities to Accelerate Organic Growth

In 2007, we strengthened our service-oriented culture with emphasis on service quality, efficiency and operating results. Tailoring different needs of different customer classes, we established a three-tier sales and marketing system at head office level, provincial office level and individual subsidiaries level, and initially set up customer-oriented business workflows, operational analysis system and IT system. As a result of the above measures, we achieved remarkable results in market expansion and our customer sources became more diversified. Revenues from customers other than China Telecommunications Corporation grew by 35.4%, in which revenue from China Mobile Communications Corporation and revenue from government agencies and corporate customers increased by 36.2% and 38.7% respectively, and our customer composition was further optimized.

In 2007, the Company actively participated in the expanded TD-SCDMA trial network projects and efficiently completed all construction projects on schedule and in high service standard, gaining extensive management and practical experience. Leveraging our years of experience in GSM and CDMA network projects, our monitoring of the development of different 3G technologies and our resources reserve such as manpower, the Company was well-positioned for 3G roll-out in China.

With a solid foundation in the domestic market, we also actively expanded overseas to seize business opportunities in the emerging telecommunications markets. At the end of 2007, we have established China Communications Services (Hong Kong) International Limited as a platform to unify management coordination and risk control for future expansion in overseas markets. With “Go Abroad” external expansion strategy, the Company will continue to strengthen its efforts in overseas markets expansion, focusing on the development of integrated network outsourcing services for overseas operators, and business development in Hong Kong and Macau, Southeast Asia, Central Asia, Middle East and Africa market. We will enhance our strategic cooperation with the operators and equipment manufacturers and leverage on our complementary advantages to further expand our market share in overseas markets.

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Focus on Resource Integration and Realize External Growth

On the basis of organic growth, we completed the acquisition from our parent company the businesses of providing the specialized telecommunications services in the 13 provinces (municipality and autonomous regions) during the year. These provinces are located in the central and western parts of China with rapid economic development and greater development potential. After the acquisition, we actively promoted restructuring and initially achieved integration synergies. In 2007, the newly acquired provincial subsidiaries achieved robust operating results. The revenue from the newly acquired provincial subsidiaries was RMB6,242.24 million, up 21.7% year-on-year. The profit attributable to the equity shareholders/owner was RMB284.38 million⁽¹⁾, reaching the Company's profit forecast, with increased operational efficiency.

In April 2008, we announced the acquisition of CITCC. The acquisition, conducive to realization of large-scale nationwide operation, will further extend our primary service area in the northern 10 provinces. We expect that CITCC's advantages in high-end business areas and extensive experience in overseas businesses will make sound contribution to the Company's future development. After completion of the acquisition, the Company will apply its successful experience in integrating the 13 provincial subsidiaries to integration of the newly acquired CITCC so as to realize overall efficiency at an early stage.

Strengthen Operational Management and Improve Risk Management

In 2007, the Company further strengthened internal management and improved management standard. During the process of acquisition and restructuring, the Company continued to optimize its organizational structure and effectively conducted business integration. In order to strengthen internal cooperation and communication, we have established three specialized coordination committees on design, construction and supervision businesses respectively so as to maximize the interest of the Company as a whole. We also optimized our organizational hierarchy, rationalized our management process and reduced the number of subsidiaries and management layers, and thereby improving the Company's operational efficiency.

In 2007, the Company initially established a three-tier risk prevention system for head office level, provincial office level and individual subsidiaries level, and implemented a two-tier deployment system for risk management to improve internal control and risk management workflow, and thereby effectively monitoring operational risks. We further formalized our remuneration structure and performance appraisal system to link performance with long-term incentive mechanism. In 2007, the Share Appreciation Rights Scheme of the Company has been approved by the Board and our shareholders, and will be implemented and promoted in the newly acquired subsidiaries in the 13 provinces.

⁽¹⁾ Including the relevant financing cost of acquisition.

Seizing Future Opportunities in Our Industry Proactively

As the leader in the telecommunications support service industry, we see clearly the future challenges and opportunities. The Chinese government's strong initiative to accelerate the informatization of the society, and the development of the new generation of information technology will continuously promote the domestic telecommunications industry, creating new markets and new opportunities. At the same time, the growing outsourcing trend in the global telecommunications industry and the upgrading of telecommunications network technology have created new opportunities for the industry. We believe that through the implementation of our existing development strategies, with our specialized one-stop service model and service innovation, we will be able to seize future opportunities in our industry.

Pursuant to the approval of Board resolution today, Mr. Wang Xiaochu will resign from his positions as the Chairman and non-executive director, and he will be appointed as the Honorary Chairman of the Company. Meanwhile, I will be appointed as the Chairman. On behalf of the Board, I would like to express our gratitude and appreciation for the valuable contribution of Mr. Wang Xiaochu to the Company. I will continue to work hard and create greater value for our shareholders!

Finally, I would like to take this opportunity to express my sincere appreciation to all of our shareholders and customers for their care and support, and my gratitude to the Directors and our staff for their hard work!



Li Ping

Vice Chairman and Chief Executive Officer

Beijing, PRC

8 April 2008





Telecommunications Infrastructure (TIS) Services

We provide a full range of telecommunications infrastructure services, including telecommunications network planning and design, construction, and project supervision and management services.