

Business Review

Overview

In 2007, our Company actively implemented its innovative customer-oriented service strategy, continuously enhanced its service capability and quality, established an innovative business development model, and thereby realized a rapid revenue growth. In 2007, our revenues

amounted to RMB23,538 million, up 21.9% from 2006. In 2007, we achieved notable results in market development and further diversified our revenue sources. Contribution from our largest customer, China Telecom, dropped to 49.0% of the total revenue, which effectively reduced our operational risk.

	2006		2007		Change over 2006
	(RMB million, except percentages)				
		Contribution to our total		Contribution to our total	
	Revenues	revenues	Revenues	revenues	
China Telecommunications Corporation (“China Telecom”)	10,449	54.1%	11,533	49.0%	10.4%
China Mobile Communications Corporation (“China Mobile”)	2,099	10.9%	2,858	12.2%	36.2%
China United Telecommunications Corporation (“China Unicom”)	597	3.1%	593	2.5%	(0.7)%
Others	6,168	31.9%	8,554	36.3%	38.7%
Total	19,313	100.0%	23,538	100.0%	21.9%

Customer Services and Market Development

In 2007, our Company maintained and further enhanced its close business relationship with major domestic telecommunications operators. China Telecom, China Mobile and China Unicom were still our three largest customers ("Three Major Operator Customers"). In 2007, revenue from the Three Major Operator Customers accounted for 63.7% of our total revenues.

Targeting at the Three Major Operator Customers, we have been gradually shaping our

specialized service teams and a three-tier (head office, provincial subsidiaries and specialized subsidiaries) sales and marketing system, and thus improved the customer relationship management and timely responded to the customers' needs. In 2007, the revenue from the Three Major Operator Customers increased by 14.0% from 2006, among which, the revenue from China Mobile was up by 36.2%, reflecting the success in maintaining and strengthening our leading position in operator market.

Leveraging on our close cooperation with telecommunications operators and equipment manufacturers, we continued our efforts in developing the market of government agencies and corporate customers. In 2007, our revenues from customers other than the Three Major Operator Customers increased by RMB2,386 million, representing a 38.7% increase over 2006, to RMB8,554 million. This contribution to our total revenues is comparable to those from the Three Major Operator Customers.

Together with major domestic telecommunications equipment manufacturers, we provided telecommunications infrastructure services to local telecommunications operators in overseas markets, such as Hong Kong, Macau, South East Asia, Middle East, Africa and South America. The relevant revenue grew significantly in 2007, accounting for approximately 1.8% of our total revenues. In 2007, we actively explored market opportunities for the provision of network outsourcing services to the overseas operators and already made some progress.

	2006		2007		Change over 2006
	(RMB million, except percentages)				
		Contribution		Contribution	
	Revenues	to our total revenues	Revenues	to our total revenues	
Telecommunications infrastructure services	10,941	56.7%	11,093	47.1%	1.4%
Business process outsourcing services	6,168	31.9%	9,365	39.8%	51.8%
Applications, content and other services	2,204	11.4%	3,080	13.1%	39.7%
Total	19,313	100.0%	23,538	100.0%	21.9%

Telecommunications Infrastructure (“TIS”) Services

Our Company provides a full range of telecommunications infrastructure services, including telecommunications and IT networks planning and design, construction, and project supervision and management. The major source of income of these services is derived from the capital expenditure (“CAPEX”) of the Three Major Operator Customers who have been adopting different CAPEX policies in recent

years. In 2007, China Telecom continued to reduce its CAPEX, while China Mobile and China Unicom increased their CAPEX. Under this environment, our TIS revenue maintained a stable growth in 2007, reached RMB11,093 million, up by 1.4% over 2006. Among this, revenue from design and project supervision services, which have relatively higher margin, continued to grow, increased by 4.0% and 13.3% respectively, while revenue from construction services was slightly down by 0.1%.

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In 2007, we established three specialized coordination committees on design, construction, and project supervision and management services respectively. These committees focus on internal coordination, internal resources allocation, and the development of a sound industrial environment. Initial success has been achieved by these works done.



Construction of mobile base station

In 2007, our Company actively participated in TD-SCDMA trial network projects in many cities, including Baoding (as a “turn-key” project for China Telecom), Shanghai, Guangzhou and Shenzhen. The total number of the base stations we participated are over 4,000. We gained further experience in mobile and 3G technologies through the participation in the construction of

TD-SCDMA trial networks. Our capability to provide integrated “one-stop” services (including design, construction, supervision and maintenance) has been fully examined and recognized by our customers.

Apart from telecommunications operators, our Company also provides government agencies and corporate customers with various services such as architectural design, intranet design, IT solutions, integrated wirings for intelligent buildings and construction for municipalities. We believe the markets mentioned above would still have greater growth potential in view of the urbanization and informationization development in China.



Construction works of pipeline cables

Business Process Outsourcing (“BPO”) Services

Our Company provides telecommunications operators with comprehensive and high quality BPO services, including a series of network maintenance, distribution of telecommunications services and products and facilities

management. Our customers also include government agencies and corporate customers.

In recent years, telecommunication operators have been continuing to outsource their non-core businesses in consideration for strategic transformation, cost saving and enhancement in service quality. In 2007, we continued to capture this opportunity, and also benefited from the network expansion and optimization by mobile operators and the increasing demand for logistics services by government agencies and corporate customers. Our revenues from the BPO services grew rapidly to RMB9,365 million in 2007, representing an increase of 51.8% over 2006. Revenues from network maintenance, distribution of telecommunications services and products and facilities management increased by 117.7%, 51.8% and 18.8% respectively.



Tuning and testing of transmission equipment for the machinery room at Baiyuan Airport, Guangzhou

In our view, the BPO services still have growing potentials. Our Company will strive to upgrade the services standard to support the transformation of the telecommunications operators and satisfy the outsourcing demands from government agencies and corporate customers. We will also strictly manage the working capital so as to maintain healthy development of this business.

Applications, Content and Other (“ACO”) Services

In 2007, the Company’s revenues from ACO services amounted to RMB3,080 million, up 39.7% over 2006. Revenues from the IT applications which mainly comprised system integration, telecommunications network supporting services, and software and hardware development services increased by 53.2%. Revenues from internet services increased by 39.1%, and those from Voice VAS which mainly include call center services, interactive voice response services (“IVR”) and colourful ring tone services were up 13.5%.

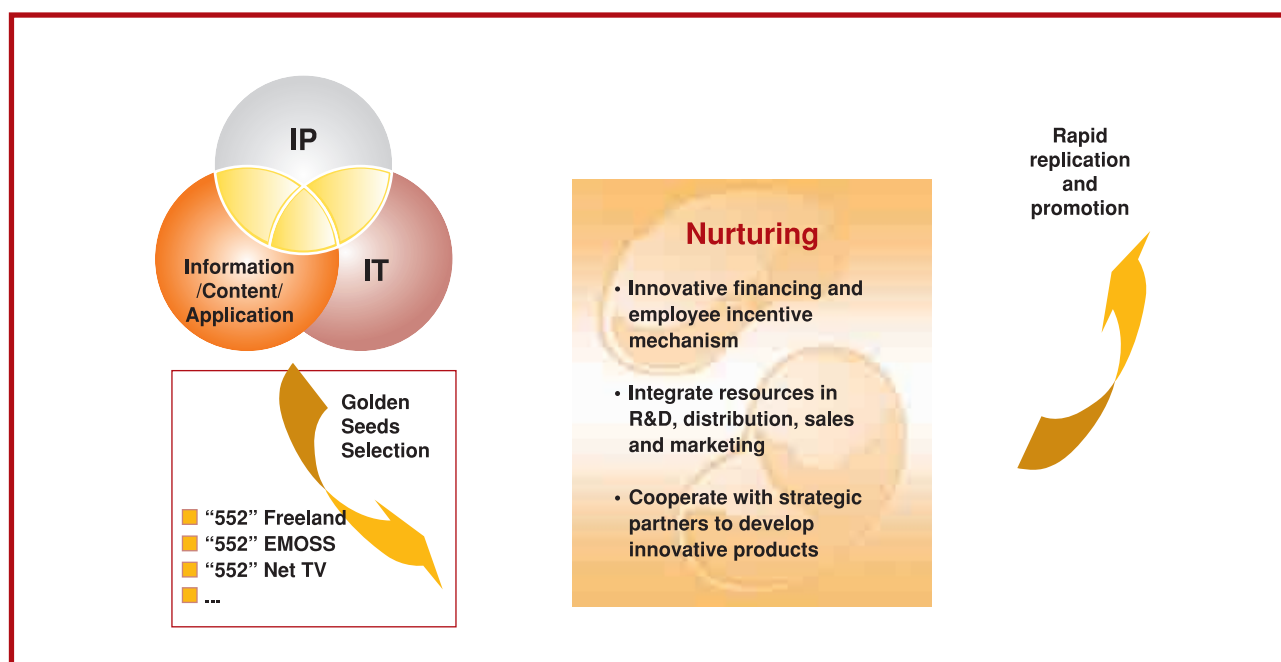
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In 2007, our Company accelerated the cross-regional replication of high value products, such as “e-touch” city security network platform and “Net CA” certificate authentication platform. We further defined our innovative business development strategy in this business sector. We selected potential “Golden Seeds” projects from the intersection areas of the IP business, IT business and Information/content/application services (“3I Golden Area”). An appropriate mechanism for new businesses development is being established through novelties of financing and staff incentive schemes. We will leverage the Group’s technology, talent and distribution channel resources to facilitate their quick replication and marketing. Based on this strategy, our Zhejiang subsidiary had successfully introduced venture capital investment for one of its subsidiaries and established a joint venture to market the “Freeland Box” (網吧百寶箱) product and its supporting services.

Outlook for 2008

We will continue to implement the innovative customer-oriented service strategy in 2008 to support our Company’s transformation from a “service provider for telecommunications operators” to a “service provider for telecommunications, media and technology companies”, delivering professional services to customers like telecommunications operators, media companies, government agencies and equipment manufacturers.

We will keep enhancing our capabilities in the provision of “one-stop” services and overall network outsourcing services, offering various business combinations to our customers. We will also expand our design services to professional consultancy services and bundle maintenance with construction services. We will further integrate our internal resources, including the integration of advantageous resources of the newly acquired China International Telecommunications Construction Corporation in Northern China and overseas.



Development Strategy of ACO Services

We will continue to improve our customer-oriented sales and marketing system, enhance our professional and neutral sales and marketing teams which will fully support the transformation and non-core business outsourcing of operators. We will maintain our cooperation with telecommunications operators and equipment manufacturers so as to develop the government agencies and corporate customers market. Our operations will continue to focus on customers and we will promote a performance based appraisal and resource allocation system according to different classes of customer. Our newly established subsidiary, China Communications Services (Hong Kong) International Limited, will act as a supporting platform for our overseas business expansion, with a view to provide network outsourcing service for overseas operators.

In 2008, while consolidating our mature businesses, we will be exploring new businesses opportunities in the 3I Golden Area. By cooperation with strategic partners on enhancement of our core capabilities in software technology, services and development, we will do our best to nurture potential products through innovative financing and staff incentive schemes.

With the measures mentioned above, we are confident of further solidifying our position in the domestic market and developing overseas markets in 2008. We will also capture new opportunities in the domestic telecommunications industry's development.





Business Process Outsourcing (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 etc.