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**President**

Dear Shareholders,

I am very pleased to present the operating performance of the Group in 2008.

In 2008, the Group recorded revenues of RMB32,471 million, representing an increase of 37.9% over the same period last year. Profit attributable to equity shareholders grew by 12.8% over the same period last year to RMB1,316 million. The rapid growth in revenues was mainly driven by the increase in revenue from telecommunications operators in the second half of the year and the integration synergies achieved after the acquisition of China International Telecommunications Construction Corporation ("CITCC").

In 2008, cost of revenues amounted to RMB27,170 million, representing an increase of 39.5% over the same period last year. It was mainly attributable to the growth in relevant costs driven by the growth in revenues and businesses during the year. As a result, the Group's gross profit margin in 2008 was 16.3%, representing a decrease of one percentage point from 17.3% in 2007. Selling, general and administrative expenses were RMB3,854 million, representing 11.9% of our revenues, and maintained at the same level as in 2007. By strengthening working capital management and adopting a prudent strategy on capital expenditure, our free cash flow amounted to RMB1,271 million, and the Company maintained at a healthy cash flow position.

In 2008, we recorded rapid growths in all our three main businesses. After the formal announcement of telecommunications industry restructuring, our three major operator customers increased their investments in telecommunications network construction and optimization in the second half of the year, which drove an increase of 38.2% over the same period last year in our revenue from the telecommunications infrastructure ("TIS") services. The continuous growth in demand for telecommunications machineries and terminals by the telecommunications



operators and the growth in outsourced network maintenance business led to an increase of 41.9% over the same period last year in our revenues from the business process outsourcing (“BPO”) services. During the year under review, revenues from applications, contents and other (“ACO”) services increased 25.1% over the same period last year as we made further progress in our IT applications business (which mainly includes system integration services) and benefited from the gradual outsourcing of call centre services by the telecommunications operators.

In 2008, the revenue from our three major operator customers was RMB21,696 million, representing an increase of 44.8% over the same period last year, among which revenue from China Telecom was up by 38.0%, and revenue from China Mobile and China Unicom together was up by 67.6%. Revenues from government agencies and corporate customers amounted to RMB10,775 million, representing an increase of 26.0% over the same period last year. Following the telecommunications industry restructuring, these three major operator customers increased their capital expenditure in mobile networks during the year and expanded their scale of non-core businesses outsourcing. As a result, our revenue from these three operator customers increased significantly.

In 2008, the Group completed the acquisition of CITCC and achieved nationwide business coverage. In addition, the acquisition laid a good foundation for our further expansion in overseas markets and the realization of economies of scale and synergies. After the acquisition, the Group steadily promoted the integration of risk control, financial management, operational analysis and corporate operations, which led to the optimization of the organizational structure of CITCC and the significant improvement in its operational efficiency. After completion of the acquisition on 30 May 2008, revenue and net profit contributed by CITCC to the Group in 2008 amounted to RMB1,690 million and RMB41 million respectively, driving revenue growth and net profit growth of the Group by 7.1 and 3.6 percentage points respectively.

With a solid foundation in the domestic market, we also actively expanded in overseas markets in 2008. Revenues from overseas markets amounted to RMB654 million, representing an increase of more than 50% over the same period last year. In future, the Group will target overseas projects in which we act as principal contractor, focus on providing project planning, design, consulting and construction of the communications network and integrated network outsourcing services for overseas telecommunications operators, and further expand our market share in overseas markets.

With the steady development of our businesses in 2008, the Group further improved its internal control and risk management system. The establishment of a two-tier officer-in-charge of risk management system, completion of a three-tier risk control mechanism, formulation and improvement of an internal audit system, enhancement of identification and control of risk factors and further improvements to operation management through using an IT management system, all served to effectively protect the interests of public shareholders.

In 2008, the Group continued to adhere to the human resources development strategy of “controlling total headcount, optimizing the human resources structure, enhancing capability and motivating staff enthusiasm”. With the reduction of our management hierarchy and control of total headcount, we also emphasized the need to attract high-quality professional talents and strengthen our internal training, thereby providing effective support to the development of our business. The Group attached great importance to improving the performance-based management system, and implemented annual incentives and share appreciation rights as the middle and long-term incentive schemes respectively to ensure the alignment of the interests of the company, employees and shareholders.

Looking forward into 2009, we believe the increase in capital expenditure in the domestic telecommunications industry, and the gradual increase in demand for communications infrastructure auxiliary projects services from government agencies and corporate customers in the development in domestic industrialization and informatization,



will vigorously drive the demand for our TIS services. Operators will expand their scale of non-core business outsourcing, which will drive a continuous and steady growth in the Group's BPO services. The Group is now further strengthening our cooperation with strategic partners to enhance our core competitiveness and brand value, and striving to push the ACO services to develop rapidly.

In 2009, the Group will strive to grasp business opportunities and reward our shareholders and society with excellent business performance. Accordingly, the Group will focus on the following tasks:

- **Providing full support to operators in network construction and business operations**  
Focus on the demand of telecommunications operators in 3G era for network construction, network maintenance and optimization, terminal sales, logistics distribution and IT applications services, etc.
- **Actively expanding the government agencies and corporate customers market**  
Focus on the demand of infrastructure companies and strive to undertake communications facilities construction projects for railways, highways, bridges, tunnels and subways by providing design, construction supervision, system integration, billing system and monitoring system, etc.
- **Accelerating our pace in overseas markets expansion**  
Focus on expansion in the markets of Africa, the Middle East, Latin America, Hong Kong, Macau and Southeast Asia, and actively undertake overseas projects as principal contractor.
- **Continuing to promote the development of ACO services**  
Adopt innovative development models and pursue further breakthrough in the cooperation with our strategic partners to ensure rapid business development.
- **Strengthening internal integration and enhancing operational efficiency**  
Push forward centralized cash management, strengthen internal resources allocation and enhance cost control, with a view of continuing to improve corporate value.

**Zhang Zhiyong**  
*President*

Beijing, PRC  
2 April 2009



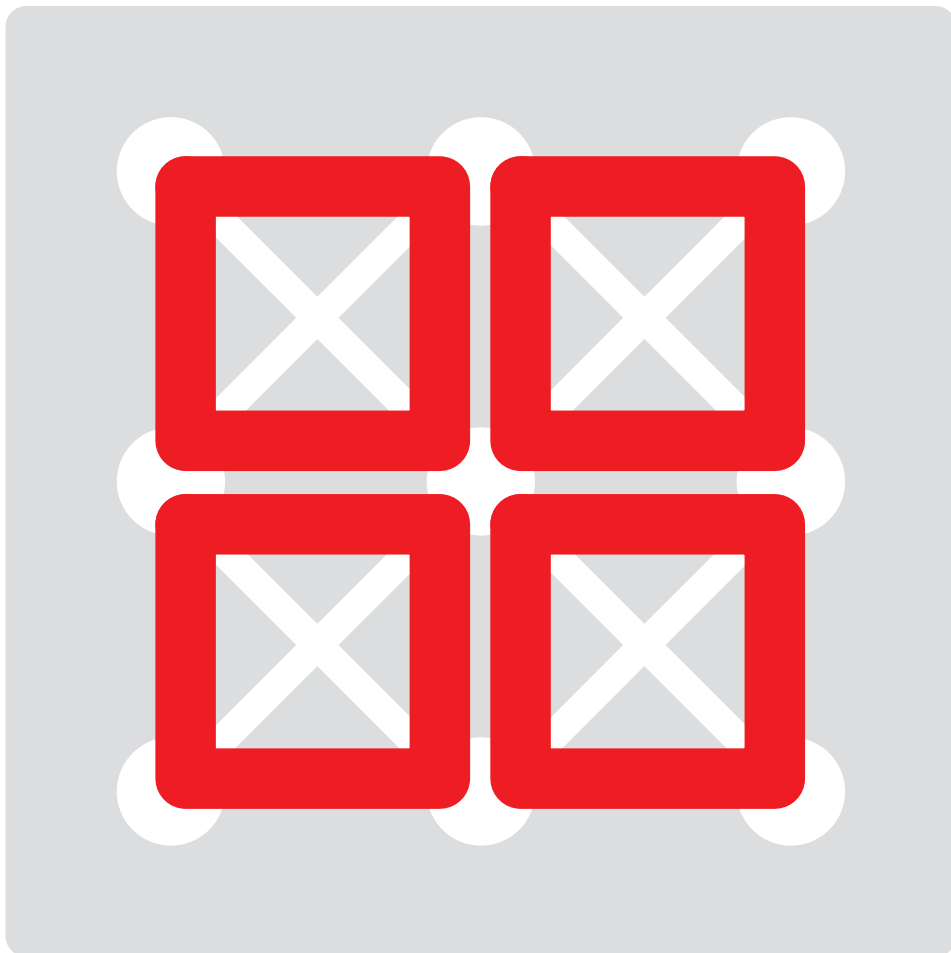
With over **60**  
telecommunications  
infrastructure  
companies

**50**  
outsourcing  
services  
companies



**30**  
IT applications  
and VAS  
companies

## *Scaling-up, Integrated*



Nationwide service coverage, provision of an integrated and comprehensive package of services serving all aspects of operators' value chain