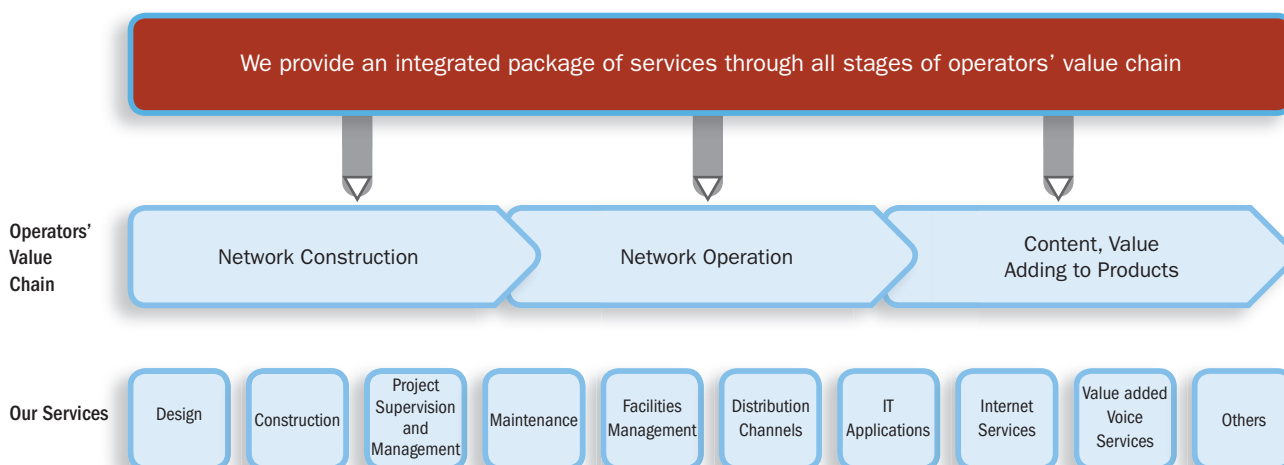


The Group provides supporting services for telecommunications, media and technology companies. We have years of experience in providing services for telecommunications operators, government agencies, enterprises and other customers. These services include telecommunications infrastructure services covering planning, consulting, design, engineering and construction, and project supervision and management, business process outsourcing services covering maintenance, distribution of telecommunications products and services, and facilities management, as well as applications, content and other services. By capturing the valuable business opportunities in increasing network investments by domestic telecommunications operators and the demand for informatization from government agencies and corporate customers, we achieved a rapid growth in revenues in 2008. Our revenues amounted to RMB32,471 million, representing an increase of RMB8,933 million or 37.9% over 2007. Among our businesses, revenues from telecommunications infrastructure services, business process outsourcing services and applications, content and other services were increased by 38.2%, 41.9% and 25.1% respectively.

We are the market leader in terms of service capabilities, which include business integrity, operational scale and professionalism. We provide integrated services covering the key activities of the value chain of telecommunications operators and we have the ability to provide integrated solutions to our customers. We are also the largest design service provider, the largest engineering and construction service provider and the largest project supervision service provider for the domestic telecommunications industry. Our communications engineering projects are well recognised and awarded. For example, we were awarded with Excellent Communications Engineering Design Award and Quality Communications Engineering Award by the Ministry of Industry and Information Technology (the "MIIT") in 2008 for each of our 36 communications engineering design projects and 12 communications engineering and construction projects, accounting for more than 50% of the total projects receiving award under the respective categories. In addition, after the catastrophic snowstorms and earthquakes occurred in China in 2008, the Group fully utilized our nationwide service capability and organized our provincial subsidiaries to set up cross-region disaster relief working teams. We contributed resources like staff and equipment to fully support the major operators in restoring and reconstructing telecommunications network and resuming service. Such efforts demonstrated not only the Group's service capability in operational scale and professionalism but also our responsibility and commitment to our customers and the society.





Disaster relief command centre for Wenchuan earthquake



Organizing our staff for emergency rescue work



Undertaking communications resumption plan on disaster site



Restoring telecommunications facilities on disaster site

Customer Services and Market Expansion

China Telecom, China Mobile and China Unicom (the “Three Major Operators”) have long been our three largest revenue sources. In 2008, revenue from the Three Major Operators accounted for 66.8% of our total revenue.

In 2008, there was restructuring in domestic telecommunications industry. After the announcement of restructuring, all the Three Major Operators had increased their network investments, especially in mobile networks. On the foundation of our well-preparation for that, we promptly started the “CTW¹ program”, setting up a dedicated support team, with firewall, for each of the Three Major Operators respectively and deployed resources of the whole Group to rapidly respond to our customers’ needs. We focused on the major projects like network construction, network maintenance and optimization, terminal sales, logistics distribution and IT applications. In 2008, revenue from the Three Major Operators amounted to RMB21,696 million, representing an increase of RMB6,712 million or 44.8% over 2007.

In May 2008, the Group completed its acquisition of China International Telecommunications Construction Corporation (“CITCC”). CITCC complemented our original businesses in northern provinces in the PRC, overseas markets and customers other than China Telecom, with emerging synergies. During the period from June to December in 2008, revenue from customers other than China Telecom accounted for 90.6% of CITCC’s revenues. We have also leveraged on the strength of CITCC and supporting platform of China Communications Services (Hong Kong) International Limited (“CCSI”) to strengthen market expansion in Africa, the Middle East, Latin America, Hong Kong and Macau and Southeast Asia and start to act as the principal contractor for telecommunications projects in regions such as Africa. In 2008, our revenues from overseas business amounted to RMB654 million, representing

¹ CTW refers to CDMA, TD-SCDMA, W-CDMA and their subsequent technologies



an increase of over 50% from 2007. The experiences from domestic telecommunications equipment manufacturers have demonstrated that there are tremendous potential in overseas markets. We will strive to develop overseas business with emphasis on risk control.

In 2008, we continued to closely work with parties like telecommunications operators and equipment manufacturers, to jointly develop government agencies and corporate customers markets. We actively undertook the construction of communications facilities for infrastructure and municipal projects, and provided professional solutions and integrated services such as Wide Area Network (“WAN”) and Intranet for the informatization constructions by government agencies, schools, hospitals and enterprises (such as domestic large oil companies and insurance companies). In 2008, our revenue from government agencies, corporate and other customers amounted to RMB10,775 million, representing an increase of 26.0% over 2007.



Chairman, Mr Li Ping, met with the president of Congo (K)

(In RMB million except percentages)	2008		2007		Increase over 2007
	Revenues	Percentage to total revenues	Revenues	Percentage to total revenues	
China Telecom	15,914	49.0%	11,533	49.0%	38.0%
China Mobile and China Unicom	5,782	17.8%	3,451	14.7%	67.6%
Government agencies, corporate and other customers	10,775	33.2%	8,554	36.3%	26.0%
Total	32,471	100.0%	23,538	100.0%	37.9%

Telecommunications Infrastructure Services

In 2008, the Group’s revenue from telecommunications infrastructure services was RMB15,329 million, representing an increase of 38.2% over 2007. The growth rate was accelerated significantly when compared with 2007. Particularly, revenues from design services, construction services and project supervision services were increased by 30.0%, 40.2% and 44.6% respectively.

According to the data published by the MIIT, the investments in fixed assets in domestic telecommunications industry in 2008 amounted to RMB295.37 billion, representing an increase of 29.6% over same period last year, and our revenue from providing telecommunications infrastructure services to the Three Major Operators was increased by 43.7%, indicating that our leader position in operators market was consolidated and strengthened. Three domestic 3G licenses were issued in early 2009. We noticed that the relevant parties had also published their 3G investment plans accordingly. It is anticipated that investments in fixed assets in domestic telecommunications industry in 2009 will continue to increase. We are confident that we can continue to benefit from such increase by utilizing our position as a neutral, professional and integrated comprehensive service provider. At the same time, we also realized that the economic slowdown caused by the global financial crisis has



Satellite communications system construction project in rural Tibet



Satellite communications system construction project in "Chang Cheng" station, South Pole



Base station installation in Tibetan Plateau



Base station installation at Mount Everest

spread to domestic communications industry and will place pressure on the pricing and profitability of our telecommunications infrastructure services.

China is still in the process of industrialization, informatization and urbanization, and there are huge investments in infrastructure and public facilities including highways, railways, subways, airports, ports, and stadiums. We have been working with telecommunications operators to provide ancillary communications engineering services for infrastructure construction and engineering projects, including subway construction in Shanghai, Shenzhen and other cities, and stadium construction for Guangzhou Asian Games and Shanghai World Expo. In 2008, our telecommunications infrastructure services revenue from government agencies, corporate customers and other customers was increased by 17.1%. Under the current economic environment, the Chinese government has indicated that it will further increase its investments in infrastructure construction to stimulate its economic growth. We will grasp this business opportunity to strengthen our cooperations with telecommunications operators and infrastructure companies and endeavour to undertake more ancillary communications engineering projects.



Retail outlet — “ec·one”



Service counter for telecom agency services



Logistic service for TD-SCDMA equipment

Business Process Outsourcing Services

We are the major business process outsourcing service provider for the telecommunications industry of the PRC. By extending our telecommunication infrastructure services along the value chain of telecommunications operators, we provide services like network maintenance, distribution of telecommunications products and services and facilities management. As at the end of 2008, the number of telephone subscribers had reached 982 million, and broadband internet access subscribers reached 83.43 million in China. With the expansion of their network scale and customer base, telecommunications operators gradually outsourced their non-core businesses for service quality improvement and operational efficiency. In 2008, our revenue from business process outsourcing services amounted to RMB13,288 million, representing an increase of 41.9% over 2007. We expect that the expansion of network by telecommunications operators and increase in their number of subscribers over the next few years will continue to drive the increase of outsourcing scale of their non-core businesses.

We provide telecommunications network and equipment maintenance services to telecommunications operators. These services include fiber optic cables, cables, PHS base stations and mobile (including GSM, CDMA and TD-CDMA) base stations, etc. We also provide communications and information system maintenance services to government agencies and corporate customers. In 2008, we undertook more maintenance projects from telecommunications operators, and revenue from maintenance services was increased by 49.4% accordingly. We also provide facilities management service like management of communications equipment rooms. In 2008, the site area of facility management provided by us for our operators and non-operators customers both recorded a double-digit growth, with relevant revenues increased by 15.2%.

In respect of the distribution of telecommunications products and services, we mainly serve the telecommunications operators and telecommunications equipment manufacturers, providing them with services including telecommunications service agency, distribution and retailing of PHS and mobile phones, distribution, logistics and procurement agency services relating to telecommunications machineries (such as fiber optic cables and ADSL modems, etc). In 2008, revenues from the above distribution of telecommunications products and services were increased by 47.4%, amounted to RMB8,985 million. There is a huge demand by our customers for this service and provision of such service will help increase our customer loyalty, with positive contribution to our overall revenues and profits. However, it also negatively impacted our gross profit margin. Therefore, we actively managed and optimized this business, and it has been developed as we expected. In the second half of 2008, our revenues from distribution of telecommunications products and services amounted to RMB4,735 million, growing steadily when compared to RMB4,250 million in the first half of 2008.



Applications, Content and Other Services

The Group provides IT application services to operators, government agencies and corporate customers. These services include system integration, software development and supporting system construction. We also provide individual customers with value-added communications services such as audio information services, and application and contents related Internet services. In 2008, revenue from the above services was increased by 25.1%, amounting to RMB3,853 million.

In 2008, the Group endeavoured to increase its market share in telecommunications operators supporting systems (including OSS, BSS and MSS) and provided corresponding system integration services. At the same time, we also worked with telecommunications operators in satisfying the demand for informatization by government agencies and corporate customers. For example, we participated together in construction of the city security surveillance system in Shenzhen and Dongguan. Revenue from IT application services recorded an increase of 29.2% in 2008. We also increasingly provided call center services to telecommunications operators, government agencies and corporate customers. Revenue from value-added voice services recorded rapid growth, representing an increase of 77.5% over the same period last year.

We believe that there is huge market potential in telecommunications network supporting systems, value-added communications services and Internet business, and the 3G era will bring tremendous business opportunities. In respect of these businesses, we also objectively realize that there are still rooms for enhancement in our service capability and branding. Through various ways like business cooperation and distribution network cooperation, we will work with our strategic partners to build a number of brands and enhance our product offering and service capability.



Surveillance system development



Operational, business and management supporting system (OSS, BSS, MSS) development

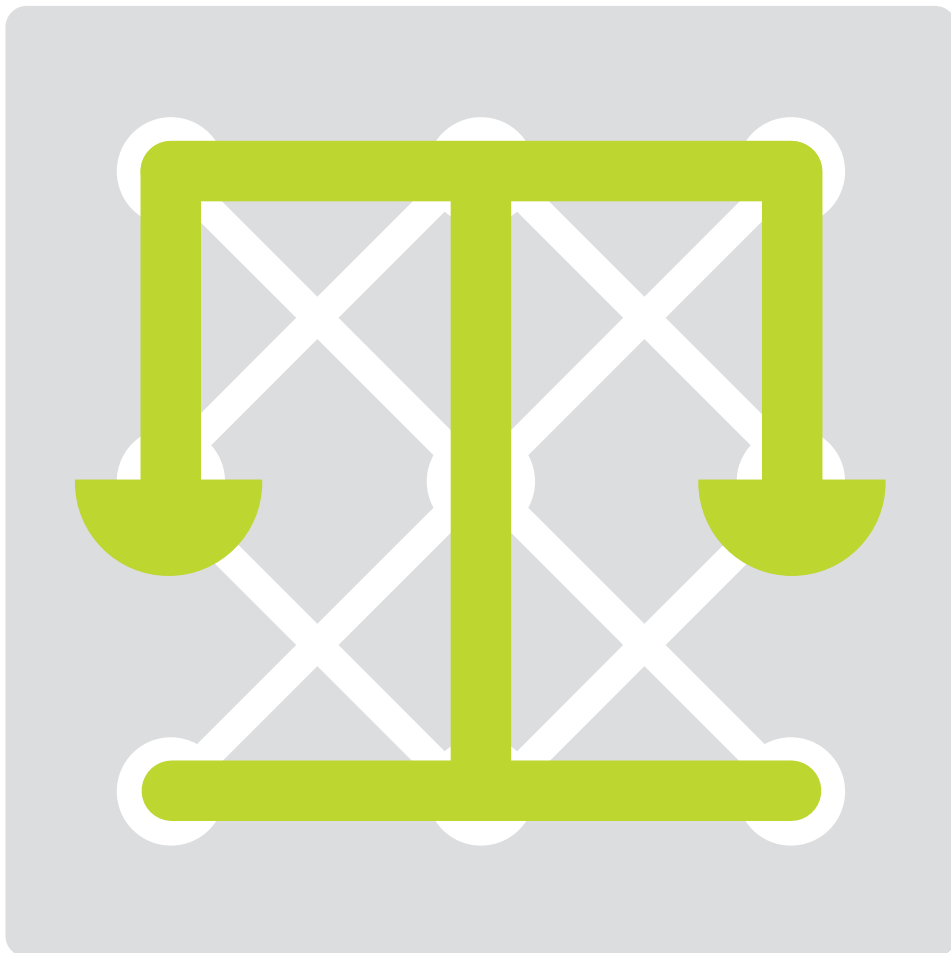
Among all the awards granted
by MIIT in 2008 for
communications
engineering design and
construction



Over
50%
awarded to us



Neutral, Professional



Provide professional telecommunications support services to China Mobile, China Unicom, China Telecom, government agencies and corporate customers for many years as a neutral service provider