

President's Statement



Dear Shareholders,

I am very pleased to present the operating results of the Group in 2009.

In 2009, the Group recorded revenues of RMB39,499 million, representing a year-on-year growth of 19.7%. Profit attributable to equity shareholders amounted to RMB1,599 million, representing a year-on-year growth of 20.5%. The continuous and stable growth of our operating results was mainly achieved by seizing the opportunities arising from 3G network construction and subsequent increasing demand for associated support services. Furthermore, by focusing on customer needs, effectively developing our markets, strengthening our cash management and improving operating efficiency and effectiveness, the Group was able to deliver strong results over the past year.

In 2009, costs of revenues of the Group amounted to RMB33,127 million, representing a year-on-year growth of 19.9%, which was basically in line with our revenue growth. The Group's gross profit margin was 16.1%, maintaining a similar level to last year. Net profit margin for the year was 4.0%, on par with last year. Through strengthening working capital management and adopting a prudent strategy in capital expenditure, our free cash flow for the year amounted to RMB1,207 million, achieving favorable financial results.

In 2009, we achieved a continuous and stable growth in all three of our main businesses. Our revenue from telecommunications infrastructure ("TIS") services saw a year-on-year increase of 25.8%, of which TIS revenues from government agencies and corporate customers increased by 28.6% on a year-on-year basis. This favorable revenue growth was mainly attributable to increased investments in 3G network construction and optimization by the three telecommunications operators, increased investments in urbanization and informatization construction by government and our aggressive efforts to expand business in overseas markets.

Revenues from business process outsourcing services enjoyed a year-on-year increase of 16.0%, of which revenue from maintenance service recorded a year-on-year increase of 47.8%. The rapid growth in revenue was mainly due to increased demand for ongoing operational support services following network construction by telecommunications operators and their increasing trend towards outsourcing services. Moreover, by exercising effective control in the development of the distribution business⁽¹⁾ which has a lower profit margin, there was a positive contribution to keeping our overall gross profit margin stable.

Revenues from applications, contents and other services increased 8.5% on a year-on-year basis. We continued our efforts in internal business integration and the introduction of strategic co-operative partners to enhance our core capabilities. We also carried out innovative development models, set up the ACO Coordination Committee and established five major business lines including OSS⁽²⁾, BSS⁽²⁾, MSS⁽²⁾, system integration/IT outsourcing, and mobile Internet value-added business, with focus on brand building. We are delighted to see initial success in business development and laying a solid foundation for rapid future development.

In 2009, the Group continued to develop its market and expanded its business coverage. While endeavouring to support the network construction and optimization of telecommunications operators, the Group also continued to strive for the development of government agencies and corporate customers. During the year, revenues from the three telecommunications operators amounted to RMB27,473 million, representing a year-on-year growth of 26.3%. Moreover, the Company renewed the strategic agreement with China Telecom Corporation Limited for a further three years, thereby consolidating the sound relationship with our major customer and securing the Group's ability to deliver sustainable development. Revenues from government agencies and corporate customers amounted to RMB12,026 million, representing a stable growth from the same period last year, of which the core businesses, including communication construction and maintenance, have developed rapidly. Whilst consolidating our domestic market share, the Group also took aggressive measures to expand its business in overseas markets. We built upon our strong collaborative relationships with telecommunications equipment vendors, telecommunications operators, large-scale state-owned enterprises and national financial institutions, managed our outsourcing projects diligently, and actively developed turn-key projects. In 2009, the Group achieved significant progress in overseas market expansion, and recorded revenue of RMB1,287 million, representing a year-on-year increase of 82.3%.

In the first half of 2009, the Group completed the acquisitions of a 51% equity interest in Guoxin Lucent Technologies Network Technologies Co., Ltd., a 95.945% equity interest in Shanghai Tongmao Import & Export Co., Ltd. and a 40% equity interest in Shenzhen Telecom Engineering Co., Limited respectively. The acquisitions facilitate the integration of our existing businesses of comprehensive logistic services, the development of operation support systems and further improve the overall competitive strengths of the Group.

In 2009, the Group further rationalized its internal control and risk management mechanism and enhanced systems for the identification and control of major risks, thereby ensuring the effective implementation of corporate strategies and protection of shareholders' interests. At the same time, we enhanced the overall operation management standard by promulgating management measures on outsourcing business, optimizing and promoting the EMOSS⁽³⁾ management system, progressing centralized cash management, and improving the integration level of project management. The above measures have improved our efficiency in corporate operation effectively, enhanced the effective allocation of resources and effectively minimized operational risks.

⁽¹⁾ Distribution business means distribution of telecommunications services and products.

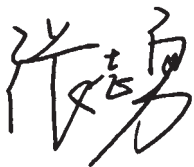
⁽²⁾ OSS (Operation Support System); BSS (Business Support System); MSS (Management Support System)

⁽³⁾ EMOSS (Enterprise Management Operation Support System)

In 2009, with our focus on people-oriented principles, the Group strengthened the building of our talent pool, optimized our human resources structure and enhanced labour deployment management. We established a forecast model for human resources requirement which allowed for dynamic staff allocation. We focused on recruiting high caliber professionals, strengthened training for core talents and optimized our annual performance assessment system, thereby providing strong human resources support for our long-term development.

Looking forward, underpinned by our established strategic direction, the Group will strive to perform the followings in 2010 in order to seize opportunities and accelerate development, with a view to bringing robust performance to our shareholders and society:

- While maintaining stable growth in TIS revenue, we will leverage the demand for full service integrated operation by telecommunications operators and speed up development in businesses such as maintenance, network optimization, logistics and mobile Internet applications. We will also step up our efforts in market development in Northern China and follow closely the opportunities from the three networks convergence, joint construction and sharing of telecommunications infrastructures and the evolution of new technologies.
- By seizing the demand for the State's urbanization construction and informatization construction of government agencies and corporate customers, we will endeavour to expand businesses for non-operator markets and strengthen co-operation with telecommunications operators, telecommunications equipment vendors and large-scale state-owned enterprises, focusing on key projects such as the construction of Shanghai Disneyland, the Asian Games in Guangzhou, high-speed railways, airports and expressways, so as to speed up our development.
- By accelerating our business development in overseas markets such as Africa, Latin America, the Middle East and Hong Kong and Macau, we will strive to achieve sustainable breakthrough in those overseas markets by capitalizing on our own strengths and enhancing our strong collaborative relationship with telecommunications equipment vendors, telecommunications operators, large-scale state-owned enterprises and national financial institutions, sharing each other's resources and complementing mutual strengths. We will optimize the construction of overseas support platforms, and regulate our financial, legal and logistics support, so as to ensure rapid business development in overseas markets and effective risk management.
- By implementing innovative models in ACO development, talents retention and incentive mechanisms, and increasing our investments in resources, we will strive to establish branded products and enterprises, with the objective of improving our competitiveness and accelerating market expansion.
- We will continue to progress internal integration, enhance resources allocation and strengthen cost control measures, with a view to further improving the value of the Company.



Zhang Zhiyong
President

Beijing, PRC
30 March 2010