






Innovative **ACO** development model Establish branded enterprise

Capture **GOLDen** opportunities arising from mobile Internet,
Three Networks Convergence, etc.

Business Review

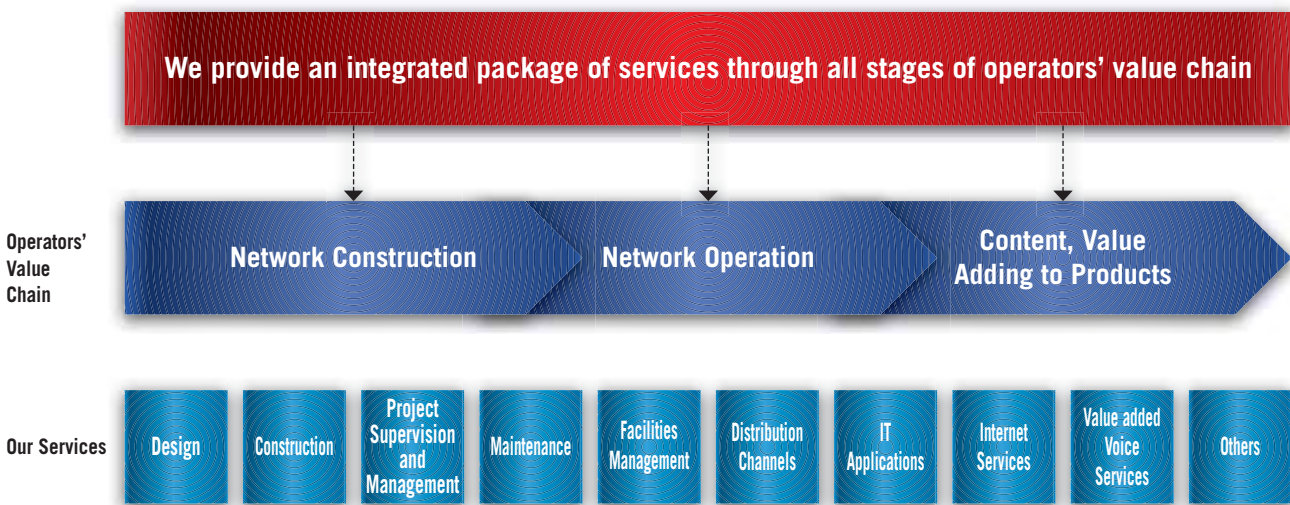
The Group mainly provides supporting services for telecommunications, media and technology companies, and is a leading enterprise in the field it operates. For over 40 years, we have provided services to telecommunications operators, telecommunications equipment manufacturers, government agencies and corporate customers such as media companies. We have established long-term and solid customer relationship, accumulated extensive service experience and built a professional team with excellent capabilities. We are the largest telecommunications infrastructure service provider and the leading business process outsourcing service provider in China and we also continue to explore the provision of value-added services.



 With global engineering partners

Our service coverage is spread across the nation and we have also extended our business to over 50 countries and regions globally.

In 2009, by focusing on customers' needs and capitalizing on various demands arising from 3G network construction by domestic operators, government infrastructure investments and informatization process of government agencies and corporate customers, we achieved operating revenues of RMB39,499 million, a year-on-year growth of 19.7%.



Customer Services and Market Expansion

China Telecom, China Mobile and China Unicom (the “Three Major Operators”) are our top three major customers. After obtaining their 3G licenses in 2009, all of the Three Major Operators focused their investments on 3G networks and also increased their investments in broadband and data networks. In 2009, investments in fixed assets of domestic telecommunications industry amounted to RMB372.5 billion, increasing by 26.1% on a year-on-year basis.

The Group had already well-prepared for such an opportunity and started implementing our “CTW¹ program”, specifically tailored to the Three Major Operators, since the second half year of 2008. In 2009, we progressed the “CTW program” further by reacting more timely to market demand and enhancing our customer marketing and servicing quality. We fully captured the opportunities from the needs of operators in area such as network design, construction, maintenance, logistics and value-added business services. Therefore, revenues from all of the Three Major Operators achieved a rapid and balanced growth, with a total amount of RMB27,473 million, representing a year-on-year growth of 26.3%. At the same time, we have also been paving the way for developing our new growth drivers, such as increasing our efforts in developing the Northern China market in which we have a relatively lower market share, putting more resources in area such as human resources and staff training for our maintenance business, and working with telecommunications operators in pilot test sites for joint construction and sharing of telecommunications infrastructures project and collaborative logistics management.

<i>(In RMB million except percentages)</i>	2009		2008		Increase over 2008
	Revenues	Percentage to total revenues	Revenues	Percentage to total revenues	
China Telecom	20,243	51.2%	15,966	48.4%	26.8%
China Mobile and China Unicom	7,230	18.3%	5,787	17.5%	24.9%
Government agencies, corporate and other customers	12,026	30.5%	11,252	34.1%	6.9%
Total	39,499	100.0%	33,005	100.0%	19.7%

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

The Group provides integrated construction and maintenance services of communications, IT and weak current system for government agencies, telecommunications equipment manufacturers, media companies, infrastructure enterprises, educational and medical institutions and small to medium-sized enterprises. In 2009, we capitalized on the business demands brought by on-going urbanization and informatization in China, particularly the increase in investments in infrastructure encouraged by the State's policy in stimulating domestic demand, provided services for key projects and major customers. For example, we provided ancillary communications facilities construction services for World Expo in Shanghai, Asian Games in Guangzhou and subway projects in many cities, and provided an intranet construction service for a jewellery chain store to connect its nationwide outlets. In 2009, our revenues from government agencies and corporate customers amounted to RMB12,026 million, a growth of 6.9%, of which revenue growth from two core services, including telecommunication infrastructure service and maintenance service, grew by 34.0%.



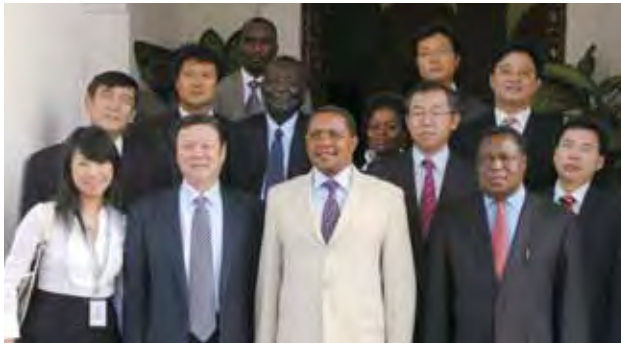
☉ Design staff carried out field survey in Shanghai World Expo



☉ Design staff carried out testing of wireless communication in Wuhan-Guangzhou high-speed railway

Overseas expansion is one of the Group's long-term development strategies. We focus on market expansion in regions such as Hong Kong and Macau, Southeast Asia, Africa and South America. We provide services such as consultation, design, construction, maintenance and operation in telecommunications network, IT and weak current system for the local customers in these regions. The Group has already established a co-operation mechanism with the PRC financial institutions, large state-owned enterprises and telecommunications equipment manufacturers (which have years of experience in overseas markets), thereby complement the strengths of one another and jointly develop the markets. In 2009, our projects in Congo (K) and Tanzania, in which we acted as principal contractor, progressed smoothly, and we also had a handful of project reserve in other regions. At the same time, we put equal emphasis on subcontracting projects and actively undertook outsourcing projects from equipment manufacturers. In 2009, revenues from overseas markets had a year-on-year growth of 82.3%, amounting to RMB1,287 million⁽¹⁾.

The Group envisaged the shortage of the supply of communications services in regions such as Africa, and hence there would be a huge demand for local communications infrastructure construction service. By combining our advantages on experience, technology and talents accumulated from years of services in the PRC telecommunications industry, together with the capital and customer resources of our co-operative partners, the Group will have further development in overseas markets.



④ Honorary Chairman WANG Xiaochu and Chairman LI Ping met Mr. Jakaya Mrisho Kikwete, the President of Tanzania



④ Network construction in Ethiopia



④ Nationwide optical fiber transmission network project in Tanzania



④ Chairman LI Ping met the Minister of the Ministry of Communication Science and Technology of Tanzania

⁽¹⁾ Revenues from overseas is included as part of revenues from government agencies and corporate customers.

Telecommunications Infrastructure Services

The Group has many companies covering design, engineering and construction, and project supervision and management which are the leaders in their respective industries. These companies are the major regulation-formulators in engineering design, construction, project supervision and management of the PRC telecommunications industry and they have good reputations with both domestic and overseas customers. In 2009, the Group's revenue in telecommunications infrastructure services amounted to RMB19,289 million, representing a year-on-year growth of 25.8%.



☉ Communication ducts and pipelines laying design



☉ Equipment installation quality checking

The Group provides a full range of telecommunications infrastructure services to both domestic and overseas telecommunications operators. These services include planning, design, construction and project supervision and management for wireline, wireless, broadband networks and support systems. The Group provides full support to the Three Major Operators in 3G network construction and assisted China Telecom, China Mobile and China Unicom to construct the world's largest CDMA network, TD-SCDMA network and WCDMA network respectively. In 2009, the Group's revenue from providing telecommunications infrastructure services to the Three Major Operators recorded a growth of 25.2%, demonstrating our solid leading market position.

The Group also provides communications and informatization solutions such as construction design, intranet design, intelligent buildings, generic cabling, ducts relocation, and projects principal contracting to government agencies, IT companies, media companies (including cable television companies) and other corporate customers. In 2009, the Group's telecommunications infrastructure services revenue from government agencies and corporate customers recorded a year-on-year growth of 28.6%.

We believe that there is ample development potential in telecommunications infrastructure services. As at the end of 2009, the number of mobile phone subscribers in China had already exceeded 700 million, and broadband subscribers are over 100 million. To ensure network and service quality, telecommunications operators should maintain their investments at a substantial level. New technologies, like "Internet of Things", "Cloud Computing", and continuous emergence of new demands will push telecommunications operators to upgrade and re-engineer their networks. At national level, there is still gap between China and other developed countries in respect of urbanization and informatization and thus there are tremendous business opportunities. The government puts great efforts in changing the ways of economic growth, and promotes many policies including "Three Networks Convergence" and "Energy-Saving and Emission-Reduction", which will also help provide development opportunities for service-oriented enterprises, such as us. Taking "Three Networks Convergence" as an example, it could be expected that there would be demand from cable television network companies on their investments in network and supporting system, and demand from telecommunications operators on their acceleration in upgrading and re-engineering their broadband networks.

Business Process Outsourcing Services

The Group's business process outsourcing services include network maintenance, distribution of telecommunications products and services ("distribution") and facilities management services. In 2009, revenue from business process outsourcing services amounted to RMB15,943 million, representing a year-on-year growth of 16.0%, of which revenue from network maintenance, distribution and facilities management services were up by 47.8%, 10.1% and 5.9%, respectively.

With expansion in scale of operators' networks and growing proportion of non-core business outsourcing, these have pushed our network maintenance revenue continued to increase rapidly. Taking mobile base station as an example, by the end of 2009, the number of mobile base stations under our maintenance reached approximately 175,000, more than doubled when compared with the end of 2008, representing around 20% of the total number of mobile base stations of the country. Apart from the maintenance of base stations, we also provide maintenance services of fiber optic cables, cables, user access lines, users terminals and network equipment to telecommunications operators. At the same time, we also actively develop network optimization services and undertake the construction of indoor coverage systems. Telecommunications operators' demand for network maintenance and optimization is long-term and sustainable, and we will build up our branded maintenance service teams and enhance our service quality to ensure our sustainable development in this field.

The distribution services of the Group mainly include sales of telecommunications equipment, mobile phone terminal, logistic and procurement agency and agency services for telecommunications business, and our major customers are telecommunications operators and telecommunications equipment manufacturers. In 2009, the Group focused on the procurement, logistics and distribution services of telecommunications equipment and mobile phone terminal brought by 3G network construction and operation, and continued to manage the development of certain distribution businesses with lower gross profit margin. In 2009, revenue from sales of telecommunication equipment and handset terminals represented approximately 70% of the distribution revenue.

Distribution business provides us a valuable opportunity to assist operators to develop customers and business, and also constitutes a stable source of income. Hence, we will continue to further enhance the content and quality of this business in future. In 2009, we completed the acquisition and integration of Shanghai Tongmao Import & Export Co., Ltd., which has extensive experience and full qualifications in the logistics industry, and commenced a trial run of collaborative logistics services in certain provinces and cities, with an aim to decrease the procurement and logistics costs for operators. These activities will help us strengthen our customer relationship, enhance customer value and utilize efficiently our existing resources in warehousing and vehicles, thereby establish ourselves to become a modernized branded logistics enterprise in IT industry.



📍 Retail outlet

Applications, Content and Other Services

In 2009, revenue from applications, content and other services amounted to RMB4,267 million, a growth of 8.5% on a year-to-year basis. Among the businesses, revenue from voice value-added service, which mainly included call center outsourcing service and voice message service, was increased by 12.9%. Revenue from IT application service, which mainly included system integration and development of software and hardware, was maintained at a steady level. Revenue from Internet service dropped as we continued to close down some Internet cafés with unsatisfactory performance. The 3G investment upsurge had boosted up the significant demand for our telecommunications network ancillary products such as telecommunications racks and base station antenna feeders, resulting in relatively faster revenue growth in other services.

We have observed the continuous demand for the management, operation and business support systems by telecommunications, media and technology companies following the commencement of the 3G era and the gradual development of “Three Networks Convergence”. Government agencies and corporate customers have a huge demand for system integration and IT outsourcing. China has the largest telephone subscriber base and Internet user base in the world, and definitely there will be a tremendous demand for voice, data, video and other multi-play services. With our years of service experience in these areas, our integrated service model and leading position in the industry will provide us with distinctive development advantages.

Through several years of practical experience, in 2009, we further aligned our development vision of the above area and clearly set out our five major development business lines, namely, MSS, BSS, OSS, system integration/IT outsourcing, and mobile Internet value-added business. This alignment will enable us to focus our resources in developing products and enterprises with greater potential. The Group and Accenture International Sarl recently established a joint venture, China Communication Service Application Solution Technology Co. Ltd. (“CCS Software”) to jointly develop these markets. In coping with the key issues in developing businesses in this area, we will implement a market-oriented incentive mechanism for core employees. While running CCS Software smoothly, we will also continue to explore the introduction of strategic cooperation partners and identify suitable acquisition targets, with the objective of enhancing our core competitiveness and establishing certain branded enterprises to achieve breakthroughs in these areas.



Video surveillance management platform



"All-purpose card" system developed for mobile phone