

## Chairman's Statement



中国通信服务

Dear Shareholders,

In 2010, the Group recorded remarkable operating results. Total revenues of the Group reached RMB45,417 million, representing a year-on-year growth of 15.0%. Profit attributable to equity shareholders was RMB1,818 million, representing a year-on-year growth of 13.7%. Return on equity further increased and reached 12.8%. Having considered the interests of and returns to our shareholders, the Board has proposed to pay a final dividend of RMB0.1260 per share for the financial year ended 31 December 2010, representing a year-on-year growth of 13.7%.

### **STEADY GROWTH IN DOMESTIC OPERATOR MARKET**

In 2010, capital expenditures of domestic telecommunications operators decreased significantly. With focus on the operators' full-service operations by providing integrated services covering their value chain, the Group's revenues from domestic operators sustained continuous growth and reached RMB29,464 million, representing a year-on-year growth of 7.2% and accounting for 64.9% of its revenues.

## **RAPID GROWTH IN DOMESTIC NON-OPERATOR MARKET AND OVERSEAS MARKET**

In 2010, the Group benefited from the accelerated development in the domestic informatization and the strong demands from overseas telecommunications markets. The combined revenues from the domestic non-operator market and the overseas market increased by 32.6% compared to the same period last year and reached RMB15,953 million in 2010, and its proportion of revenues of the Group increased notably to 35.1% from 30.4% last year.

## **CONTINUOUSLY GENERATING FAVORABLE RETURNS FOR SHAREHOLDERS**

Since the listing on 8 December 2006, the Group has been adhering to its corporate philosophy of “running a promising and meaningful business”. During these years, the Group managed its business in an organized and efficient way and achieved a healthy and rapid development. The compound annual growth rates of our revenues and net profit both exceeded 20%, realizing a sustainable growth of our shareholders value. In the period between 2007 and 2010, the Group has been increasing its dividend per share and the compound annual growth rate exceeded 20%, thereby generating stable returns for shareholders over the past 4 years.

## **SETTING ENLIGHTENED GOALS, GRASPING STRATEGIC OPPORTUNITIES**

Looking ahead to the “12th Five-Year Plan” period, the Group has promptly set its strategic goal of developing itself as a “hundred-billion enterprise” with excellent performance, and this means that, by the end of the “12th Five-Year Plan” period or longer, the Group will develop strong capabilities to grasp market opportunities, build outstanding core competences, enhance intensive high-efficiency operations and realize stable growth in enterprise value, with a goal of becoming a “world-class information network builder”. Meanwhile, responding to the new circumstances and new opportunities, the Group has extended its positioning from a “service provider for telecommunications, media and technology companies” to a “leading provider of producer services in the informatization sector”.

In the “12th Five-Year Plan” period, the Group will firmly grasp the following six major development opportunities: (1) various demands resulting from the full-service operation adopted by the telecommunications operators and continuously growing demands of recurring businesses including network optimization and maintenance; (2) large scale investments in the two-way upgrading of broadcast and television networks in the future; (3) significant annual informatization investments from several industries driven by policies, technologies and social development; (4) the continuous and vigorous demand of the telecommunications network construction in overseas emerging markets such as Africa, the Middle East, Latin America and the Asian Pacific region; (5) new opportunities stimulated by new markets and new businesses as a result of the change in industrial landscape and models, including the Three Networks Convergence, the joint construction and sharing of telecommunications infrastructure, energy saving and emission reduction; and (6) greater potentials in respect of the Group's external growth assisted by the recovery of the capital market among the TMT<sup>(1)</sup> sector in the “post-crisis era”, to achieve the significant development of the Group.

## **AGGRESSIVE EXPANSIONS OF DOMESTIC NON-OPERATOR MARKET AND OVERSEAS MARKET**

The expansions in the domestic non-operator market and the overseas market are the necessary choice for the Group to diversify its sources of revenues from its customers and achieve its sustainable development. The Group has served domestic telecommunications operators for many years, and thus is equipped with important expertise, resources and experience. These successful factors can also be applied easily to the non-operator customers for their integrated telecommunications support services. By utilizing our expertise and experience to broader markets, the Group is able to maintain a long-term growth momentum.

<sup>(1)</sup> TMT means telecommunications, media and technology.

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The Group continued to optimize its overseas expansion plans based on its extensive experience in overseas expansion over the past years. The Group strengthened its cooperation with telecommunications equipment manufacturers, financial institutions and state-owned enterprises, and established strategic partnerships with them to jointly explore overseas markets. As a result, the Group not only achieved a stable and rapid growth for overseas subcontracted engineering businesses, but also made breakthroughs in winning more EPC (engineering, procurement and construction) businesses. With further business penetration into more countries and regions, the business from overseas market will become a strong driver for our future growth.

### **ENDEAVORING TO INNOVATE DEVELOPMENT MODELS, ENHANCING FUNCTIONAL MANAGEMENT**

To seize development opportunities, the Group focused on innovation in five areas to drive business growth, including marketing and services, businesses and products, corporatization of operation and management, human resources management and incentive mechanism, as well as external growth. In addition, the Group also focused on strengthening management along six functions, including corporate affairs, finance, human resources, risk management, strategic marketing and overseas market. Therefore, the Group was able to build an effective, flexible and synergistic organization structure and obtain a pool of high-calibre management and professionals, thus resulting in a highly efficient enterprise with outstanding performance.

### **STRENGTHENING CORPORATE GOVERNANCE**

Amid its rapid business growth, the Group continued to strengthen its internal control and risk management, so as to fully enhance its corporate governance. During the year, following the appointment of Mr. Zheng Qibao with extensive experience in the telecommunications industry, as the president of the Company, Ms. Hou Rui joined the Company as its chief financial officer. Mr. Yuan Jianxing, the former chief financial officer, continues to serve as an executive director and an executive vice president of the Company and is responsible for other important issues of the Group, including business development. In addition, upon the approval of Ms. Hou as an executive director of the Company at the extraordinary general meeting held on 23 February 2011, the number of directors of the Board increased from 10 to 11, thus having further enhanced the competence of the Board and the management structure of the Group. Our effort in fostering sound corporate governance was recognized by the capital market, as evidenced by the gold award granted to the Company in "The Asset Corporate Awards 2010" election organized by "The Asset", an authoritative international financial magazine.

### **PROMOTING THE CUSTOMER-ORIENTED CORPORATE CULTURE EMBODYING THE PHILOSOPHY OF "THE HIGHEST EXCELLENCE IS LIKE THAT OF WATER", IMPLEMENTING CORPORATE SOCIAL RESPONSIBILITIES**

The Group made great efforts in promoting the customer-oriented culture embodying the philosophy of "the highest excellence is like that of water" and advocating the core value of "benefit all". Through these efforts, the Group helped its staff to thoroughly understand the culture's essence of "innovation, compatibility, perseverance, reliability and partnership", raised the Group's cohesion and strength, and thus provided a strong cultural support to achieve its strategic goals.

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In 2010, the Group proactively participated in several rescue and relief work and provided strong support to the operators to resume the normal operation of their telecommunications services, including the earthquake relief efforts in Yushu of Qinghai province, the flood relief efforts in Jiangxi province and the rescuing efforts during the destructive mudslide in Zhouqu of Gansu province. All these disaster relief work demonstrated our strong sense of social responsibilities. In addition, the Group successfully supported the operators with its quality communications services for high-profile events, including the Shanghai World Expo and the Guangzhou Asian Games. Our efforts were highly recognized by relevant government departments and the public media.

Finally, on behalf of the Board, I would like to take this opportunity to welcome Mr. Zheng Qibao and Ms. Hou Rui to join the Board, and express my sincere gratitude to all our shareholders, customers and friends for their long-term care and support to the Group!



**Li Ping**  
*Chairman*

Beijing, PRC  
30 March 2011