

Chief Executive Officer's Statement

Dear shareholders,

In the first half of 2007, our Company achieved robust operating results, with sustained stable growth in revenue and profit, further optimized business structure, and achieved initial success on external market expansion. In addition, in the first half of 2007 we commenced work on the acquisition from our parent company the assets providing the specialized telecommunications services in the 13 provinces (municipality and autonomous regions) and completed the acquisition on 31 August 2007, thereby strengthening our operational synergies and further consolidating our leading position in the industry.

Financial Results

In the first half of 2007, the Company's operating revenue reached RMB7,365.12 million, representing an increase of 15.6% over the same period last year. In particular, revenue from our customers, excluding China Telecom Group amounted to RMB4,007.06 million, or 54.4% of the total revenue, up 5.8 percentage points from the same period last year, indicating an improved revenue structure of the Company. Operating costs amounted to RMB6,084.27 million, representing a 16.8% growth from the same period last year. Gross profit was RMB1,280.85 million, up 10.0% year-on-year. Selling, general and administrative expenses was RMB820.61 million or a growth of 3.7% year-on-year, accounting for 11.1% of our total revenue, a decrease of 1.3 percentage points from the same period last year. With the effective implementation of our existing cost control measures, EBITDA¹ margin was 10.0%, remaining unchanged from the same period last year. Profit attributable to equity holders of the Company was RMB374.21 million, which was 92.8% higher than the same period last year. The substantial growth in profit was primarily attributable to stable revenue growth, and the deficit on revaluation of assets of RMB105.30 million incurred during our restructuring in preparation for listing in 2006. Excluding the effects of deficit on revaluation of assets, profit attributable to equity holders of the Company was 25.0% higher than the same period last year. Basic earnings per share was RMB0.069. Free cash flow was an outflow of RMB540.45 million, which represented an improvement in comparison with outflow of RMB1,254.10 million for the same period last year.

Business Performance

In the first half of the year, we recorded a favorable growth in our telecommunications infrastructure services, business process outsourcing services and applications, content and others services businesses. Telecommunications infrastructure services developed at a steady pace and remained the Company's major source of revenue. Revenue for the first half of the year was RMB3,677.29 million or 16.9% growth from the same period last year, representing 49.9% of our total revenues. Construction services and design services accounted for 37.0% and 10.8% of our total revenue respectively, ranking the first and the third respectively in terms of revenue contribution to the Company. In anticipation of the continual CAPEX control by fixed line operators, we endeavoured to improve our service standard and actively explored business opportunities with other telecommunications operators, thereby successfully maintaining the continual growth in this area.

Benefiting from telecommunications operators' tendency to outsource their non-core businesses, revenue from the business process outsourcing services demonstrated an upward trend. Revenue in the first half of the year was RMB2,739.82 million, an increase of 11.5% from the same period last year, representing 37.2% of our total revenue. Of which, revenue from distribution of telecommunications services and products accounted for 22.0% of our total revenues and ranked the second in terms of revenue contribution. Steady revenue growth in the business process outsourcing services was mainly attributable to the expanded market for network maintenance business as China Telecom actively engaged in its outsourcing initiative, and mobile operators conducted network capacity expansion and optimization, and our active initiatives in developing facilities management business for the high-end services and government and corporate customers.

¹ EBITDA = Gross profit + Other operating income – Selling, general and administrative expenses – Other operating expenses + Depreciation and amortization

Chief Executive Officer's Statement (Continued)

For the first half of the year, revenue from applications, content and others services and its percentage over the total revenue recorded an increase. Its revenue amounted to RMB948.02 million, or 23.3% growth from the same period last year, accounting for 12.9% of our total revenue. The favourable revenue growth was attributable to the successful business development on the market of government agencies and corporate customers, as well as the rapid cross-regional replication of high value products, such as the replication of the "e-touch" city security network platform and "Net CA" certificate authentication platform in provinces such as Hubei. In spite of the long nurturing period and uncertainty of revenue contribution from applications, content and others services, we believe that with our further nurturing and consolidation efforts, these businesses will gradually become the Company's new growth driver in future.

In the first half of the year, telecommunications operator customers are still the major contributors to our revenues. Total revenue from the three major telecommunications operators amounted to RMB4,695.67 million, representing 63.8% of our total revenues, in which revenues from China Telecom, China Mobile and China Unicom accounted for 45.6%, 14.8% and 3.4% respectively. After our listing, we fully utilized our service neutral and specialized services advantages, and promptly responded to customer needs. As a result, revenue growth from government agencies and corporate customers and other telecommunications operators excluding China Telecom, was accelerated, with revenue from these customers increased by 28.9% year-on-year, and our revenue structure was further optimized.

Our Company further enhanced our strategic cooperation with telecommunications equipment vendors. In the emerging telecommunications markets including South-East Asia and Africa, we cooperated with ZTE Corporation, Nokia, Motorola and others in various projects including telecommunications infrastructure construction. Although our overseas business development is still at its initial stages, we believe that contribution from overseas markets will continue to increase and become a new driver for our future growth through our efforts in the integration of resources and enhancement of service quality and standard.

Internal Operation and Management

In the first half of 2007, our comprehensive budget management system has been improved to be more scientific, accurate and uniform. We strengthened our performance review system to ensure the attainment of all performance indicators. We also raised our management efforts on investments, fixed assets and property right, so that the operations and management of our Company are more regulated. Our IT management system was further upgraded to become a key platform for management and operations, enabling the centralization of data in areas such as accounting and human resources, as well as the analysis and management of key indicators. Our overall management standard is therefore improved.

Adhering to the corporate culture stressing the welfare of our staff, we endeavoured to create a harmonious and passionate environment for our employees to maximize their potential. While optimizing our staffing structure, we stringently controlled the growth of the size of our workforce and increased the productivity of our staff. To grasp the opportunities of 3G development, we devoted more efforts to recruit and retain employees with 3G technical and business capabilities, and our human resources structure was further improved. In the first half of the year, the Share Appreciation Rights Scheme has been approved by shareholders in the shareholder meeting. Pursuant to the implementation of such incentive scheme according to the relevant policies for management staff and core staff members, it will provide us an effective measure to attract and retain talents.

Chief Executive Officer's Statement (Continued)

Prospects

For the second half of 2007, we are optimistic about our prospects. The continual development of the telecommunications industry and the government's strong initiative to accelerate the informationalisation of the PRC will provide ample opportunities for our future development. The completion of asset acquisition from our parent company has also provided more room for our development. Meanwhile, we will further diversify our revenue sources from different customers and businesses, further enhance our operating efficiency, and further integrate our newly acquired businesses and assets to provide better synergies. By these measures, we will form a strong foundation for our sustainable, steady and healthy future development.

Amid opportunities and challenges, we will continue to adhere to our existing development strategies, leveraging on our one-stop service business model, and enhance the quality and standard of our services to meet our customer needs. We will also enhance the unified planning and management of our strategies and brand names, and accelerate the cross-regional replication for successful products and services, in order to consolidate our leading position in the market. By optimizing our resource allocation and speeding up our business integration, we will enhance our economies of scale and operational efficiency to further improve the core competitiveness of the Company.

We are fully confident about our future. We strongly believe that with the sound decision-making capabilities from the Board, extensive management experience and excellent execution capabilities of our management team, and the joint efforts of all employees, we will continue to grow and develop and create better returns for our shareholders.

Finally, I would like to express my gratitude to our shareholders, directors and our staff for their persistent support to the Company.



Li Ping

Vice Chairman and Chief Executive Officer

Beijing, PRC

5 September 2007