

# CHAIRMAN'S STATEMENT

## DEAR SHAREHOLDERS,

In the first half of 2008, the Group achieved sound operating results, with sustained growth in revenues and profit. Our efforts in market expansion achieved further success, resulting in an improving revenue structure. By pursuing the complementary development strategies of organic and external growth, the Group completed the acquisition of China International Telecommunications Construction Corporation ("CITCC"), which further enhanced our overall competitiveness and strengthened our capability in serving the markets in northern regions of China and overseas, thereby laying a solid foundation for our sustained growth in future.

## FINANCIAL REVIEW

In the first half of 2008, the Group recorded revenues of RMB13,629 million, representing an increase of 37.5% over the same period last year. Cost of revenues amounted to RMB11,483 million, representing an increase of 41.5% over the same period last year. Gross profit grew by 19.6% over the same period last year to RMB2,145 million, and profit attributable to equity shareholders grew by 11.3% over the same period last year to RMB567 million. Basic earnings per share were RMB0.101.

In order to offer better integrated services to telecommunications operators, the Group further expanded the comprehensive logistics business relating to telecommunications equipments since the second half of 2007. Accordingly, the relevant revenue increased significantly as compared to the same period last year and the corresponding procurement costs of related equipments also grew significantly, contributing to the decline in our overall gross profit margin. In addition, inflation, particularly the rising costs of construction materials, had certain impact to our operating costs in the first half of 2008. The Group continued to adopt the subcontracting arrangement proactively and alleviated the impact of the rising costs of construction materials to a certain extent.

## BUSINESS REVIEW

In the first half of 2008, revenue from telecommunications infrastructure services was RMB5,895 million, an increase of 9.7% from the same period last year, representing 43.3% of our total revenues. The major revenue source of telecommunications infrastructure services was still the three major telecommunications operator customers. In the first half of the year, the Group captured the opportunities in the network expansion and optimization of mobile operators, and actively implemented the customer-focused service strategy and competitive pricing strategy, thereby achieved satisfactory results in market expansion. Our infrastructure services business from mobile operators grew rapidly and offset the impact of the decreased network construction investments from fixed line operators.

In the first half of 2008, revenue from business process outsourcing services was RMB6,074 million, an increase of 83.7% from the same period last year, representing 44.6% of our total revenues. In particular, revenue from distribution of telecommunications services and products increased significantly from the same period last year, which was primarily driven by the further expansion of comprehensive logistics business of telecommunications equipments since the second half of 2007. The provision of logistics services allowed us to better satisfy our customer demand and increase customer loyalty, and had a positive contribution to profit growth. We anticipate that the demand from telecommunications operators for logistics services will be even greater as they commence their full-service operations. Going forward, the Group will endeavour to expand high-end businesses and optimize the business structure to ensure its profitability level.

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In the first half of 2008, revenue from applications, contents and other services was RMB1,660 million, an increase of 35.0% from the same period last year, representing 12.1% of our total revenues. In particular, revenue from IT applications, which mainly included system integration service, and revenue from voice VAS, which included call center service and ring-tone service, recorded a rapid growth. During the first half of 2008, we made further progress on our "Golden Seeds" projects as scheduled. We will continue to strengthen the cooperation with business partners so as to enhance our core capabilities in this area.

In the first half of 2008, by pursuing the customer-focused service strategy, we closely monitored our customer needs and implemented performance review and appraisal system for different classes of customers. Our efforts brought satisfactory results and revenue from telecommunications operators, government, corporate and other customers all recorded satisfactory growth. Revenue from our three major telecommunications operator customers was RMB7,982 million, an increase of 23.0% from the same period last year, representing 58.6% of our total revenues. Of which, revenue from China Telecom accounted for 41.9% of our total revenues and revenue from China Mobile and China Unicom accounted for 16.7% of our total revenues. Revenue from customers other than China Telecom amounted to RMB7,916 million, accounting for 58.1% of our total revenues and representing an increase of 6.1 percentage points over the same period last year. This indicated the continued improvement of our revenue structure.

On 30 May 2008, the Group completed the acquisition of CITCC, and the results of CITCC were included in the consolidated statements of the Group since June 2008. Immediately after the completion of acquisition, the Group started a comprehensive integration exercise in respect of marketing, financial management, human resources, IT system construction and risk management. In the first half of 2008, as symbolized by the optical fiber transmission project in Congo (K), CITCC made significant progress in overseas business development by leveraging on their strength and market expansion efforts in the overseas market. We believe that synergies will be further realized as integration proceeds further. The Group will continue to seek suitable external growth opportunities in future to generate greater returns for shareholders.

### INDUSTRY RESTRUCTURING

In the first half of 2008, the telecommunications industry restructuring proposal in the PRC has been formally announced, which provided new opportunities for the industry development. In the coming two to three years, we expect that the 2G and 3G network construction, expansion and optimization by the telecommunications operators in the PRC will offer favourable growth potentials for our telecommunications infrastructure services business. There are also tremendous opportunities in businesses like network maintenance, distribution service and value-added service. The development of high-end businesses will further improve the Group's business structure. Meanwhile, the operator customers will be more demanding on our service support capabilities and nationwide responsiveness. In light of the demand, the Group has implemented a number of initiatives such as the establishment of dedicated support teams specializing in the projects of different operators. We closely monitor the demand and strategic moves of telecommunications operators and formulate project support proposals. At the same time, we also accelerate the integration of newly acquired businesses and strengthen our internal resources allocation, so as to provide neutral, professional and integrated comprehensive business support services.

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### CORPORATE GOVERNANCE AND HUMAN RESOURCES DEVELOPMENT

In the first half of 2008, we continued to improve the internal control and risk management system with reference to the international best practices on corporate governance and the relevant regulations. We improved our IT management system to integrate our business development, performance review and risk management so as to enhance the overall operational management.

In the first half of 2008, the Group continued to adhere to the human resources development strategy of "controlling total headcounts and optimizing structure". We established a flat organizational structure, reduced the management hierarchy and implemented staff performance review to strictly control our personnel costs. During the period, the Group adopted an innovative human resources training approach to optimize human resources allocation which focused on the training and cultivation of 3G technical and business professionals and strengthened our efforts in the recruitment of quality personnel required by infrastructure service and outsourcing service, so as to build our talent reserve for further business development.

In 2008, the unexpected snowstorms and the Sichuan Earthquake have caused catastrophic losses to many southern provinces of China and telecommunications facilities were seriously damaged. Leveraging on our nationwide services support capabilities, the Group deployed resources like staff and equipments and participated in the front-line rescue to fully support the major operators in telecommunications network restoration and post-disaster network reconstruction. We took our social responsibilities and demonstrated our sound corporate image.

### PROSPECTS

With the commencement of the telecommunications industry restructuring in China, the industry is expected to undergo a new round of large-scale network construction, and this will provide us with favourable growth potentials. As the leading provider in the telecommunications support service industry, we envisage a prosperous future and at the same time we also realize that we are facing certain challenges such as the change in industry landscape and inflation.

However, we believe that our opportunities outweigh challenges, and we are confident about the future. In the second half of 2008, the Group will continue to focus on the execution of its established strategies, enhance core competitiveness, focus on internal resource integration, and strengthen operational management so as to turn challenges into opportunities under the new environment. Looking forward, in the course of the large-scale 3G network construction, we will better coordinate with our major operator customers to offer neutral, professional and integrated support services, thereby achieving a win-win situation.

Being appointed as Chairman of the Company on 8 April, I will endeavour to actively monitor the operation and development of the Company, and make concerted efforts with the Board, management and all staff to generate greater returns for our shareholders.

Finally, I would like to express my sincere gratitude on behalf of the Board to all of our shareholders and customers for their support and trust to the Group.



**Li Ping**  
*Chairman*

Beijing, PRC  
8 September 2008