



## Chairman's Statement

### Dear shareholders,

During the first half of 2009, despite the international financial crisis continuing to entwine and the obvious slowdown of development in the domestic telecommunications industry, the Group was able to achieve rapid growth in both its revenue and profits by implementing our established strategies effectively and grasping the precious opportunities brought by the increases in network investments by domestic telecommunications operators after industry restructuring and the issuance of 3G licence. We also continued to attain further progress in areas such as external acquisition, internal integration and capability enhancement, thereby laying a strong foundation for our future development.

### Financial Review

In the first half of 2009, the Group recorded revenues of RMB18,263 million, representing an increase of 31.7% over the same period last year. Cost of revenues amounted to RMB15,409 million, representing an increase of 31.8% over the same period last year. Gross profit grew by 31.3% over the same period last year to RMB2,854 million, and profit attributable to equity shareholders grew by 33.3% over the same period last year to RMB758 million. Basic earnings per share were RMB0.131.

Since the beginning of the second half of last year, domestic telecommunications operators have significantly increased their network investments. With the rapid growth of our business volume, we recruited temporary workers and outsourced part of our low-end businesses to cope with the increase in workload, in order to respond promptly to our customers' tight schedule requests and at the same time control headcount. These measures led to the higher increases in direct personnel costs and subcontracting charges, growing by 35.3% and 45.6% respectively over the same period last year.

Since the Group initiated the centralized cash management system last year, we have achieved progress for improving cash utilization efficiency. By repaying part of the bank loans from funds made available through the centralized cash management system, our net financing expense in the first half of 2009 decreased by 39.5% over the same period last year.

### Business Review

In the first half of 2009, our revenue from telecommunications infrastructure services was RMB8,771 million, an increase of 48.8% over the same period last year, and representing 48.0% of our total revenues. In the first half year, the Group continued to implement our CTW program<sup>1</sup> and quickly responded to the needs of our three telecommunications operator customers regarding network construction, especially in 3G network construction. Revenue from telecommunications infrastructure services contributed by our three telecommunications operator customers increased by 56.4% over the same period last year. At the same time, the Group also captured the opportunities provided by the growth of government investment in public infrastructural facilities and actively undertook construction projects in communications and information facilities, such as subways, highways and the Shanghai World Expo Park. As such, revenue from the telecommunications infrastructure services contributed by customers other than our three telecommunications operator customers also achieved a growth of 27.5%.

1 CTW refers to the mobile technologies adopted by our three telecommunications operator customers, CDMA of China Telecom, TD-SCDMA of China Mobile and WCDMA of China Unicom respectively.



## Chairman's Statement (continued)

In the first half of 2009, revenue from business process outsourcing services was RMB7,764 million, an increase of 23.6% over the same period last year, and representing 42.5% of our total revenues. Among the businesses, maintenance business mainly benefited from the operators' expanding network scale and increasing proportion of network maintenance outsourcing, and recorded a robust growth of 68.9%. The Group will leverage our strength on integrated service capabilities in network construction, maintenance and optimization to continue pursuing more network maintenance outsourcing projects. Due to the gradual launch of 3G services by telecommunications operators, the businesses on terminal sales and logistics services also increased accordingly, and revenue from the distribution of telecommunications services and products increased by 17.1% over the same period last year.

In the first half of 2009, revenue from applications, content and other services was RMB1,728 million, an increase of 2.3% over the same period last year and representing 9.5% of our total revenues. During the first half of 2009, we carried on our cooperation with strategic partners as scheduled and continued to enhance our core service capabilities and brand value.

In the first half of 2009, we fully implemented our CTW program and focused on the needs of telecommunications operators in constructing massive 3G networks and providing a full range of services. Revenue from our three telecommunications operator customers was RMB11,557 million, an increase of 44.5% over the same period last year. Among the revenue from our three telecommunications operator customers, revenue from China Telecom increased by 35.1%; revenue from China Mobile and China Unicom increased by 68.1%, which accounted for 20.9% of our total revenues, and an increase of 4.5 percentage points over the same period last year, clearly demonstrating that we achieved favorable result in market development and further optimized our revenue structure.

In the first half of 2009, our projects in which we acted as the principal contractors in the overseas market were executed smoothly, with revenue from overseas reaching RMB595 million, doubling that of the same period last year. The Group deepened co-operation with equipment vendors, operators and domestic financial institutions, complementing each other's advantages, supporting one another and developing overseas markets together. On top of the outsourcing projects, we will focus on joint tenders with equipment vendors so as to jointly explore and develop large-scale projects in which we will act as principal contractor. The Group will strive to control risks, rationalize resource allocation and continue to promote our overseas development strategies.

### Acquisition and Integration

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 (the "Acquisitions") respectively. The Acquisitions facilitate the further integration and enhancement of our current businesses on comprehensive logistic services and the development of operation support systems, enabling us to provide more premium and comprehensive services to our customers. In the future, the Group will look more closely for appropriate external growth opportunities.

The Group will continue to optimize resource allocation through internal integration. Our current focus is to formulate a group of Strategic Business Units (SBU) and optimize and enhance branded products and services, for the purpose of enhancing our corporate operational efficiency and core competitiveness.



## Chairman's Statement (continued)

### Corporate Governance and Human Resources Development

Upon the expiry of the first session of the Board, the Company conducted re-election of directors and approval was granted at its general meeting. All of the members of the first session, including three executive directors, two non-executive directors and five independent directors, continue to hold offices for the second session of the Board.

In the first half of 2009, the Group continued to adhere to the human resources development strategy of “controlling total headcount and optimizing structure”. Through various measures such as internal exchanges and centralized training, we focused on the development of leadership skills for management staff and execution abilities for general staff. We shall continue to improve corporate and staff capabilities, thereby providing support to the versatile market environment.

### Prospects

In the first half of 2009, by adopting a scientific development approach, the Group implemented a learning and practice program named “Quality Customer Services, Immaculate Enterprise Operation”. This program aimed at further aligning different views and identifying opportunities and challenges that were encountered by us. Currently, there are signs of gradual recovery in the macroeconomic environment, but the upward trend is not yet stable. The development momentum of the domestic telecommunications industry is still slow, and objectively speaking, there are cyclical fluctuations in the network investment scale by operators. All the above will bring challenges to the Group in our future development.

On the other hand, we also envisage that operators' demands in such areas as network maintenance and optimization, product and service distribution, and value-added business development will be sustainable. The evolution of technologies and the ever-emerging new models in the telecommunications industry will continue to provide new opportunities for the Group. With the continued enhancement of national informatization, our positioning as the “service provider for telecommunications, media and technology companies” shall allow the Group to reap the benefits of the overall national economic development and gain a sustainable momentum for development. Through a global perspective, there are tremendous opportunities in overseas markets. In the future, the Group will continue to implement the CTW program, serving the operator market well, and thereby solidifying our leading position in the industry. We will also strive to develop the markets for government agencies and corporate customers as well as overseas markets, so as to achieve further breakthroughs.

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

**Li Ping**  
*Chairman*

Beijing, PRC  
1 September 2009