

Chairman's Statement

Dear Shareholders,

2010 is the first year after domestic investment in 3G peaked in 2009 and domestic telecommunications operators have more or less reduced their capital expenditure (“CAPEX”). However, the long-term strategic planning and the timely proactive measures of the Group have begun to produce positive effects, resulting in another rapid growth in operating performance in the first half of the year. The Group has not only successfully captured market opportunities other than those of telecommunications infrastructure services, but also further developed customers beyond telecommunications operators. Our customer and business portfolio is further optimized, thereby laying a stronger foundation for the continuous, steady and healthy development of the Group in the future. Meanwhile, the State is gradually promoting policies, including the “Three Networks Convergence”, which create new opportunities for the future development of the Group.

Financial Review

In the first half of 2010, the Group recorded revenues of RMB21,720 million, representing an increase of 18.9% over the same period last year. Cost of revenues amounted to RMB18,355 million, representing an increase of 19.1% over the same period last year. Gross profit grew by 17.9% over the same period last year to RMB3,365 million. Due to the effective control over costs and human resources and the flexible subcontracting measures, the Group managed to achieve a relatively stable gross profit margin of 15.5% as compared to the same period last year. Profit attributable to equity shareholders of the Company grew by 19.4% over the same period last year to RMB906 million. Basic earnings per share were RMB0.157.

Business Review

In the first half of 2010, revenue from telecommunications infrastructure services (“TIS”) was RMB10,352 million, achieving an increase of 18.0% over the same period last year and representing 47.7% of our total revenues. The Group achieved sustainable development in telecommunications infrastructure services through various measures, such as continuously expanding the market share of telecommunications operators, focusing on the business expansion in the northern regions and developing government agencies and corporate customers. TIS revenues from domestic telecommunications operators increased by 7.5% over the same period last year. TIS revenues from government agencies and corporate customers experienced a rapid growth of 54.2% over the same period last year. The further development of the government agencies and corporate customers market is conducive to the optimization of the customer portfolio and offsets the adverse effects from the reduction of CAPEX by domestic telecommunications operators. In addition, the Group undertook large-scale communications and ancillary information projects for power companies and metro companies as well as the Asian Games, which also contributed to the promotion of the Group's brand awareness.

In the first half of the year, revenues from business process outsourcing services (“BPO”) amounted to RMB9,261 million, representing an increase of 19.3% over the same period last year and accounting for 42.6% of the total revenues. Benefitting from the increase in operating expenses (“OPEX”) on network expansions and the enlarged business subcontracting from the domestic telecommunications operators, the Group experienced a rapid growth of over 20% in both maintenance business and the distribution of telecommunications services and products.

In the first half of the year, revenue from applications, content and other services (“ACO”) was RMB2,107 million, representing an increase of 21.9% over the same period last year and accounting for 9.7% of the total revenues. Due to continuous resource integration, management innovations and efforts in exploring the government agencies and corporate customers market, ACO services demonstrated a favourable development momentum, where the revenue growth rate obviously accelerated as compared to previous years.

Chairman's Statement (continued)

In the first half of the year, the Group strengthened its business cooperation with domestic telecommunications operators and continued to fortify its leading market position. Revenue from domestic telecommunications operators amounted to RMB13,375 million in total, representing an increase of 15.7% over the same period last year, of which, revenue from China Telecom increased by 12.4%, accounting for 40.1% of the total revenues; revenue from China Mobile and China Unicom together increased by 22.5%, accounting for 21.5% of the total revenues. The continuous and rapid increase in the revenue from domestic telecommunications operators was mainly attributable to the further extension of the cooperation between the Group and the telecommunications operators to develop more BPO and other businesses. In addition to the domestic telecommunications operators market, the Group proactively developed the market of government agencies and corporate customers and made great achievements. In the first half of 2010, revenue from government agencies and corporate customers amounted to RMB8,345 million, representing an increase of 24.5% over the same period last year and accounting for 38.4% of the total revenues.

Overseas expansion is one of the Group's long-term development strategies and we have served more than 50 countries and regions all over the world. In the first half of 2010, with strong support from the policies of the State, the Group further improved overseas expansion mechanisms and strengthened our capability in service support and risk management in 22 overseas platforms. These efforts have laid a strong foundation for our stable and rapid development of overseas business. In the first half of the year, revenue from overseas market amounted to RMB1,098 million, achieving a continuous and rapid growth rate of 84.5% over the same period last year.

In the first half of 2010, in accordance with the Group's objective of business integration on ACO businesses and our development strategy, we completed the acquisition of the remaining 49% equity interest in Guoxin Lucent Technologies Network Technologies Co., Ltd. to make it a wholly-owned subsidiary of the Group. Together with the joint venture we formed with Accenture earlier for the development of OSS⁽¹⁾ business, relevant acquisitions and joint ventures help the Group to obtain core customer resources, the world's leading technological support, advanced management experience and prestigious brand equity, and, at the same time, have contributed to the Group's rapid establishment of branded enterprises with great potential in innovation and growth.

The Group has been focusing on the improvement of operation efficiency and the maximization of economies of scale. We continued to integrate internal resources and put more efforts on the establishment of strategic business units in respect of design and construction businesses. Through these efforts, we are able to have a lean management structure, optimize organizational structure for production, appropriately allocate resources, create synergy effects in different fields and regions and improve the Group's capabilities in overall operation and profitability.

Corporate Governance and Human Resources Development

In the first half of 2010, the Group put more efforts on strengthening internal control and the risk management system in accordance with the world's best governance practice and relevant regulatory rules in order to enhance transparency in corporate governance. During the period, Mr. Zheng Qibao was appointed as the new President of the Company as approved by the Board on 21 June 2010 and as an Executive Director of the Company as approved at the general meeting on 10 August 2010, respectively. Mr. Zheng Qibao has extensive management experience and valuable expertise and we believe that the Group will benefit a lot from his joining.

The Group adheres to the human resources development strategy of "controlling total headcount and optimizing structure" and seeks for innovations in nurturing professionals with strong focus on the fields of marketing and telecommunications to achieve a stable improvement in the working ability of our staff. Meanwhile, the Group formulates plans of talents nurturing, rewarding and retaining and opens up talents' career development path in order to support the full implementation of the Group's strategies.

(1) OSS means Operating Support System

Chairman's Statement (continued)

Corporate Social Responsibilities

In the first half of 2010, the sudden earthquake in Yushu County, Qinghai Province brought huge losses to certain regions in China. As a national telecommunications support services provider, we fixed a substantial number of damaged communications facilities to guarantee the smooth communication in the stricken area by leveraging on our cross-region support in critical time. We will continue to put efforts in the reconstruction work of the stricken area.

Prospects

Our strategic positioning as “service provider for telecommunications, media and technology companies” soon after the listing of the Group has supported our continuous development of customer base and the optimization of our business structure. The above strategy has also successfully addressed the challenges of the CAPEX reduction by domestic telecommunications operators in the first half of 2010. Looking forward, new industry opportunities, such as the “Three Networks Convergence” and the joint construction and sharing of telecommunications facilities, are emerging and maturing and will create new opportunities for the development of the Group. In particular, following the rapid implementation of the “Three Networks Convergence” policy, broadcasting and television enterprises are expected to grow with scale and position equivalent to telecommunications operators. To better capture such opportunities, we have established expert panels in some of the pilot provinces and have also closely monitored the latest progresses, such as two-way upgrades of broadcasting and television networks and the acceleration of broadband network speed of the telecommunications operators. We have proactively developed businesses in the above areas and achieved initial success. On the other hand, we will also steadily promote the pilot work of joint construction and sharing of telecommunications facilities in four provinces and one municipality and continue making efforts to obtain support from local governments, relevant regulatory authorities and telecommunications operators in order to develop an innovative business model and build up new business catalysts.

In the Information Age, the social demand for communications and information services will keep increasing and drive the rapid innovation of the communication technology and the further expansion of telecommunication and media operators. Meanwhile, the urbanization development of China and informatization of other customers in the community will also provide plenty of business opportunities. We believe that the Group will fully demonstrate collaborative advantages in establishing an internationally renowned enterprise with excellent performance in the future.

On behalf of the Board, I would like to express my deep gratitude to Mr. Zhang Zhiyong, the former President and Executive Director of the Company, who resigned in the first half of 2010, for his outstanding contributions to the Group and extend my sincere welcome to Mr. Zheng Qibao for his joining the Group to serve as President and Executive Director of the Company. Finally, I want to express heartfelt thanks to all of our shareholders and customers for their support to and trust in the Group.



Li Ping
Chairman

Beijing, PRC
31 August 2010