中国通信服务
CHINA COMSERVICE

中國通信服務股份有限公司
CHINA COMMUNICATIONS SERVICES CORPORATION LIMITED

(A joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock Code: 552)

Announcement of Annual Results for the Year Ended 31 December 2008

Highlights

- Revenues were RMB32,471 million, up by 37.9%.
- Profit attributable to equity shareholders of the Company was RMB1,316 million, up by 12.8%.
- Basic earnings per share was RMB0.232.
- Effectively captured the opportunities from telecommunications industry restructuring and achieved rapid growth in telecommunications infrastructure services.
- Free cash flows amounted to RMB1,271 million.
- The Board of Directors recommended a final dividend of RMB0.0913 per share for 2008.

CHAIRMAN'S STATEMENT

Dear Shareholders,

2008 was an extraordinary year for the Group. The international financial crisis initiated a global economic slowdown and brought challenges to the Group. At the same time, the formal announcement of the domestic telecommunications industry restructuring brought unprecedented opportunities to the industry. Through the effective implementation of our established development strategies, the Group seized the development opportunities in the industry, and achieved encouraging results in areas such as operations, acquisition and integration and overseas expansion.

In 2008, total revenue of the Group reached RMB32,471 million, representing a year-on-year growth of 37.9%. Profit attributable to equity shareholders was RMB1,316 million, representing a year-on-year growth of 12.8%. Our free cash flow amounted to RMB1,271 million. Having considered the interests and return of our shareholders, and the funding requirements for the Group's long term development, the Board of Directors proposed to pay a final dividend of RMB0.0913 per share for the financial year ended 31 December 2008.

Telecommunications Industry Restructuring and Issuance of 3G Licence

The long-awaited telecommunications industry restructuring proposal was formally announced in May 2008 and 3G licences were officially issued in January 2009. It is expected that demand for respective services such as telecommunications infrastructure construction, network maintenance and optimization, and telecommunications value-added services will accelerate the rapid development of the industry's value chain and provide commercial opportunities for our three main businesses. The Group has already fully prepared itself for this, for example, by actively participating in the TD-SCDMA trial network construction and thus gaining valuable experience. In 2008, through the acquisition and integration of China International Telecommunications Construction Corporation ("CITCC"), the Group achieved nationwide business coverage with synergy emerging gradually. In addition, the Group established dedicated project support teams and closely monitored the demand of our three major operator customers. In the second half of 2008, there was significant progress in the respective businesses, which was the major factor in driving up our sales growth for the year. In future, the Group will continue to focus on our customer needs and key projects, and allocate resources effectively, with a view to achieving sustainable development.

Overseas Markets Expansion

Overseas markets expansion is one of the Group's long-term development strategies. In 2008, the Group achieved initial success in its business expansion strategy by starting to act as the principal contractor for large-scale projects in certain regions such as Africa, including the nationwide optical fiber transmission network in Congo (K). Demand in developing countries for telecommunications infrastructure services is growing. Meanwhile, the PRC government adopted policies encouraging enterprises to "Go Abroad". All the foregoing has provided a sound development environment for our overseas business expansion. In future, the Group will focus on overseas projects in which we act as principal contractor, and strengthen our efforts in overseas markets expansion so as to fuel our long-term growing power.

Opportunity from Corporate Informatization Construction

In response to the global economic slowdown in 2008 caused by the financial crisis, the PRC government put forward a series of measures to stimulate the domestic economy and enlarge domestic demand, such as those aiming to accelerate infrastructure construction. Meanwhile, the government has encouraged the economic informatization of society and promoted the integration of industrialization and informatization. All of them have provided the industry with tremendous opportunities and a clear direction for development. Accordingly, the Group will focus on responding to the demand for informatization construction of government agencies and corporate customers and enhancing our cooperation with strategic partners. The Group will further improve our core competitiveness for grasping opportunities brought by such informatization construction.

Corporate Governance

The Group believes that maintaining a good corporate governance structure and sound internal control system is key to protecting the interests of the shareholders. In 2008, the Group strictly complied with the relevant laws and regulations and further optimized its corporate governance structure to ensure a stable, optimal and effective internal control system. The Group has consistently stood on a principle of timely, fair and accurate information disclosure, using different channels to enhance our communications with shareholders and capital markets, thereby improving the transparency of the Company and enhancing our corporate value.

Corporate Responsibility

China experienced catastrophic natural disasters in 2008, such as the snowstorms and earthquakes. The Group actively supported all major operators and equipment vendors to restore and reconstruct telecommunications networks, providing a total of over 30,000 person-time support services. It demonstrated our nationwide centralized deployment and prompt and highly efficient service support capabilities and helped us establish a sound corporate image, as a result, we received high social and customer recognition.

Outlook — Coexistence of Challenges and Opportunities

2009 is a year full of opportunities and challenges. The domestic telecommunications industry began to show signs of dampening growth in the second half of 2008 due to the slowdown in the global economy. This is expected to continue as the macroeconomic environment continues to negatively impact on market demand in the telecommunications industry. There will be changes in the competitive landscape following industry restructuring, and uncertainties in regulatory policy governing the industry will also emerge. However, we believe that the opportunities thrown up in these times will outweigh the challenges. In future, the Group will continue to build up our culture of providing quality customer service, sustain our customer-focused informatization strategy, actively expand our overseas markets, adhere to innovative development and encourage the integration of organic and external growth. With our excellent management team, professional staff members and years of industry experience, we are confident that we, as the "service provider for telecommunications, media and technology companies", are well positioned to achieve our mission of being customer-oriented, maintaining excellent operations, allocating our resources efficiently, demonstrating innovative leadership and bringing maximized returns to our shareholders.

Finally, on behalf of the Board, I would like to express my gratitude to all staff for their dedication and hard work in contributing to the development of the Group in the past year, and also my sincere thanks to all customers and shareholders for their continuous unwavering support and trust.

Li Ping
Chairman

Beijing, PRC
2 April 2009

PRESIDENT'S STATEMENT

Dear Shareholders,

I am very pleased to present the operating performance of the Group in 2008.

In 2008, the Group recorded revenues of RMB32,471 million, representing an increase of 37.9% over the same period last year. Profit attributable to equity shareholders grew by 12.8% over the same period last year to RMB1,316 million. The rapid growth in revenues was mainly driven by the increase in revenue from telecommunications operators in the second half of the year and the integration synergies achieved after the acquisition of China International Telecommunications Construction Corporation ("CITCC").

In 2008, cost of revenues amounted to RMB27,170 million, representing an increase of 39.5% over the same period last year. It was mainly attributable to the growth in relevant costs driven by the growth in revenues and businesses during the year. As a result, the Group's gross profit margin in 2008 was 16.3%, representing a decrease of 1 percentage point over 17.3% in 2007. Selling, general and administrative expenses was RMB3,854 million, representing 11.9% of our revenues, and maintained at the same level as in 2007. By strengthening working capital management and adopting a prudent strategy on capital expenditure, our free cash flow amounted to RMB1,271 million, and it was maintained at a healthy cash flow position.

In 2008, we recorded rapid growths in all our three main businesses. After the formal announcement of telecommunications industry restructuring, our three major operator customers increased their investments in telecommunications network construction and optimization in the second half of the year, which drove an increase of 38.2% over the same period last year in our revenue from the telecommunications infrastructure ("TIS") services. The continuous growth in demand for telecommunications machineries and terminals by the telecommunications operators and the growth in outsourced network maintenance business led to an increase of 41.9% over the same period last year in our revenues from the business process outsourcing ("BPO") services. During the year, revenues from applications, contents and other ("ACO") services increased 25.1% over the same period last year as we made further progress on IT applications business (which mainly includes system integration services) and benefited from the gradually outsourcing of call centre services by the telecommunications operators.

In 2008, the revenue from our three major operator customers was RMB21,696 million, representing an increase of 44.8% over the same period last year, among which revenue from China Telecom was up by 38.0%, and revenue from China Mobile and China Unicom together was up by 67.6%. Revenues from government agencies and corporate customers amounted to RMB10,775 million, representing an increase of 26.0% over the same period last year. Following the telecommunications industry restructuring, these three major operator customers increased their capital expenditure in mobile networks during the year and expanded their scale of non-core businesses outsourcing. As a result, our revenue from these three operator customers increased significantly.

In 2008, the Group completed the acquisition of CITCC and achieved nationwide business coverage. In addition, the acquisition laid a good foundation for our further expansion in overseas markets and the realization of economies of scale and synergies. After the acquisition, the Group steadily propelled the integration of risk control, financial management, operational analysis and corporate operations, which led to the optimization of the organizational structure of CITCC and the outstanding improvement in its operational efficiency. After completion of the acquisition on 30 May, revenue and net profit contributed by CITCC to the Group in 2008 amounted to RMB1,690 million and RMB41 million respectively, driving revenue growth and net profit growth of the Group by 7.1 and 3.6 percentage points respectively.

With a solid foundation in the domestic market, we also actively expanded our overseas markets in 2008. Revenues from overseas markets amounted to RMB654 million, representing an increase of more than 50% over the same period last year. In future, the Group will target overseas projects in which we act as principal contractor, focus on providing project planning, design, consulting and construction of the communications network and integrated network outsourcing services for overseas telecommunications operators, and further expand our market share in overseas markets.

With the steady development of our businesses in 2008, the Group further improved its internal control and risk management system. The establishment of a two-tier officer-in-charge of risk management system, completion of a three-tier risk control mechanism, formulation and improvement of an internal audit system, enhancement of identification and control of risk factors and further improvements to operation management through using an IT management system, all served to effectively protect the interests of public shareholders.

In 2008, the Group continued to adhere to the human resources development strategy of "controlling total headcount, optimizing the human resources structure, enhancing capability and motivating staff enthusiasm". With the reduction of our management hierarchy and control of total headcount, we also emphasized the need to attract high-quality professional talent and strengthen our internal training, thereby providing effective support to the development of our business. The Group attached great importance to improving the performance-based management system, and implemented annual incentives and share appreciation rights as the middle and long-term incentives schemes respectively to ensure the alignment of the interests of the company, employees and shareholders.

Looking forward into 2009, we believe the increase in capital expenditure in the domestic telecommunications industry, and the gradual increase in demand for communications infrastructure auxiliary projects services from government agencies and corporate customers following the development process in domestic industrialization and informatization, will vigorously drive the growth in TIS services. Operators will expand their scale of non-core business outsourcing, which will drive a continuous and steady growth in the Group's BPO services. The Group is now further strengthening our cooperation with strategic partners to enhance our core competitiveness and brand value, and striving to push the ACO services to develop rapidly.

In 2009, the Group will strive to grasp business opportunities and reward our shareholders and society with excellent business performance. Accordingly, the Group will focus on the following tasks:

- **Providing full support to operators in network construction and business operations**

  Focus on the demand of telecommunications operators in 3G era for network construction, network maintenance and optimization, terminal sales, logistics distribution and IT applications services, etc.

- **Actively expanding the government agencies and corporate customers market**

  Focus on the demand of infrastructure companies and strive to undertake communications facilities construction projects for railways, highways, bridges, tunnels and subways in design, construction supervision, system integration, billing system and monitoring system, etc.

- **Accelerating our pace in overseas markets expansion**

  Focus on expansion in the markets of Africa, the Middle East, Latin America, Hong Kong, Macau and Southeast Asia, and actively undertake overseas projects as principal contractor.

- **Continuing to propel the development of ACO services**

  Adopt the innovative development model and pursue further breakthrough in the cooperation with our strategic partners to ensure rapid business development.

- **Strengthening internal integration and enhancing operational efficiency**

  Push forward centralized cash management, strengthen internal resources allocation and enhance cost control, with a view of continuing to improve corporate value.

Zhang Zhiyong
President

Beijing, PRC
2 April 2009

GROUP RESULTS

China Communications Services Corporation Limited (the "Company") is pleased to announce the consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2008 extracted from the audited consolidated financial statements of the Group as set out in its 2008 annual report.

Consolidated income statement
for the year ended 31 December 2008
(Expressed in Renminbi)

	Note	**2008** **RMB'000**	2007 RMB'000
Revenues	*3*	**32,470,570**	23,538,381
Cost of revenues	*4*	**(27,169,728)**	(19,473,632)
Gross profit		**5,300,842**	4,064,749
Other operating income	*5*	**417,960**	341,485
Selling, general and administrative expenses		**(3,854,381)**	(2,794,662)
Other operating expenses		**(55,865)**	(12,579)
Net financing (expense)/income	*6*	**(77,701)**	41,682
Share of profits of associates		**2,161**	3,575
Profit before tax	*7*	**1,733,016**	1,644,250
Income tax	*8*	**(401,415)**	(461,056)
Profit for the year		**1,331,601**	1,183,194
Attributable to:			
Equity shareholders		**1,316,267**	1,167,247
Minority interests		**15,334**	15,947
Profit for the year		**1,331,601**	1,183,194
Final dividend	*9*	**526,955**	393,629
Basic and diluted earnings per share (RMB)	*10*	**0.232**	0.214

Consolidated balance sheet
at 31 December 2008
(Expressed in Renminbi)

	Note	**2008** **RMB'000**	2007 RMB'000
Non-current assets			
Property, plant and equipment, net		**3,634,486**	3,371,755
Investment properties		**707,215**	644,722
Construction in progress		**231,008**	228,174
Lease prepayments		**431,291**	371,799
Goodwill		**103,005**	—
Other intangible assets		**115,577**	80,094
Interests in associates		**12,902**	11,064
Other investments		**269,788**	307,971
Deferred tax assets		**117,616**	96,371
Total non-current assets		**5,622,888**	5,111,950
Current assets			
Inventories		**1,142,346**	1,035,761
Accounts and bills receivable, net	*11*	**9,202,905**	6,627,607
Prepayments and other current assets		**2,898,338**	2,181,571
Restricted deposits		**177,732**	251,128
Cash and cash equivalents		**8,415,011**	6,632,252
Total current assets		**21,836,332**	16,728,319
Total assets		**27,459,220**	21,840,269
Current liabilities			
Interest-bearing borrowings		**1,954,426**	2,560,256
Accounts and bills payable	*12*	**7,637,498**	4,686,643
Receipts in advance for contract work		**806,943**	520,725
Accrued expenses and other payables		**4,730,604**	4,223,476
Income tax payable		**185,602**	198,360
Total current liabilities		**15,315,073**	12,189,460
Net current assets		**6,521,259**	4,538,859
Total assets less current liabilities		**12,144,147**	9,650,809

	Note	2008 RMB'000	2007 RMB'000
Non-current liabilities			
Long-term borrowings, less current portion		**—**	960
Deferred tax liabilities		**31,453**	11,641
Total non-current liabilities		**31,453**	12,601
Total liabilities		**15,346,526**	12,202,061
Equity			
Share capital		**5,771,682**	5,444,986
Reserves		**6,219,189**	4,115,792
Equity attributable to equity shareholders of the Company		**11,990,871**	9,560,778
Minority interests		**121,823**	77,430
Total equity		**12,112,694**	9,638,208
Total liabilities and equity		**27,459,220**	21,840,269

Notes:

1. ORGANISATION AND BASIS OF PRESENTATION

The Company was established in the PRC on 30 August 2006 as a joint stock limited company under the Company Law of the PRC as part of the Restructuring (as defined in the Company's prospectus dated 27 November 2006) of China Telecommunications Corporation ("CTC"), a state-owned enterprise under the direct supervision of the State Council of the PRC. Pursuant to the Restructuring, the Group assumed the telecommunications support services previously carried on by various subsidiaries wholly-owned or controlled by CTC in six provinces and municipality in the PRC, namely, Guangdong Province, Zhejiang Province, Shanghai Municipality, Fujian Province, Hubei Province and Hainan Province (collectively, the "Predecessor Operations"). The Company was founded by CTC, Guangdong Telecom Industry Group Corporation and Zhejiang Telecom Industry Corporation by way of the injection of those subsidiaries carrying on the Predecessor Operations and cash contributions. In connection with the Restructuring, the Predecessor Operations together with the related assets and liabilities that were to be transferred to the Group were segregated from CTC effective on 31 March 2006.

Pursuant to the acquisition agreement dated 15 June 2007, the Company acquired the telecommunications infrastructure services, business process outsourcing services and applications, content an other services located in Jiangsu Province, Anhui Province, Jiangxi Province, Hunan Province, Guangxi Zhuang Autonomous Region, Chongqing Municipality, Sichuan Province, Guizhou Province, Yunnan Province, Shaanxi Province, Gansu Province, Qinghai Province and Xinjiang Uygur Autonomous Region, together with the equity interests in Guangdong Nanfang Communication GSM Intelligent Card System Co., Ltd. and Ningbo Public Information Industry Co., Ltd (the "Target Business") from CTC on 31 August 2007.

As the Target Business was under common control of CTC, the acquisition of the Target Business has been reflected in the accompanying consolidated financial statements as a combination of entities under common control and accounted for in a manner similar to pooling-of-interests. Accordingly, the assets and liabilities of the Target Business were accounted for as historical costs and the consolidated financial statements of the Company prior to the foregoing acquisition have been restated to include the results of operations and assets and liabilities of the Target Business on a combined basis. The consideration paid by the Company for the acquisition of the Target Business has been accounted for as an equity transaction in the consolidated statement of changes in equity.

2. STATEMENT OF COMPLIANCE

The financial statements of the Company and the Group have been prepared in accordance with International Financial Reporting Standards ("IFRSs") promulgated by the International Accounting Standards Board ("IASB"). IFRSs include all applicable individual International Financial Reporting Standards, International Accounting Standards ("IASs") and related interpretations. The financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The IASB has issued a number of new and revised IFRSs and interpretations that are effective or available for early adoption for the current accounting period of the Group and the Company. There have been no significant changes to the accounting policies applied in these financial statements for the year presented as a result of these developments. The Group has not applied any new standards or interpretations that are not yet effective for the current accounting period.

3. REVENUES

Revenues are derived from the provision of integrated telecommunications support services, net of sales taxes, and after allowance for trade discounts. The Group's revenues by business nature can be summarised as follows:

	2008	2007
	RMB'000	*RMB'000*
Revenue from telecommunications infrastructure services	**15,329,464**	11,093,007
Revenue from business process outsourcing services	**13,288,370**	9,365,152
Revenue from applications, content and others	**3,852,736**	3,080,222
	32,470,570	23,538,381

4. COST OF REVENUES

	2008	2007
	RMB'000	*RMB'000*
Depreciation and amortisation	**334,590**	305,205
Direct personnel costs	**5,921,374**	4,556,857
Operating lease charges	**460,757**	359,896
Purchase of materials and telecommunications products	**10,829,497**	7,632,433
Subcontracting charges	**6,966,405**	4,577,237
Others	**2,657,105**	2,042,004
	27,169,728	19,473,632

5. OTHER OPERATING INCOME

	2008	2007
	RMB'000	*RMB'000*
Dividend income from unlisted securities	**19,332**	39,629
Government grants	**87,093**	66,914
Gain on disposal of investments	**7,340**	52,250
Gain on disposal of property, plant and equipment	**7,354**	129
Gain on disposal of held to maturity investment	**—**	987
Penalty income	**2,142**	3,122
Management fee income	**245,879**	139,245
Write back of non-payable liabilities	**14,367**	11,623
Others	**34,453**	27,586
	417,960	341,485

6. NET FINANCING (EXPENSE)/INCOME

	2008	2007
	RMB'000	*RMB'000*
Interest income	**102,513**	119,396
Net foreign exchange loss	**(11,474)**	(15,461)
Change in fair value of derivative financial instruments	**—**	(9,461)
Interest on bank advances and other borrowings wholly repayable within five years	**(168,740)**	(52,792)
	(77,701)	41,682

For the years ended 31 December 2008 and 2007, no borrowing costs were capitalised in relation to construction in progress.

7. PROFIT BEFORE TAX

	2008	2007
	RMB'000	*RMB'000*
(a) Staff costs:		
Salaries, wages and other benefits	**7,310,746**	5,522,727
Contributions to defined contribution retirement schemes	**678,268**	509,294
	7,989,014	6,032,021
(b) Other items:		
Depreciation		
— Property, plant and equipment	**500,918**	453,878
— Investment properties	**29,751**	26,073
Amortisation		
— Lease prepayments	**8,948**	4,488
— Other intangible assets	**33,271**	23,810
Auditors' remuneration	**36,000**	30,000
Cost of inventories	**10,829,497**	7,632,433
Impairment losses on accounts and other receivables	**46,795**	28,048
Reversal of impairment losses on accounts and other receivables	**(9,953)**	(39,322)
Operating lease charges	**579,921**	452,882
Research and development costs	**112,101**	22,136
Share of associates' taxation	**388**	615

8. INCOME TAX

(a) Income tax in the consolidated income statement represents:

	2008	2007
	RMB'000	*RMB'000*
Current tax		
PRC enterprise income tax	**422,296**	427,793
Deferred tax		
Origination and reversal of temporary differences	**(20,881)**	33,263
Total income tax	**401,415**	461,056

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2008	2007
	RMB'000	*RMB'000*
Profit before tax	**1,733,016**	1,644,250
Expected PRC enterprise income tax expense at a statutory tax rate of 25% (2007: 33%) *(note (i))*	**433,254**	542,603
Differential tax rates on subsidiaries' income *(note (i))*	**(99,727)**	(163,010)
Non-deductible expenses *(note (ii))*	**39,531**	44,734
Non-taxable income	**(11,434)**	(32,328)
Tax losses not recognised	**49,034**	41,830
Utilisation of previously unrecognised tax losses	**(5,894)**	—
Reversal of previously recognised tax losses	**2,068**	18,146
Effect on opening deferred tax resulting from a reduction in PRC statutory tax rate *(note (iii))*	**(5,417)**	9,081
Income tax	**401,415**	461,056

Notes:

(i) The provision of the PRC income tax for the Group is calculated based on a statutory rate of 25% and 33% of the assessable profit of the Group as determined in accordance with the relevant PRC income tax rules and regulations for the year ended 31 December 2008 and for the year ended 31 December 2007 respectively, except for certain subsidiaries of the Group, which are taxed at preferential rates of 15% in 2007 and 15% or 18% in 2008.

(ii) The amount includes personal and other miscellaneous expenses in excess of statutory deductible limits for tax purposes.

(iii) The amount represents the tax effect on opening balances of deferred tax assets from a change in the PRC statutory tax rate. On 16 March 2007, the Corporate Income Tax Law of the PRC ("new tax law") was passed by the Fifth Plenary Session of the Tenth National People's Congress and took effect on 1 January 2008. According to the new tax law, except for certain subsidiaries of the Company which were taxed at preferential rates, the enterprise income tax rate applicable to the Group is reduced from 33% to 25% from 1 January 2008. The enterprise income tax rate applicable to certain subsidiaries taxed at preferential tax rate has been increased from 15% to 25% due to cessation of preferential tax qualification on 1 January 2008. The deferred tax assets have been remeasured for the change in applicable tax rates.

9. DIVIDENDS

(a) Dividends payable to equity shareholders of the Company attributable to the year:

	2008	2007
	RMB'000	*RMB'000*
Final dividend proposed after the balance sheet date RMB0.0913 per share (2007: RMB0.0682 per share)	**526,955**	393,629

(b) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved during the year:

	2008	2007
	RMB'000	*RMB'000*
Final dividend in respect of the financial year ended 31 December 2007, approved during the year, of RMB0.0682 per share (year ended 31 December 2006: nil)	**393,629**	—

(c) Special dividend

	2008	2007
	RMB'000	*RMB'000*
Special dividend approved	**—**	535,011

As disclosed in the Prospectus of the Company dated 27 November 2006, in accordance with the "Provisional Regulation relating to Corporate Restructuring of Enterprises and Related Management of State-owned Capital and Financial Treatment" which was issued by the PRC Ministry of Finance, the directors proposed and the shareholders approved the distribution of profit of the Group for the period from 1 April 2006 to 29 August 2006, being the calendar day immediately preceding to the date of incorporation of the Company. In the same resolution, the directors proposed and the shareholders approved the distribution of profit of the Group for the period from 30 August 2006 to the calendar day immediately preceding the date of its listing on the Stock Exchange (i.e. 7 December 2006) (together, the "2006 Special Dividend").

Pursuant to a resolution passed at the directors' meeting on 17 April 2007, the directors resolved to pay the 2006 Special Dividend to CTC and its subsidiaries amounting to RMB535 million in total, out of which RMB117 million was directly distributed at the subsidiary level. The Company has been paying the 2006 Special Dividend to CTC and its subsidiaries in a series of payments commencing in July 2007.

(d) Profit distribution by Target Business

As disclosed in the Circular of the Company dated 20 June 2007, and in line with the principles set out in the "Notice of Forwarding the Implementation Opinions of the State-owned Assets Supervision and Administration Commission about Further Standardisation of Work Relating to the Reconstruction of State-owned Enterprises" issued by the General Office of the State Council of the PRC, the changes in net assets between the period of 1 February 2007 to 31 August 2007 of the Target Business should be distributed in the form of cash to CTC and its subsidiaries amounting to RMB197 million in total.

10. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company for the year ended 31 December 2008 of RMB1,316 million (2007: RMB1,167 million) and the weighted average number of shares in issue during the year ended 31 December 2008 of 5,683,313 thousand (2007: 5,444,986 thousand).

	2008	2007
	Thousand shares	*Thousand shares*
Ordinary share issued at 1 January	**5,444,986**	5,444,986
Effect of share issued in April 2008	**238,327**	—
	5,683,313	5,444,986

There was no difference between basic and diluted earnings per share as there were no dilutive potential shares outstanding for the periods presented.

11. ACCOUNTS AND BILLS RECEIVABLE, NET

	2008	2007
	RMB'000	*RMB'000*
Bills receivable	**142,521**	39,228
Unbilled revenue for contract work	**2,610,786**	1,050,796
Trade receivables	**6,750,702**	5,611,097
	9,504,009	6,701,121
Less: impairment losses (note (d))	**(301,104)**	(73,514)
	9,202,905	6,627,607

(a) Included in accounts and bills receivable are amounts due from fellow subsidiaries of RMB5,299 million (2007: RMB3,334 million) as at 31 December 2008. The amounts due from fellow subsidiaries are unsecured, interest free and are expected to be recovered within one year.

(b) In general, debts are due for payment upon billing. Subject to negotiation, credit terms within a range of one to three months are available for certain customers with well-established trading and payment records.

(c) The ageing analysis of accounts and bills receivable (net of impairment losses) is as follows:

	2008	2007
	RMB'000	*RMB'000*
Current	**4,326,064**	3,616,471
Within 1 year	**4,231,378**	2,649,994
After 1 year but less than 2 years	**459,572**	309,942
After 2 years but less than 3 years	**119,212**	40,623
After 3 years	**66,679**	10,577
Amount past due	**4,876,841**	3,011,136
	9,202,905	6,627,607

(d) Impairment of accounts and bills receivable

Impairment losses in respect of accounts and bills receivable are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against accounts and bills receivable directly.

The movement in allowance for doubtful debts during the year, including both specific and collective loss components, is as follows:

	2008	2007
	RMB'000	*RMB'000*
At 1 January	**73,514**	88,329
Acquisition of subsidiaries *(note i)*	**202,334**	—
Impairment loss recognised	**40,647**	19,467
Reversal of impairment loss previously recognised	**(8,089)**	(30,695)
Uncollectible amounts written off	**(7,302)**	(3,587)
At 31 December	**301,104**	73,514

(i) Included in impairment losses are impairment loss of RMB202.3 million recognised before the acquisition date by the newly acquired China International Telecommunications Construction Corporation and its subsidiaries, as at 31 December 2008.

At 31 December 2008, the Group's accounts and bills receivable of RMB256.9 million (2007: RMB14.4 million) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific impairment losses of RMB213.2 million (2007: RMB12.5 million) were recognised. The Group does not hold any collateral over these balances.

(e) Accounts and bills receivable that are not impaired

The ageing analysis of accounts and bills receivable that are neither individually nor collectively considered to be impaired are as follows:

	2008	2007
	RMB'000	*RMB'000*
Neither past due nor impaired	**4,326,064**	3,487,520
Within 1 year	**4,230,186**	2,555,504
After 1 year but less than 2 years	**283,800**	298,891
After 2 years but less than 3 years	**77,571**	39,175
After 3 years	**18,442**	10,200
At 31 December	**8,936,063**	6,391,290

Receivables that were neither past due nor impaired relate to major telecommunication service providers for whom there was no history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowances are necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered to be fully recoverable. The Group does not hold any collateral over these balances.

12. ACCOUNTS AND BILLS PAYABLE

Accounts and bills payable comprise:

	2008	2007
	RMB'000	*RMB'000*
Accounts payable	**6,111,129**	4,060,211
Bills payable	**1,526,369**	626,432
	7,637,498	4,686,643

The ageing analysis of accounts and bills payable is as follows:

	2008	2007
	RMB'000	*RMB'000*
Within 1 year	**7,246,984**	4,225,513
After 1 year but less than 2 years	**267,017**	368,011
After 2 years but less than 3 years	**84,554**	55,060
After 3 years	**38,943**	38,059
	7,637,498	4,686,643

Included in accounts and bills payable are amounts due to fellow subsidiaries of RMB254 million (2007: RMB205 million) as at 31 December 2008. The amounts due to fellow subsidiaries are unsecured, interest free and are expected to be settled within one year.

13. SEGMENTAL REPORTING

For the years ended 31 December 2007 and 2008, the Group principally had one business segment, the provision of integrated telecommunications service to the telecommunications industry in the PRC. The Group mainly operates in the PRC. Accordingly, no business and geographical segment information are presented.

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

Overview

On 30 May 2008, the Company completed the acquisition of the 100% equity interest of China International Telecommunications Construction Corporation ("CITCC") from China National Postal and Telecommunications Appliances Corporation for a consideration of RMB505.46 million. In accordance with the acquisition accounting method under International Financial Reporting Standards, the results of CITCC were included in the consolidated financial statements of the Group from the date of acquisition to 31 December 2008.

In 2008, there was a tremendous change in the market environment of the domestic telecommunications industry. The telecommunications industry restructuring proposal was formally announced, and the PRC government's policy for the granting of 3G licenses became clearer and was finally made in the beginning of 2009. All of the telecommunications operators began to increase their investments in 2G and 3G network construction, capacity expansion and optimization, thus providing new opportunities for our Group. As we were fully prepared for these changes in the aforementioned market environment, our major businesses grew strongly in 2008 and we achieved favourable operating results. Our revenues amounted to RMB32,470.57 million, an increase of 37.9% from 2007. Profit attributable to equity shareholders of the Company was RMB1,316.27 million, an increase of 12.8% from 2007. Basic earnings per share was RMB0.232, an increase of 8.4% from 2007. The free cash flow amounted to RMB1,271.12 million.

Revenues

Our revenues in 2008 were RMB32,470.57 million, an increase of 37.9% from 2007. Among the businesses, revenue from telecommunications infrastructure services was RMB15,329.46 million, an increase of 38.2% from 2007; revenue from business process outsourcing services was RMB13,288.37 million, an increase of 41.9% from 2007; revenue from applications, content and other services was RMB3,852.74 million, an increase of 25.1% from 2007. Telecommunications infrastructure services and business process outsourcing services were the major sources of our revenue growth in 2008. In terms of customer structure, the Group's revenues from our customers other than China Telecom amounted to RMB16,557.28 million, representing 51.0% of the total revenues, which was at the same level of 2007.

The following table sets forth a breakdown of our revenues for 2007 and 2008, together with their respective rates of change:

	2008 *RMB'000*	2007 *RMB'000*	Percentage change
Telecommunications Infrastructure Services			
Design services	**3,166,637**	2,436,345	30.0%
Construction services	**11,316,088**	8,071,188	40.2%
Project supervision and management services	**846,739**	585,474	44.6%
	15,329,464	11,093,007	38.2%
Business Process Outsourcing Services			
Network maintenance	**2,349,901**	1,572,953	49.4%
Distribution of telecommunications services and products	**8,985,256**	6,097,148	47.4%
Facilities management	**1,953,213**	1,695,051	15.2%
	13,288,370	9,365,152	41.9%
Applications, Content and Other Services			
IT applications	**1,997,523**	1,546,478	29.2%
Internet service	**361,170**	478,022	–24.4%
Voice VAS	**578,071**	325,661	77.5%
Other	**915,972**	730,061	25.5%
	3,852,736	3,080,222	25.1%
Total	**32,470,570**	23,538,381	37.9%

Telecommunications Infrastructure Services

In 2008, our revenue from telecommunications infrastructure services was RMB15,329.46 million, which still remained as our primary source of income, and accounted for 47.2% of our revenues. As the telecommunications industry restructuring proposal was finalized and the PRC government's policy for granting 3G licenses became clearer, telecommunications operators began to increase their investments in network construction and optimization, providing tremendous opportunities to our Group. Given that we were well prepared for these opportunities, we were able to respond in a timely manner to telecommunications operators' demand and provide strong business support. Accordingly, our telecommunications infrastructure services business achieved substantial growth, and revenue from this business was increased by 38.2% in 2008 from RMB11,093.01 million in 2007.

Business Process Outsourcing Services

In 2008, our revenue from business process outsourcing services was RMB13,288.37 million, representing an increase of 41.9% over RMB9,365.15 million for 2007. Business process outsourcing services accounted for 40.9% of our revenues, representing an increase of 1.1 percentage points from 39.8% in 2007. Among the businesses, revenue from network maintenance was RMB2,349.90 million, representing an increase of 49.4% from 2007. It was mainly due to the telecommunications operators increasing their network capacity and continuing to actively progress network maintenance outsourcing with the purpose of improving their service quality and lowering their operating costs. In addition, revenues from distribution of telecommunications services and products amounted to RMB8,985.26 million, an increase of 47.4% from 2007. This increase mainly benefited from the strong growth in demand for telecommunications machinery and terminals by telecommunications operators. At the same time, the Group adjusted and optimized the business structure of the distribution of telecommunications services and products, and actively controlled the development of low-margin businesses to reduce operational risks and improve operational efficiency. Revenues from our distribution of telecommunications services and products in the second half year of 2008 grew stably over the first half of the year.

Applications, Content and Other Services

In 2008, our revenue from applications, content and other service was RMB3,852.74 million, representing an increase of 25.1% over RMB3,080.22 million for 2007. Owing to the substantial growth in telecommunications infrastructure services and business process outsourcing services over the previous year, the proportion of revenue from applications, content and other service to our revenues was reduced to 11.9%, representing a decrease of 1.2 percentage points from 13.1% in 2007. Among the businesses, revenue from IT applications amounted to RMB1,997.52 million, representing an increase of 29.2% from 2007. Revenue from voice VAS was RMB578.07 million, representing an increase of 77.5% from 2007. The growth in these businesses was mainly attributable to the gradual implementation of call centres services outsourcing by telecommunications operators, and the Group's active expansion of its businesses such as system integration to cope with the demand for informationization from government agencies and corporate customers. Revenues from Internet services amounted to RMB361.17 million, representing a decrease of 24.4% from 2007. In 2008, the Group further integrated this business in order to enhance its operational efficiency.

Cost of Revenues

Our cost of revenues in 2008 was RMB27,169.73 million, representing an increase of 39.5% from 2007 and accounting for 83.7% of our revenues.

The following table sets out a breakdown of our cost of revenues in 2007 and 2008 and their respective rates of change:

	2008 *RMB'000*	2007 *RMB'000*	Percentage change
Direct personnel costs	**5,921,374**	4,556,857	29.9%
Depreciation and amortization	**334,590**	305,205	9.6%
Purchase of materials and telecommunications products	**10,829,497**	7,632,433	41.9%
Subcontracting charges	**6,966,405**	4,577,237	52.2%
Operating lease charges and others	**3,117,862**	2,401,900	29.8%
Total cost of revenues	**27,169,728**	19,473,632	39.5%

Direct Personnel Costs

In 2008, direct personnel costs were RMB5,921.37 million, which accounted for 18.2% of revenues and an increase of 29.9% over RMB4,556.86 million in 2007. The Group has always applied stringent control over its total headcount. After the formal announcement of telecommunications industry restructuring in 2008, the Group's business volume increased significantly. In order to respond promptly to this increase in demand for our business, we increased our recruitment of temporary workers to cope with the temporary workforce demand and satisfy operators' tight work schedule. This expenditure item was the main cause of a rapid growth in our labour costs.

Depreciation and Amortization

In 2008, depreciation and amortization amounted to RMB334.59 million, which accounted for 1.0% of revenues and represented an increase of 9.6% over RMB305.21 million in 2007.

Purchase of Materials and Telecommunications Products

In 2008, our distribution business of telecommunications services and products and telecommunications infrastructure construction business grew strongly, resulting in a significant increase in revenues. Accordingly, the cost of purchasing materials and telecommunications products increased significantly, amounting to RMB10,829.50 million, representing 33.4% of revenues and an increase of 41.9% over RMB7,632.43 million in 2007. Among the cost, the amount of telecommunications products purchases was RMB7,304.39 million, representing an increase of 47.7% over RMB4,944.18 million in 2007, and that of construction material purchases was RMB3,525.11 million, representing an increase of 31.1% over RMB2,688.26 million in 2007.

Subcontracting Charges

In 2008, subcontracting charges were RMB6,966.41 million, which accounted for 21.5% of revenues and represented an increase of 52.2% over RMB4,577.24 million in 2007. The increase in subcontracting charges was mainly derived from telecommunications infrastructure construction services. As the volumn of our business increased significantly in 2008, we outsourced our low-end business (such as pipeline construction, line construction, etc) in telecommunications network construction, and this caused a substantial increase in subcontracting charges for the year.

Operating Lease Charges and Others

In 2008, operating lease charges and others were RMB3,117.86 million, which accounted for 9.6% of revenues and represented an increase of 29.8% over RMB2,401.90 million in 2007.

Gross Profit

In 2008, the Group's gross profit amounted to RMB5,300.84 million, representing an increase of RMB1,236.09 million from RMB4,064.75 million in 2007, representing an increase of 30.4%. The Group's gross profit margin in 2008 was 16.3%, representing a decrease of 1.0 percentage point over 17.3% in 2007. The decrease in our gross profit margin when compared to 2007 was mainly attributable to the Group's adoption of a more competitive pricing strategy in order to capture more business opportunities that emerged after the telecommunications industry restructuring.

Selling, General and Administrative Expenses

Our selling, general and administrative expenses in 2008 was RMB3,854.38 million, representing an increase of 37.9% over RMB2,794.66 million in 2007, which accounted for 11.9% of revenues and was maintained at the same level as in 2007. We will strengthen our comprehensive budget management and performance appraisal to effectively control the excessive growth in our selling, general and administrative expenses.

Net Financing (Expense)/Income

In 2008, we recorded net financing costs of RMB77.70 million, whereas we recorded net financing income of RMB41.68 million in 2007. This change was mainly due to the Group's borrowings totalling RMB1.6 billion to fund acquisitions of our parent company's specialized telecommunication support services businesses ("Target Business") in 13 provinces (municipality and autonomous regions) in 2007 by way of debt financing. This borrowing caused a substantial increase in the Group's financing costs in 2008 and also had a negative impact on our net profit.

Income Tax

Certain subsidiaries of our Group, which are classified as new and high-technology enterprises, are subject to a preferential income tax rate of 15%. Our subsidiaries located in Hainan Province, and Shenzhen, Zhuhai and Xiamen Special Economic Zones are subject to an income tax rate of 18%. Apart from these companies, the Company and other subsidiaries of the Group are subject to an income tax rate of 25%. The income tax in 2008 was RMB401.42 million and our effective tax rate was 23.2%. The difference between our effective tax rate and the statutory tax rate was mainly due to the effect of the aforementioned preferential tax rate treatment of our subsidiaries.

Profit Attributable to Equity Shareholders

In 2008, profit attributable to equity shareholders of the Company was RMB1,316.27 million, an increase of 12.8% over RMB1,167.25 million in 2007.

Capital Expenditure

We implemented stringent budget management, and adjusted our capital expenditure plan to accord with changes in market condition. In 2008, our capital expenditure amounted to RMB707.14 million, and remained at a similar level to 2007 at RMB719.54 million in 2007. The capital expenditure in 2008 represented 2.2% of our total revenues, a decrease of 0.9 percentage point when compared to 2007. Our capital expenditure included the purchases of production facilities and equipment, machinery and meters, vehicles, office equipments, plant and buildings, intangible assets and other operating assets.

Cash Flow and Capital Resources

Cash Flow

In 2008, our net cash inflow was RMB1,783.41 million. In 2007, our net cash outflow was RMB1,530.37 million. By the end of 2008, our cash and cash equivalents was RMB8,415.01 million, of which, 99.2% was Renminbi in currency.

The following table sets out our cash flow position in 2007 and 2008, respectively:

	2008 ***RMB'000***	2007 *RMB'000*
Net cash generated from operating activities	**1,950,309**	1,663,776
Net cash used in investing activities	**(43,609)**	(5,183,186)
Net cash (used in)/generated from financing activities	**(123,291)**	1,989,038
Net increase/(decrease) in cash and cash equivalents	**1,783,409**	(1,530,372)

In 2008, our net cash generated from operating activities was RMB1,950.31 million, an increase of RMB286.53 million from RMB1,663.78 million in 2007. The significant increase in net cash inflow from operating activities was mainly due to the rapid development of our operations and the improvement of our working capital management.

In 2008, our net cash used in investing activities was RMB43.61 million, a decrease of RMB5,139.58 million from RMB5,183.19 million in 2007. This was mainly due to the Company's acquisition of the Target Business for a consideration of RMB4.6 billion in 2007. The cash used in investing activities during the year included cash paid for the acquisition of CITCC and the cash brought into our Group by CITCC.

In 2008, our net cash used in financing activities was RMB123.29 million. In 2007, net cash generated from financing activities was RMB1,989.04 million. The change in cash flow of financing activities in our Group during 2008 was mainly attributable to the proceeds from our share placement in April 2008 and the cash used for the repayment of short-term debts.

Working Capital

By the end of 2008, our working capital (i.e. non-cash current assets minus operating current liabilities) was RMB68.54 million, representing a decrease of RMB345.56 million from RMB414.10 million in 2007. Amid the substantial growth in our revenues, we strengthened our accounts receivable management and obtained better credit terms.

Indebtedness

By the end of 2008, total indebtedness of the Group was RMB1,954.43 million, and most of them were fixed interest rate loans and denominated in RMB. Our indebtedness decreased by RMB606.79 million from RMB2,561.22 million at the year end of 2007. The Company completed the acquisitions of Target Business in 2007, and, by way of debt financing, raised RMB1.6 billion by the end of 2007. Through strengthening the centralized cash management, the Group repaid RMB0.6 billion by the end of 2008, leaving RMB1.0 billion outstanding. All other new loans in 2008 were short-term borrowings made by our subsidiaries to supplement their working capital requirements.

By the end of 2008, our gearing ratio(1) was 14.0%, a decrease of 7.1 percentage points from 21.1% in 2007.

(1) Gearing ratio equals to total interest-bearing debts divided by the sum of total interest-bearing debts and equity attributable to equity shareholders of the Company at the end of each financial year.

Contractual Obligations

The following table sets out our contractual obligations as at 31 December 2008:

	Total	2009	2010	2011	2012	2013 and after
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Short-term debt	1,954,426	1,954,426	—	—	—	—
Long-term debt	—	—	—	—	—	—
Operating lease commitments	214,103	95,227	55,805	28,756	16,323	17,992
Capital commitments	353,274	353,274	—	—	—	—
Of which:						
Authorized and contracted for	163,397	163,397	—	—	—	—
Authorized but not contracted for	189,877	189,877	—	—	—	—
Total of contractual obligations	2,521,803	2,402,927	55,805	28,756	16,323	17,992

Exchange Rate

Most of our revenues and expenses are settled in Renminbi. Therefore the risks associated with foreign currency exchange rates have no significant impact on our business performance. By the end of 2008, the balance of our cash and cash equivalents in foreign currencies accounted for 0.8% of our total cash and cash equivalents.

Acquisitions and Integration

In May 2008, the Company completed its acquisition of CITCC. After the completion of the acquisition, the Company immediately implemented integration of CITCC within the Group and has achieved a smooth transition. This further improved our overall competitiveness and enhanced the Group's strengths in the northern provinces of China and overseas markets. For the period from the date of acquisition to the end of 2008, the operating results of CITCC fully reached our targets, with revenues and profits attributable to the shareholders of the Company amounting to RMB1,689.60 million and RMB41.10 million respectively. With further integration, we believe the operating results of the Group will continue to improve. Furthermore, the Group will also continue to implement the development strategy in combining our organic growth and external expansion to bring greater values to our shareholders.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

For the year ended 31 December 2008, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

AUDIT COMMITTEE

The audit committee has reviewed with the management and the Company's international auditors, KPMG, the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including the review of the Annual Report for the year ended 31 December 2008.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

As a company incorporated in the PRC and listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company not only has complied with the relevant provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") but has also abided by PRC Company Law and other applicable laws, regulations and regulatory requirements of Hong Kong and the PRC as the basic guidelines for the Company's corporate governance. For the year ended 31 December 2008, the Company has complied with the Code Provisions in the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules to govern securities transactions by Directors. Having made specific enquiries in writing to the Directors, each of the Directors has confirmed his compliance with the Model Code in connection with the Company's securities in the reporting period.

CLOSURE OF SHARE REGISTER

The Company's share register will be closed from Sunday, 10 May 2009 to Tuesday, 9 June 2009 (both days inclusive), during which period all transfers of shares in the Company will be suspended. In order to qualify for the proposed dividend or be eligible to attend the 2008 annual general meeting of the Company, all transfer documents, accompanied by the relevant share certificates, must be lodged with the Company's registrar, Computershare Hong Kong Investor Services Limited at Rooms 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, before 4:30 p.m. on Friday, 8 May 2009.

ANNUAL REPORT

The Annual Report for the year ended 31 December 2008 will be despatched to shareholders and made available on the HKExnews website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (www.chinaccs.com.hk) in due course.

FORWARD-LOOKING STATEMENTS

The Company would also like to caution readers about the forward-looking nature of certain of the above statements. These forward-looking statements are subject to risks and uncertainties and assumptions, some of which are beyond our control. Potential risks and uncertainties include those concerning the continued growth of the telecommunications industry in China, the development of the regulatory environment and our ability to successfully execute our business strategies. In addition, these forward-looking statements reflect our current views with respect to future events and are not a guarantee of future performance. We do not intend to update these forward-looking statements. Actual results may differ materially from the information contained in the forward-looking statements as a result of a number of factors.

As at the date of this announcement, our executive directors are Mr. Li Ping (Chairman), Mr. Zhang Zhiyong (President) and Mr. Yuan Jianxing (Executive Vice President and Chief Financial Officer), our non-executive directors are Mr. Liu Aili and Mr. Zhang Junan, and our independent non-executive directors are Mr. Wang Jun, Mr. Chan Mo Po, Paul, Mr. Zhao Chunjun, Mr. Wu Shangzhi and Mr. Hao Weimin.