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: 0552)

Announcement of Annual Results for the Year Ended 31 December 2006

HIGHLIGHTS

- Revenues were RMB14,183 million, up by 7.2%
- Profit attributable to equity holders of the Company was RMB696 million, up by 16.5%
- Earnings per share were RMB0.172, up by 13.9%

CHAIRMAN'S STATEMENT

Dear shareholders,

In 2006, our Company successfully completed its restructuring and was successfully listed on the Main Board of the Hong Kong Stock Exchange. The great success of our initial public offering (the "IPO") and the favourable performance of our share price fully reflects the confidence of the capital markets in our business model and future prospects.

Our restructuring and IPO facilitated substantial changes within the Company, which consolidated our leadership position in the telecommunications support services market in China and enabled our Company to capture the business opportunities presented by the dramatic growth of our industry. Our Company achieved favourable results with stable revenue growth and improved operational efficiency in 2006. We are confident that our distinct business strategies, excellent execution capabilities, comprehensive resources and outstanding staff will enable our Company to maintain a sustainable, healthy growth in future.

In 2006, our Company established a sound corporate governance structure, perfected its management systems, implemented the integration of our business and resources, enhanced and improved our knowledge management and our efforts in human resources development, hence reinforcing our core competiveness and providing a solid foundation for the continued improvement and optimization of our integrated one-stop services business model.

Our high quality shareholder base and strong shareholder support guarantees the sustainable growth of our business. Our major customers, China Telecommunications Corporation, China Mobile Communications Corporation and China United Telecommunications Corporation are also our key shareholders and this will beneficially facilitate our Company's further expansion of our market share in our industry. We will actively work with leading operators in the Chinese telecommunications sector to explore new business areas, including the development of innovative new products and services. At the same time, we have also established a close partnership with Cisco, one of our strategic shareholders, and other equipment suppliers to develop new business solutions for our customers.

With reference to international best practices, we established a sound Board structure. We invited reputable professionals with extensive knowledge and management experience in the fields of telecommunications, finance, commerce and academia to join our Board. We also established five specialised Board committees comprising independent non-executive directors of the Company to ensure major strategic decisions of the Company are sound and independent. We believe that a sound Board structure will effectively safeguard the interests of our public shareholders.

While making great endeavours to realize our organic growth, we are also actively looking for opportunities for external growth. Pursuant to the non-competition undertaking with our parent company, China Telecommunications Corporation, we have a priority right to acquire its quality assets for telecommunications support services. Through cross-regional and cross-market business integration of such specialized companies to be acquired, we will be able to further enhance our core competitiveness.

In 2007, we will seize business development opportunities to facilitate the sustainable and steady development of the Company and maximize shareholder value. We will also continue to shape a fresh and highly energetic corporate culture which can maximize and consolidate the enthusiasm and creativity of all employees and to closely link the efforts of each employee with the success of the Company. At the same time, as a market leader, we will continue to place emphasis on social responsibility, environmental protection and contribution to the community.

We have full confidence for the future. We believe that China's strong economic growth will provide unlimited business opportunities and the favourable prospects of our industry will provide our Company with substantial room for development and growth. Leveraging our well-established customer relationships, our unique business model, our outstanding staff teams, and our close cooperation with our strategic investors, we believe that we can create higher returns for our shareholders and society through the unified efforts of the Board and our employees.

Finally, on behalf of the Board, I would like to express my sincere gratitude to the shareholders for their trust and support, and to all the staff of the Company for their dedication to the Company.

Wang Xiaochu
Chairman

Beijing, PRC
17 April 2007

CHIEF EXECUTIVE OFFICER'S STATEMENT

Dear shareholders,

In 2006, our Company completed its restructuring and was successfully listed in Hong Kong. With the full trust, efficient leadership and strong support of the Board, the management and all employees of the Company have, through joint efforts, fulfilled all the objectives set by the Board and achieved good operating results.

In 2006, our Company further improved the standard of our services, strengthened the development of our operations, and steadily enhanced our operating efficiency. Our revenues reached RMB14,182.80 million, representing an increase of 7.2% from 2005. Effective control of the operating costs was implemented and the level of free cash flow was noticeably improved. EBITDA(1) margin was 10.0%, an increase of 0.7 percentage points from 2005. Profit attributable to shareholders was RMB696.08 million, higher than the profit forecast of RMB650 million stated in our prospectus, representing an increase of 16.5% from 2005. Earnings per share were RMB0.172.

In 2006, as a "service provider to telecommunications operators", we further reinforced our position as a market leader in the industry through a series of measures, including the development of a customer-oriented service culture, the establishment of dedicated customer service teams for our key customers, the acceleration of our business development and hammering out our core competitiveness to fully realize the advantage of our integrated services business model. The Company actively implemented innovative management, optimized the Company's structural and business processes, enhanced our execution capabilities and further improved our operational efficiency. We place high importance on the management of our human resources, implementing strict control over employee numbers and devoting greater resources to the nurturing of our management and 3G technical personnel, hence establishing a strong human resources pool to facilitate our future development.

In order to be better positioned to seize opportunities arising from the launch of 3G services, we strengthened our cooperation with telecommunications operators and equipment suppliers in 2006 and participated in the application development, network planning and design-specification development of various 3G technology standards and work relating to the TD-SCDMA trial networks. We believe that with all these initiatives, we will be one of the first and key beneficiaries of the launch of 3G services in China.

Clear business strategies and excellent implementation capabilities are key to achieving excellent operating results. In 2007, we will focus on the execution of five key development strategies as follows:

Core Competitiveness Strategy: We will fully capitalize on our advantageous edge of local presence and a one-stop services business model to proactively expand our specialized operations and cross-regional cooperation. On the premise of business and service innovation, we will nurture competitive and effective business growth drivers. We will further consolidate our position as a market leader through a combination of organic growth as well as external expansion by strategic acquisition.

Service Focus Strategy: We will further strengthen our customer service culture and improve our customer-oriented dedicated marketing teams to provide neutral and professional "one-stop" services and prompt responses to customer requests, with a view to enhancing the value of our company and our customers.

Resources Consolidation Strategy: We will improve operational efficiency and effectiveness through the further optimisation of our resource allocation, speeding up structural adjustments and optimizing deployment efficiency. We will utilize a centralized IT management system to improve our management standards and effectively control our operating costs.

"Win-win" Cooperation Strategy: We will further consolidate our strategic cooperation with telecommunications operators and equipment manufacturers through a multitude of products and excellent service, and strengthen cooperation with upstream and downstream enterprises along the value chain to create value for our customers, thereby creating a "win-win" business model.

Human Resources Strategy: We will establish a performance appraisal system and a remuneration system which link authority with responsibility, incentive with restriction, and reward with risk. By perfecting our market-oriented recruitment and incentive mechanism, we will be able to optimize our human resources structure and increase the productivity of our staff. We will also place greater emphasis on human resources development so as to maintain a professional management team, a high quality team of professional personnel, and a team of business talent.

We are fully confident with regards to 2007. We believe the rapid development of the telecommunications industry and the launch of 3G services in China will bring enormous business opportunities to the Company. Our option to acquire certain quality assets for telecommunications support services from our parent company will further enhance our development potential. We believe that with the strong support of our shareholders, the leadership of our Board and the joint efforts of our employees, we will continue to maintain our leading position in the industry and create greater value for our shareholders.

Finally, I would like to take this opportunity to express my sincere appreciation to all of our shareholders and directors, as well as our customers, for their support and trust, and gratitude to all our staff for their hard work!

Li Ping
Vice Chairman and Chief Executive Officer

Beijing, PRC
17 April 2007

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 2006, extracted from the audited financial statements of the Group as set out in its 2006 annual report.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2006
(Amounts in thousands, except per share data)

	Note	2006 RMB	2005 RMB
Revenues	3	**14,182,800**	13,232,291
Cost of revenues	4	**(11,423,596)**	(10,544,380)
Gross profit		**2,759,204**	2,687,911
Other operating income	5	**159,414**	115,672
Selling, general and administrative expenses		**(1,890,702)**	(1,951,122)
Other operating expenses		**(12,298)**	(21,066)
Deficit on revaluation of property, plant and equipment		**(105,299)**	—
Net financing income	6	**85,644**	38,403
Share of profits less (losses) of associates		**(30)**	11,687
Negative goodwill		**4,039**	159,499
Profit before tax		**999,972**	1,040,984
Income tax	7	**(280,712)**	(260,482)
Profit for the year		**719,260**	780,502
Attributable to:			
Equity shareholders/owner		**696,078**	597,556
Minority interests		**23,182**	182,946
Profit for the year		**719,260**	780,502
Special dividend	8(a)	**535,011**	—
Basic and diluted earnings per share (RMB)	9	**0.172**	0.151

CONSOLIDATED BALANCE SHEET
At 31 December 2006
(Amounts in thousands)

	Note	2006 RMB	2005 RMB
ASSETS			
Non-current assets			
Property, plant and equipment, net		**2,232,848**	2,567,336
Investment properties		**286,892**	675,863
Construction in progress		**265,804**	396,124
Lease prepayments		**103,190**	145,050
Intangible assets		**32,968**	25,596
Interests in associates		**7,927**	180,749
Other investments		**138,475**	208,605
Deferred tax assets		**74,221**	18,803
Total non-current assets		**3,142,325**	4,218,126
Current assets			
Inventories		**828,124**	524,096
Accounts and bills receivable, net	*10*	**3,351,262**	2,995,507
Prepayments and other current assets		**938,640**	2,086,453
Cash and cash equivalents		**7,071,029**	3,685,916
Total current assets		**12,189,055**	9,291,972
Total assets		**15,331,380**	13,510,098
LIABILITIES AND EQUITY			
Current liabilities			
Interest-bearing borrowings		**95,500**	209,545
Accounts and bills payable	*11*	**2,860,065**	1,947,466
Receipts in advance for contract work		**612,818**	880,638
Accrued expenses and other payables		**2,069,705**	2,808,127
Income tax payable		**110,202**	371,126
Total current liabilities		**5,748,290**	6,216,902
Net current assets		**6,440,765**	3,075,070
Total assets less current liabilities		**9,583,090**	7,293,196
Total liabilities		**5,748,290**	6,216,902
Equity			
Share capital		**5,444,986**	—
Reserves		**4,036,323**	6,772,775
Equity attributable to equity holders of the Company		**9,481,309**	6,772,775
Minority interests		**101,781**	520,421
Total equity		**9,583,090**	7,293,196
Total liabilities and equity		**15,331,380**	13,510,098

Notes

1. Organisation

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 Prospectus of the Company 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") from CTC. The Company was founded by CTC, Guangdong Telecom Industry Group Corporation and Zhejiang Telecom Industry Corporation by ways 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.

In December 2006, the Company issued 1,291,293,000 H shares with a par value of RMB1.00 each, at a price of HK$2.20 per H share by way of an initial public offering (the "IPO") to Hong Kong and overseas investors. In connection with the IPO, 129,129,300 domestic state-owned shares of RMB1.00 each owned by CTC and its subsidiaries were converted into H shares and transferred to the National Council for Social Security Fund of the PRC ("SSF"). In December 2006, the Company also issued 193,693,000 H shares with a par value of RMB1.00 each, at a price of HK$2.20 per H share upon the exercise of the over-allotment option. In connection with the exercise of the over-allotment option, 19,369,300 domestic state-owned shares of RMB1.00 each owned by CTC and its subsidiaries were converted into H shares and transferred to SSF. A total of 1,633,484,600 H shares were listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange").

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 includes all applicable individual International Financial Reporting Standards, International Accounting Standards 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.

The IASB has issued certain new and revised IFRSs which are effective for accounting periods on or after 1 January 2006. The adoption of these new and revised IFRSs did not result in significant changes to the Group's accounting policies applied in these financial statements for the years presented. The Group has not applied any new standard or interpretation that is 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:

	2006	2005
	RMB'000	*RMB'000*
Revenue from telecommunications infrastructure services	**7,472,427**	7,199,590
Revenue from business process outsourcing services	**5,153,540**	4,363,152
Revenue from applications, content and others	**1,556,833**	1,669,549
	14,182,800	13,232,291

4. Cost of revenues

	2006	2005
	RMB'000	*RMB'000*
Depreciation and amortisation	**249,691**	239,300
Direct personnel costs	**2,604,229**	2,521,904
Operating lease charges	**199,236**	138,022
Purchase of materials and telecommunications products	**4,333,050**	4,337,923
Subcontracting charges	**2,760,555**	2,029,152
Others	**1,276,835**	1,278,079
	11,423,596	10,544,380

5. Other operating income

	2006	2005
	RMB'000	*RMB'000*
Dividend income from unlisted securities	**22,473**	30,198
Government grants	**37,119**	27,444
Net gain on disposal of investments	**28,948**	4,327
Net gain on disposal of property, plant and equipment	**6,163**	3,576
Penalty income	**1,801**	1,458
Management fee income	**45,104**	—
Write-off on non-payable liabilities	**268**	18,783
Others	**17,538**	29,886
	159,414	115,672

6. Net financing income

	2006	2005
	RMB'000	*RMB'000*
Interest income	**111,451**	59,982
Net foreign exchange (loss)/gain	**(7,909)**	502
Interest on bank advances and other borrowings wholly repayable within five years	**(17,898)**	(22,081)
	85,644	38,403

For the years ended 31 December 2006 and 2005, no borrowing costs were capitalised in relation to construction in progress.

7. Income tax

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

	2006	2005
	RMB'000	*RMB'000*
Current tax		
PRC enterprise income tax	**293,623**	264,541
Deferred tax		
Origination and reversal of temporary differences	**(12,911)**	(4,059)
Total income tax	**280,712**	260,482

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

	2006 *RMB'000*	2005 *RMB'000*
Profit before tax	**999,972**	1,040,984
Expected PRC income tax expense at a statutory tax rate of 33% *(note (i))*	**329,991**	343,525
Differential tax rates on subsidiaries' income *(note (i))*	**(98,732)**	(147,088)
Non-deductible expenses *(note (ii))*	**84,858**	84,606
Non-taxable income *(note (iii))*	**(46,435)**	(46,666)
Tax losses not recognised *(note (iv))*	**11,030**	26,105
Income tax	**280,712**	260,482

Notes:

(i) The provision of PRC income tax of the Group is calculated based on a statutory rate of 33% of the assessable profit of the Group as determined in accordance with the relevant PRC income tax rules and regulations for the years ended 31 December 2006 and 2005, except for certain subsidiaries of the Group, which are taxed at preferential rate of 15%.

(ii) The amounts include personnel and other miscellaneous expenses in excess of statutory deductible limits for tax purpose. The amounts for the year ended 31 December 2006 also include the deficit on revaluation of property, plant and equipment.

(iii) Non-taxable income mainly represents dividend income and negative goodwill.

(iv) The amount includes deferred tax assets not recognised amounting to RMB4,820,000 (2005: RMB26,105,000) in respect of the tax losses of the entities distributed to the then owner pursuant to the Restructuring.

8. Dividend

(a) *Special dividend*

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 and a resolution passed on 1 November 2006, 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 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 (being the distributable profit of the Group for the period from 1 April 2006 to 7 December 2006). The Company will pay the 2006 Special Dividend to CTC and its subsidiaries in a series of payments commencing in July 2007.

(b) *Final dividend*

The directors do not recommend the payment of final dividend for 2006.

9. 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 2006 of RMB696,078,000 (2005: RMB597,556,000) and the weighted average number of shares in issue during the year ended 31 December 2006 of 4,057,642,915 (2005: 3,960,000,000). The weighted average number of shares in issue during the year ended 31 December 2005 represents the number of shares issued and outstanding upon the legal formation of the Company on 30 August 2006 as if such shares have been outstanding for the above entire year. The weighted average number of shares for the year ended 31 December 2006 also reflects the issuance of 1,484,986,000 shares in 2006 in connection with the Company's initial public offering. The weighted average number of shares in issue is set out below:

	2006 *Thousands shares*	2005 *Thousands shares*
Shares issued to CTC upon formation of the Company in 2006 as if such shares have been outstanding for the entire year in 2006 and 2005	**3,960,000**	3,960,000
Effect of shares issued in December 2006	**97,643**	—
	4,057,643	3,960,000

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

10. Accounts and bills receivable, net

	2006 *RMB'000*	2005 *RMB'000*
Bills receivable	**58,675**	10,071
Unbilled revenue for contract work	**376,409**	242,930
Trade receivables	**2,916,178**	2,742,506
	3,351,262	2,995,507

(a) Included in accounts and bills receivable are amounts due from fellow subsidiaries of RMB1,740 million (2005: RMB1,728 million) as at 31 December 2006. 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:

	2006 *RMB'000*	2005 *RMB'000*
Within 1 year	**3,171,309**	2,782,245
After 1 year but less than 2 years	**157,771**	155,258
After 2 years but less than 3 years	**16,583**	47,570
After 3 years	**5,599**	10,434
	3,351,262	2,995,507

11. Accounts and bills payable

Accounts and bills payable comprise:

	2006	2005
	RMB'000	*RMB'000*
Trade payable	**2,697,409**	1,908,436
Bills payable	**162,656**	39,030
	2,860,065	1,947,466

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

	2006	2005
	RMB'000	*RMB'000*
Within 1 year	**2,784,827**	1,929,576
After 1 year but less than 2 years	**69,504**	13,790
After 2 years but less than 3 years	**3,368**	3,139
After 3 years	**2,366**	961
	2,860,065	1,947,466

Included in accounts and bills payable are amounts due to fellow subsidiaries of RMB110 million (2005: RMB121 million) as at 31 December 2006. The amounts due to fellow subsidiaries are unsecured, interest free and are expected to be settled within one year.

12. Comparative figures

Subcontracting charges of RMB499 million in 2005 have been reclassified to direct personnel costs to conform with the current year's presentation.

13. Non-adjusting post balance sheet events

The Corporate Income Tax Law of the People's Republic of China ("new tax law") has been passed by the Fifth Plenary Session of the Tenth National People's Congress on 16 March 2007 and will take effect on 1January 2008. According to the new tax law, except for certain subsidiaries of the Company which are taxed at preferential rate, the income tax rate applicable to the Group will be reduced from 33% to 25% from 1 January 2008. From 1 January 2008, certain subsidiaries that are currently taxed at preferenctial rates will be subject to a five-year transitiion period during which the tax rates will gradually be increased to the unified rate of 25% and certain high-tech enterprises will continue to be entitled to a reduced tax rate of 15%. However, the new tax law has not set out the details as to how the existing preferential tax rate will gradually increase to the standard rate of 25% and the detailed implementation rules regarding the preferential tax policies (e.g. the details of how a taxpayer can be qualified as a high-tech enterprise to enjoy the preferential rate of 15%) has yet to be made public. Consequently, management is not in a position to estimate the impact of the new tax law on the deferred tax assets and liabilities of certain subsidiaries which are being taxed at preferential rates. The financial effect of the new tax law, if any, will be reflected in the Group's 2007 financial statements. The enactment of the new tax law is not expected to have any financial effect on the amounts accrued in the balance sheet in respect of current tax payable.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

Summary

Our revenues in 2006 were RMB14,182.80 million, an increase of 7.2% from 2005. Cost of revenues was RMB11,423.60 million, an increase of 8.3% from 2005. Profit attributable to equity shareholders of the Company was RMB696.08 million, an increase of 16.5% from 2005. Earnings per share were RMB0.172.

Revenues

Our revenues in 2006 were RMB14,182.80 million, an increase of 7.2% from 2005. Of which, revenue from telecommunications infrastructure services was RMB7,472.43 million, an increase of 3.8% from 2005; revenue from business process outsourcing services was RMB5,153.54 million, an increase of 18.1% from 2005; revenue from applications, content and others was RMB1,556.83 million, a decrease of 6.8% from 2005. Business process outsourcing services were the major source of our revenues growth in 2006.

The following table sets forth a breakdown of our revenues for 2005 and 2006, together with their respective rates of change:

	2006	2005	Percentage change
	(RMB in thousands, except percentage data)		
Telecommunications Infrastructure Services			
Design services	**1,621,416**	1,438,025	12.8%
Construction services	**5,546,372**	5,480,420	1.2%
Project supervision and management services	**304,639**	281,145	8.4%
	7,472,427	7,199,590	3.8%
Business Process Outsourcing Services			
Network maintenance	**576,693**	593,653	(2.9)%
Distribution of telecommunications services and products	**3,516,023**	2,576,583	36.5%
Facilities management	**1,060,824**	1,192,916	(11.1)%
	5,153,540	4,363,152	18.1%
Applications, Content and Others			
IT applications	**567,397**	670,923	(15.4)%
Internet service	**343,769**	336,815	2.1%
Voice VAS	**274,196**	226,127	21.3%
Others	**371,471**	435,684	(14.7)%
	1,556,833	1,669,549	(6.8)%
Total revenues	**14,182,800**	13,232,291	7.2%

Telecommunications Infrastructure Services

In 2006, our revenue from telecommunications infrastructure services was RMB7,472.43 million, which accounted for 52.7% of our revenues and an increase of 3.8% over RMB7,199.59 million for 2005. Revenue from this area was mainly derived from the capital expenditure of telecommunications operators. In 2006, when major telecommunications operators in the PRC have tightened control over their capital expenditure, the Company maintained a steady revenue growth in this area by actively exploring business opportunities. Of which, revenue from design services was RMB1,621.42 million, an increase of 12.8% from 2005.

Business Process Outsourcing Services

In 2006, our revenue from business process outsourcing services was RMB5,153.54 million, which accounted for 36.3% of our revenues, an increase of 18.1% over RMB4,363.15 million for 2005. Of which, revenue from distribution of telecommunications services and products was RMB3,516.02 million, an increase of 36.5% from 2005. The increase was mainly due to the rapid growth in our distribution business of PHS and other mobile handsets. Revenue from facilities management was RMB1,060.82 million, a decrease of 11.1% from 2005. The decrease was mainly due to price fluctuation for part of our facilities management services in 2006.

Applications, Content and Others

Revenue from applications, content and others was RMB1,556.83 million, which accounted for 11.0% of our revenues, a decrease of 6.8% over RMB1,669.55 million for 2005. Among the business operations in this area, revenue from IT applications amounted to RMB567.40 million, a decrease of 15.4% from 2005, which was mainly due to the adjustment to the way of doing business with clients in 2006. Accordingly, the cost of hardware and equipment included in the revenues was reduced.

Cost of Revenues

Our cost of revenues in 2006 was RMB11,423.60 million, an increase of 8.3% from 2005 and accounted for 80.5% of the revenues, representing a slight increase from 79.7% for 2005. Our gross profit margin in 2006 was 19.5%, a decrease of 0.8 percentage points from 20.3% for 2005.

The following table sets out a breakdown of our cost of revenues in 2005 and 2006 and their respective rates of change:

	2006	2005	Percentage change
	(RMB in thousands except percentage data)		
Direct personnel costs	**2,604,229**	2,521,904	3.3%
Depreciation and amortization	**249,691**	239,300	4.3%
Purchase of materials and telecommunications products	**4,333,050**	4,337,923	(0.1)%
Subcontracting charges	**2,760,555**	2,029,152	36.0%
Operating lease charges and others	**1,476,071**	1,416,101	4.2%
Total cost of revenues	**11,423,596**	10,544,380	8.3%

Direct Personnel Costs

In 2006, direct personnel costs were RMB2,604.23 million, which accounted for 18.4% of the revenues and an increase of 3.3% over RMB2,521.90 million for 2005. On one hand, the Company controlled the total number of employees and made serious effort to rein in the growth of personnel cost at a rate less than the growth of revenues, while on the other hand, we reformed our remuneration system and provided initiatives such as training courses to incentivise the staff.

Depreciation and Amortization

In 2006, depreciation and amortization amounted to RMB249.69 million, which accounted for 1.8% of the revenues and an increase of 4.3% over RMB239.30 million for 2005.

Purchase of Materials and Telecommunications Products

In 2006, the purchase of materials and telecommunications products was RMB4,333.05 million, which accounted for 30.6% of the revenues and a decrease of 0.1% over RMB4,337.92 million for 2005. Of which, purchase of construction materials was RMB2,006.52 million, a decrease of 29.6% over RMB2,850.96 million for 2005; purchase of telecommunications products was RMB2,326.53 million, an increase of 56.5% over RMB1,486.96 million for 2005.

Subcontracting Charges

In 2006, subcontracting charges were RMB2,760.56 million, which accounted for 19.5% of the revenues and an increase of 36.0% over RMB2,029.15 million for 2005. The increase in subcontracting charges was mainly because we began demanding our subcontractors for our telecommunications infrastructure services to expand their scope of provision of materials to better manage our working capital in 2006.

Operating Lease Charges and Others

In 2006, operating lease charges and others were RMB1,476.07 million, which accounted for 10.4% of the revenues and an increase of 4.2% over RMB1,416.10 million for 2005.

Selling, General and Administrative Expenses

Our selling, general and administrative expenses in 2006 was RMB1,890.70 million, which accounted for 13.3% of the revenues and a decrease of 3.1% over RMB1,951.12 million for 2005, and of which, provision for bad debts decreased by RMB34.66 million over 2005 and repair and maintenance fee decreased by RMB12.97 million over 2005.

Deficit on Revaluation of Property, Plant and Equipment

Our deficit on revaluation of property, plant and equipment in 2006 as a result of restructuring was RMB105.30 million. The deficit was not a recurring item and it had been recognized as an expense in the income statement. Such decrease in the book value of the property, plant and equipment was mainly due to the decrease in value of buildings, furniture, equipment and vehicles, etc. on replacement costs basis.

Net Financing Income

In 2006, our net financing income was RMB85.64 million, an increase of RMB47.24 million over RMB38.40 million for 2005, or 123.0%, and of which, interest income increased by RMB51.47 million, and net foreign exchange loss increased by RMB8.41 million. The increase in interest income was mainly attributed to the interest income accrued on the application money under our IPO in 2006.

Income Tax

Except for subsidiaries incorporated in Hainan Province or high-technology zone or special economic region in the PRC subject to a preferential income tax rate of 15%, the Company and other subsidiaries of the Group are subject to an income tax rate of 33%. The income tax in 2006 was RMB280.71 million and our effective tax rate was 28.1%. The difference between our effective tax rate and the statutory tax rate was mainly due to the effect of the aforesaid preferential tax rate of the subsidiaries.

Profit Attributable to Equity Shareholders

In 2006, profit attributable to equity shareholders was RMB696.08 million, an increase of 16.5% over RMB597.56 million for 2005.

Capital Expenditure

Exclusive of the expenditure on acquisition of certain assets during our restructuring, our capital expenditure for 2006 was RMB732.31 million, a decrease of 2.5% over RMB751.00 million for 2005. Our capital expenditure for 2006 accounted for 5.2% of our revenues. In 2006, our capital expenditure included the purchase of production equipments, facilities, machineries, vehicles, office equipments, plant and building and other operating assets.

Cash Flows and Capital Resources

Cash Flows

In 2006, our net cash inflow was RMB3,385.11 million. In 2005, our net cash outflow was RMB830.11 million. By the end of 2006, the amount of our cash and cash equivalents was RMB7,071.03 million, of which currency of Renminbi accounted for 55.3%, currency of Hong Kong dollars accounted for 44.6%.

The following table sets out our cash flow position in 2005 and 2006:

	2006	2005
	(RMB in thousands)	
Net cash generated from operating activities	**499,471**	275,170
Net cash used in investing activities	**(631,582)**	(276,593)
Net cash generated from/(used in) financing activities	**3,517,224**	(828,682)
Net increase/(decrease) in cash and cash equivalents	**3,385,113**	(830,105)

In 2006, net cash inflow from operating activities was RMB499.47 million, an increase of RMB224.30 million over RMB275.17 million for 2005. The significant increase in net cash inflow from operating activities was mainly due to the steady development of our operations and the improvement of our working capital management.

In 2006, net cash used in investing activities was RMB631.58 million, an increase of RMB354.99 million over 2005, which was mainly due to the acquisition of the shareholding and individual assets of relevant subsidiaries during our group restructuring for listing.

In 2006, net cash generated from financing activities was RMB3,517.22 million. In 2005, net cash used in financing activities was RMB828.68 million. Our net cash generated from financing activities was mainly due to our successful IPO in December 2006, raising cash of RMB3,081.04 million.

Working Capital

By the end of 2006, our working capital (non-cash current assets minus operating current liabilities) deficit was RMB534.76 million, an increase of RMB133.46 million from deficit of RMB401.30 million of 2005. The increase was mainly our strengthening the management of prepayments and obtaining more favourable credit terms.

Indebtedness

By the end of 2006, our total indebtedness was RMB95.50 million, all of which was short-term fixed interest rate loans in Renminbi, a decrease of RMB114.05 million over RMB209.55 million of 2005. Given our increase in net cash inflow from operating activities and our improvement in operational efficiency, the Company repaid short-term loans upon maturity and reduced new borrowings.

By end of 2006, our gearing ratio(2) was 0.6%, a decrease of 1 percentage points from 1.6% of 2005.

Contractual Obligations

The following table sets out our contractual obligations as of 31 December 2006:

	Total	2007	2008	2009	2010	After 2010
			(RMB in thousands)			
Short-term debt	**95,500**	95,500	—	—	—	—
Operating lease commitments	**171,249**	58,832	42,697	30,114	19,879	19,727
Capital commitments	**112,153**	112,153	—	—	—	—
Of which:						
Authorized and contracted	**75,184**	75,184	—	—	—	—
Authorized but not contracted	**36,969**	36,969	—	—	—	—
Total of contractual obligations	**378,902**	266,485	42,697	30,114	19,879	19,727

Exchange Rate

Most of the Company's revenues and expenses are settled in Renminbi, therefore the risks associated with foreign currency exchange rate has no significant effect on our business performance.

With the increasing pace of the market-oriented reforms of Chinese currency exchange rate, the Renminbi has kept appreciating in value against the Hong Kong dollars since the mid-2005. By the end of 2006, the nominal value of our Hong Kong dollar deposits was HKD3,139.19 million. The Company has recognized exchange rate loss on our Hong Kong dollar deposits based on the exchange rate at 31 December 2006.

PURCHASE, SALE OR REDEMPTION OF SHARES

For the year ended 31 December 2006, neither the Company nor its subsidiaries has purchased, sold or redeemed any of the Company's listed shares.

AUDIT COMMITTEE

Our audit committee had reviewed, together with the management and the Company's international auditors, KPMG, the accounting principles and practices adopted by the Group and had discussed internal control and financial reporting matters including the review of the Company's annual report for the year ended 31 December 2006.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

As a company which was newly listed on the Stock Exchange on 8 December 2006, the Company took the initiative to adopt and comply with the code provisions as contained in the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). From the listing date of the Company to 31 December 2006, the Company has complied with the code provisions of the Code.

COMPLIANCE WITH 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 regulate the securities transactions of Directors. Having made specific enquiries in writing to the Directors, each of the Directors had confirmed that he has complied with the Model Code in connection with any transaction of the Company's securities in the reporting period.

CLOSURE OF SHARE REGISTER

The Company's share register will be closed from Saturday, 12 May 2007 to Monday, 11 June 2007 (both days inclusive), during which period all transfers of shares in the Company will be suspended. In order to be eligible to attend the 2006 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, 11 May 2007.

ANNUAL REPORT

The annual report for the year ended 31 December 2006 will be despatched to shareholders and will be published on the website of the Hong Kong Stock Exchange (www.hkex.com.hk) as well as the website of the Company (www.chinaccs.com.hk) in due course.

FORWORD-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 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 but are not a guarantee of future performance. We do not intend to update these forward-looking statements. Actual result 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, Chairman and non-executive director is Wang Xiaochu, Vice Chairman, Chief Executive Officer and executive director is Li Ping, our non-executive directors are Liu Aili and Zhang Junan, and our independent non-executive directors are Wang Jun, Chan Mo Po, Paul, Zhao Chunjun, Wu Shangzhi and Hao Weimin.

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

(2) Gearing ratio equals to total debts divided by total assets at the end of each financial year.