



中国通信服务
CHINA COMSERVICE

CHINA COMMUNICATIONS SERVICES CORPORATION LIMITED

STOCK CODE: 552

www.chinaccs.com.hk

June, 2007

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Chief Operating Officer**

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**Executive Vice President and
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Forward-Looking Statements



This presentation and the presentation materials distributed herewith include "forward-looking statements". All statements, other than statements of historical facts, that address activities, events or developments that China Communications Services Corporation Limited ("China Communications Services") expects or anticipates will or may occur in the future (including but not limited to projections, targets, estimates and business plans) are forward-looking statements. China Communications Services' actual results or developments in the futures, including those of the businesses that China Communications Services may acquire, may differ materially from those indicated by these forward-looking statements as a result of various factors and uncertainties, including but not limited to the level of demand for telecommunications services; competitive forces in more liberalized markets; the effects of tariff reduction initiatives; changes in the regulatory policies and other risks and factors beyond China Communications Services' control. In addition, China Communications Services makes the forward-looking statements referred to herein as of today and undertakes no obligation to update these statements.

Transaction Overview

Target Business Overview

Benefits of the Acquisition



中国通信服务
CHINA COMSERVICE

Transaction Overview



Overview of the Target Business

Geographic Footprint



Target Service Areas

GDP (RMB bn)	6,028
Population (million)	572
GDP per capita (RMB in thousands)	10.6

CCS ListCo's Primary Service Areas

GDP (RMB bn)	5,758
Population (million)	262
GDP per capita (RMB in thousands)	22.2

Source: National Bureau of Statistics, Ministry of Information Industry, Company management

Note Data in respect of GDP and GDP per capita is for the year ended 31 December 2005

Overview of the Target Business

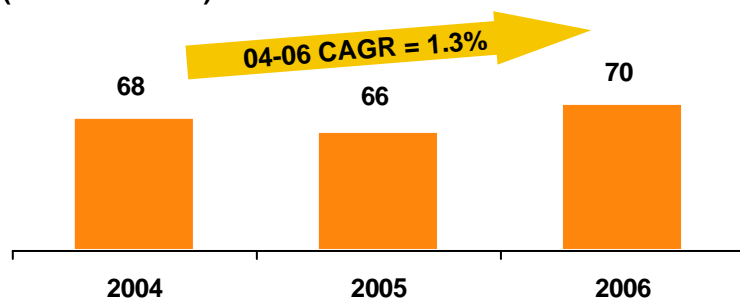
Industry Outlook



Telecom Operator CAPEX

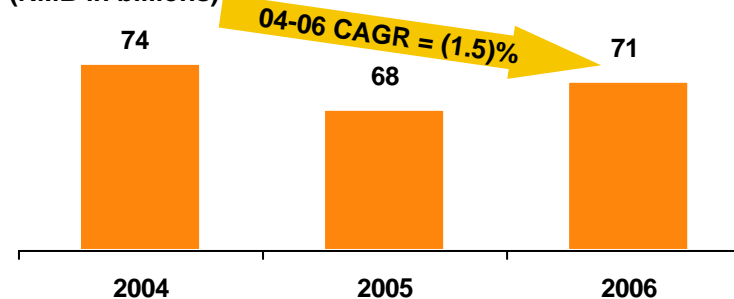
Target Service Areas

(RMB in billions)



CCS ListCo Primary Service Areas

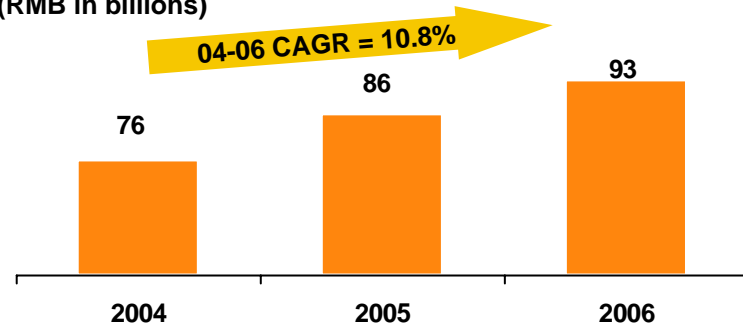
(RMB in billions)



Telecom Operator OPEX

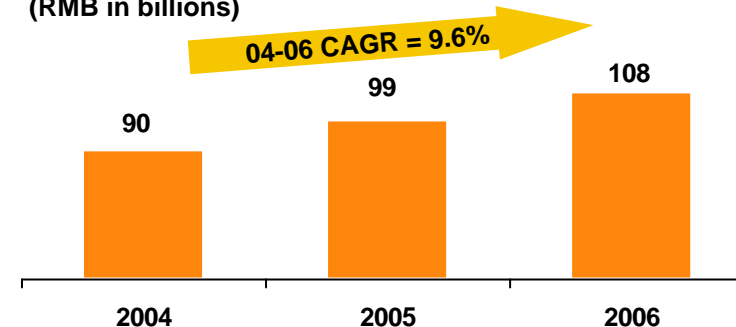
Target Service Areas

(RMB in billions)



CCS ListCo Primary Service Areas

(RMB in billions)



Acquisition Terms



Total Acquisition Assets

- CCS-like leading providers of specialized telecommunications support services in the Target Service Areas of Jiangsu, Anhui, Jiangxi, Hunan, Guangxi, Chongqing, Sichuan, Guizhou, Yunnan, Shaanxi, Gansu, Qinghai and Xinjiang
- Certain assets and equity interests in companies within the Listed Service Areas

Consideration

- Total consideration: RMB4.63 billion paid in cash
 - ◆ RMB2.63 bn cash on hand
 - ◆ RMB2.00 bn debt financing
- Paid in full within 60 days upon completion of the transaction

Valuation

- 2007E P/E: 16.4x¹

Key Conditions Precedent

- Passing of ordinary resolutions by independent shareholders
- Obtaining of all necessary approvals from relevant governmental and regulatory authorities
- No material adverse change to financial conditions, business operations or prospects of the target business

Financial Advisors to CCS ListCo

- Goldman Sachs (Asia) L.L.C
- China International Capital Corporation (Hong Kong) Limited

Independent Financial Advisor

- ING Bank N.V.

Note: 1. Based on Target Business 2007E profit forecast of RMB283 mm.

Profit Forecast Assumptions

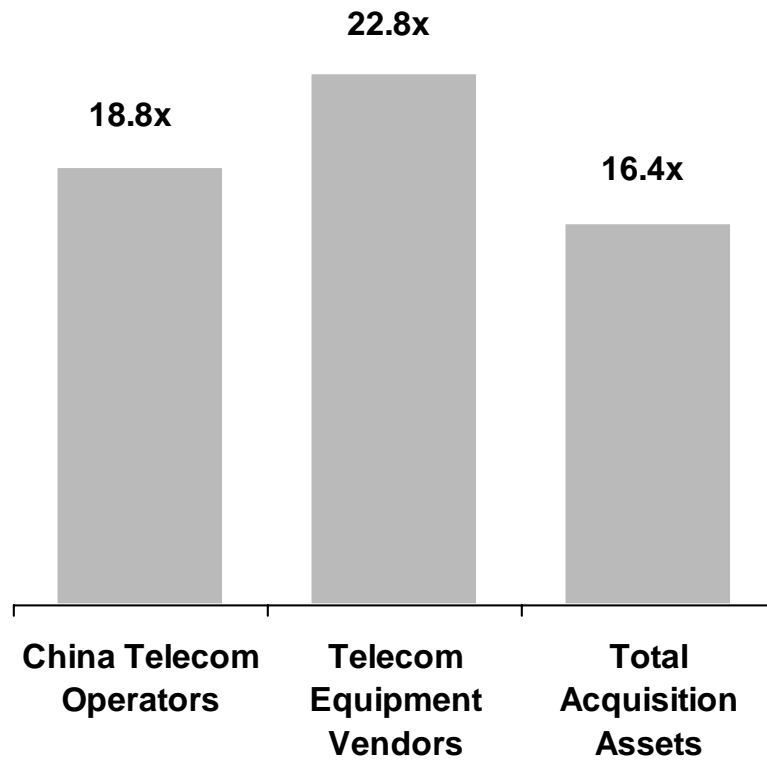


- We did not prepare the forecast information with a view towards compliance with published guidelines of the American Institute of Certified Public Accountants regarding forecasts or projections. We prepared the financial forecast in accordance with IFRS. The information necessarily is based upon a number of assumptions and estimates that, while presented with numerical specificity, are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control, and upon assumptions with respect to future business decisions that are subject to change. Accordingly, we cannot provide any assurance that these results will be realized. The forecast information may vary materially from actual results. We have made no representation that those results will be achieved. You should not place undue reliance on this information
- The management of the Company and the Target Business have prepared the forecast on the combined profit after taxation and minority interests but before extraordinary items of the Target Business for the year ending December 31, 2007. The management of the Company and the Target Business are not currently aware of any extraordinary items which have arisen or are likely to arise in respect of the year ending December 31, 2007. The forecast has been prepared on a basis consistent in all material respects with the accounting policies currently adopted by the Target Business as summarized in Appendix V of the shareholders' circular dated June 20, 2007 and has been based on the following principal assumptions:
 - 1) There will be no material changes in existing political, legal, regulatory, fiscal or economic conditions in the PRC, Hong Kong, or any other territory in which the Target Business currently operates or which are otherwise material to the Target Business's revenues;
 - 2) There will be no material changes in legislation or regulations governing the telecommunications industry in the PRC, Hong Kong or any other country or territory in which the Target Business operates or which the Target Business has arrangements or agreements with, which would materially affect the business or operations of the Target Business;
 - 3) Inflation, interest rates or foreign currency exchange rates will not differ materially from those prevailing as of the date of this circular;
 - 4) There will be no material changes in the bases or rates of taxation appropriate to the Target Business, except as otherwise disclosed in the circular; and
 - 5) Based on information currently available, there will be no tariff reduction that will have a material adverse effect on the business of the Target Business

Acquisition Valuation

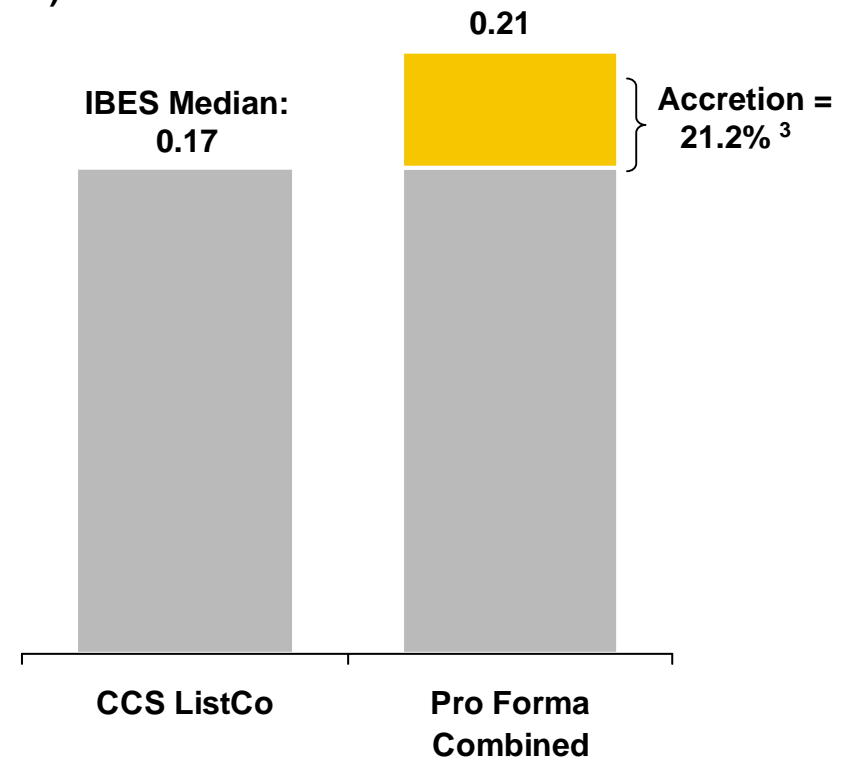


2007E P/E Discount ^{1,2}



2007E EPS Accretion

(RMB)



Note: 1. China Telecom Operators include China Telecom, China Mobile, China Unicom, China Netcom and CCS. Telecom Equipment Vendors include ZTE and Comba
 2. P/E ratio based on the trading price of June 14 2007. Target business 2007E net profit = RMB 283 mm. CCS ListCo 2007E EPS based on IBES median estimates.
 3. Borrowing rate = 5.5%, Lending rate = 0.72%, Tax rate = 33%

■ Operational Restructuring

- ◆ Divestiture of non-core assets
- ◆ Restructuring of core assets at provincial levels
- ◆ Proper legal entities to be established

■ Legal Restructuring

- ◆ Amended connected transactions agreements and strategic cooperation agreements based on arms length negotiations and on normal commercial terms

■ Financial Auditing and Asset Appraisal

- ◆ Extensive financial auditing
- ◆ Detailed asset appraisal following the PRC regulatory requirement and HKSE listing rules

Total Acquisition Assets are among the best operating assets in providing specialized telecommunication support services. In connection with the acquisition, these assets were operationally, financially and legally restructured.

Acquisition Timetable



June 15

Conditional Acquisition Agreement Signed

June 18

Publish Announcement

June 21

Beginning of Roadshow

Aug 7

Extraordinary General Meeting

Aug 31

Expected Closing of the Acquisition

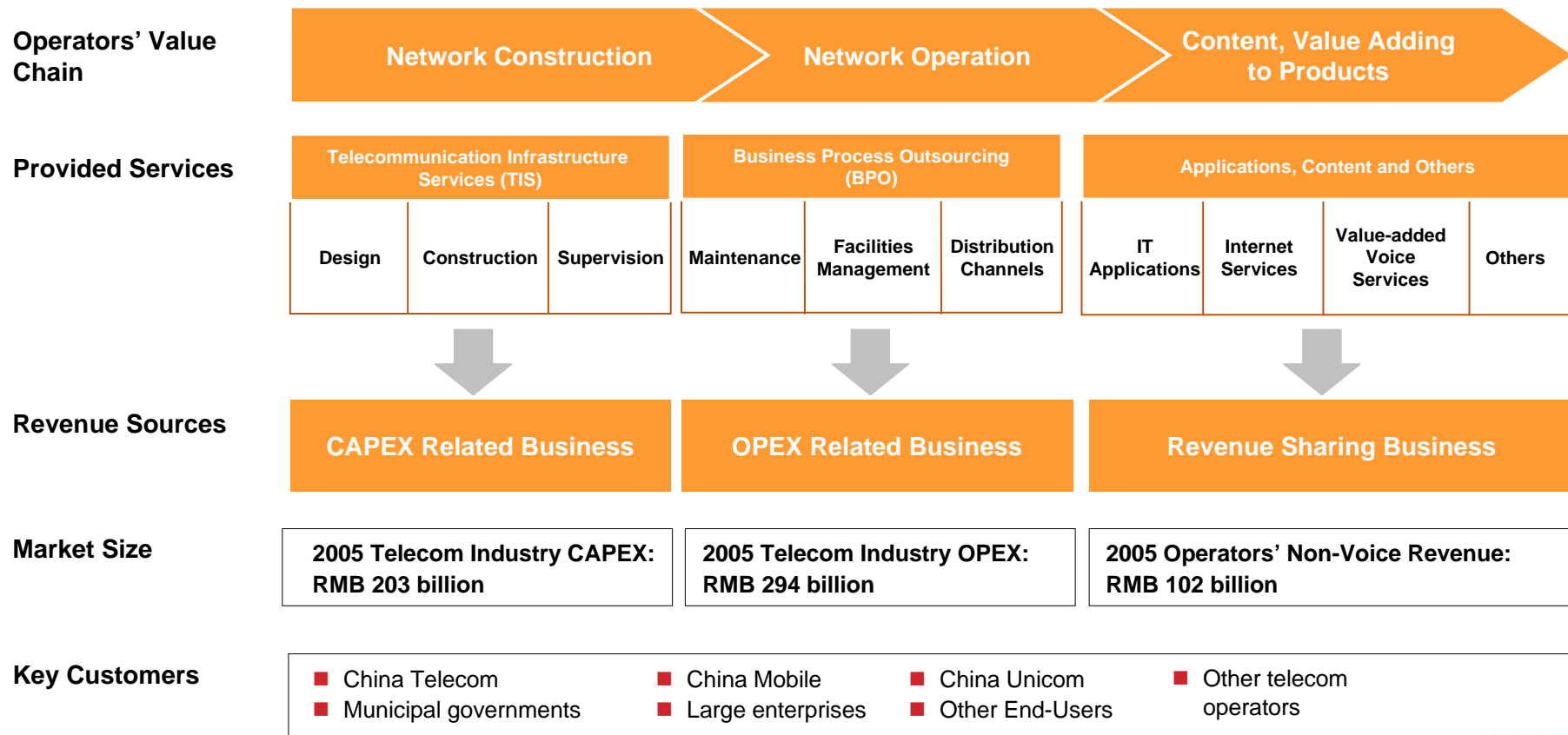
Target Business Overview



Target Business Overview



Like CCS, the Target Business provides integrated and indispensable services throughout operators' value chain



Source: Company Annual Report and Ministry of Information Industry

A Snapshot of Historical Performance



(RMB in millions, except percentages)	Target Business			CCS ListCo		
	2004	2005	2006	2004	2005	2006
Revenue	4,207	4,777	5,130	12,249	13,232	14,183
Growth Rate		13.5%	7.4%		8.0%	7.2%
Gross Profit	957	1,028	1,106	2,374	2,688	2,759
Gross Margin	22.7%	21.5%	21.6%	19.4%	20.3%	19.5%
Net Profit	154	158	121	526	598	696
Net Margin	3.7%	3.3%	2.4%	4.3%	4.5%	4.9%
Connected Transactions as % of revenue	2,439 58.0%	2,663 55.8%	2,915 56.8%	5,916 48.3%	5,983 45.2%	7,534 53.1%
CAPEX	183	156	239	639	751	732
Cash	1,133	1,270	1,093	4,516	3,686	7,071
Debt	127	105	75	184	210	96
Total Debt/Total Capital	5.1%	3.8%	2.6%	2.6%	2.8%	1.0%

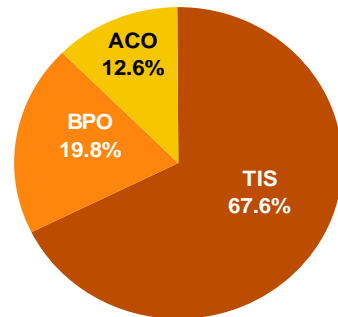
Source: KPMG

Revenue by Business Lines and Customers



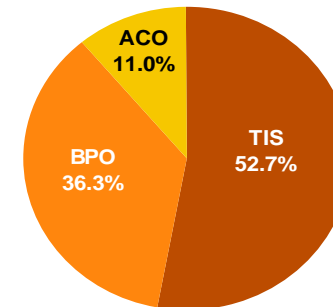
Revenue by Business Lines

Target Business



2006 Total: RMB5.1 bn

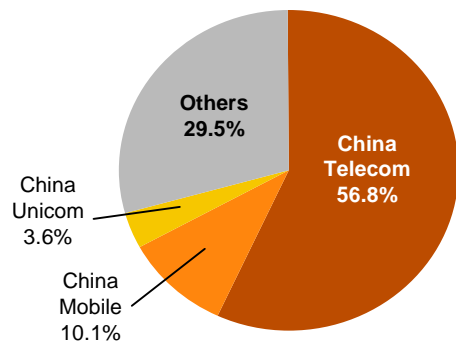
CCS ListCo



2006 Total: RMB14.2 bn

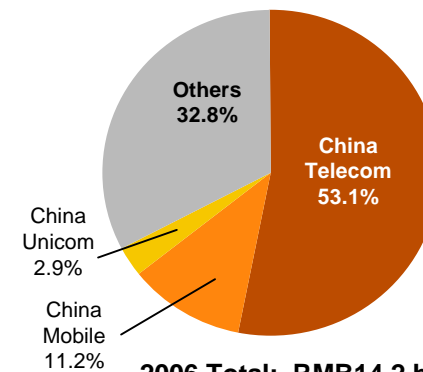
Revenue by Customers^(a)

Target Business



2006 Total: RMB5.1 bn

CCS ListCo



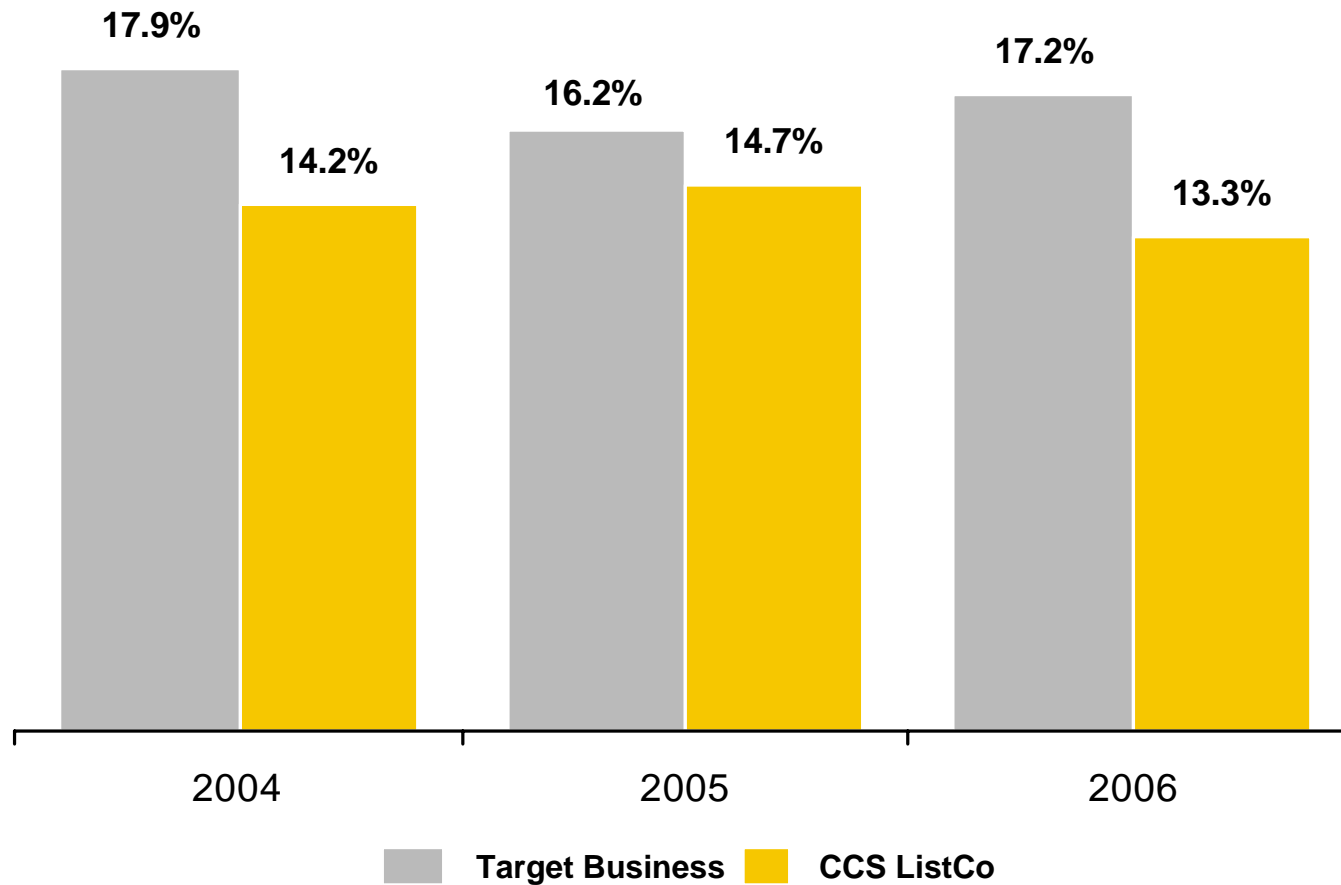
2006 Total: RMB14.2 bn

^(a) Others include municipalities and corporate clients.
Source: KPMG

Potential for Cost Reduction



SG&A as % of Revenue



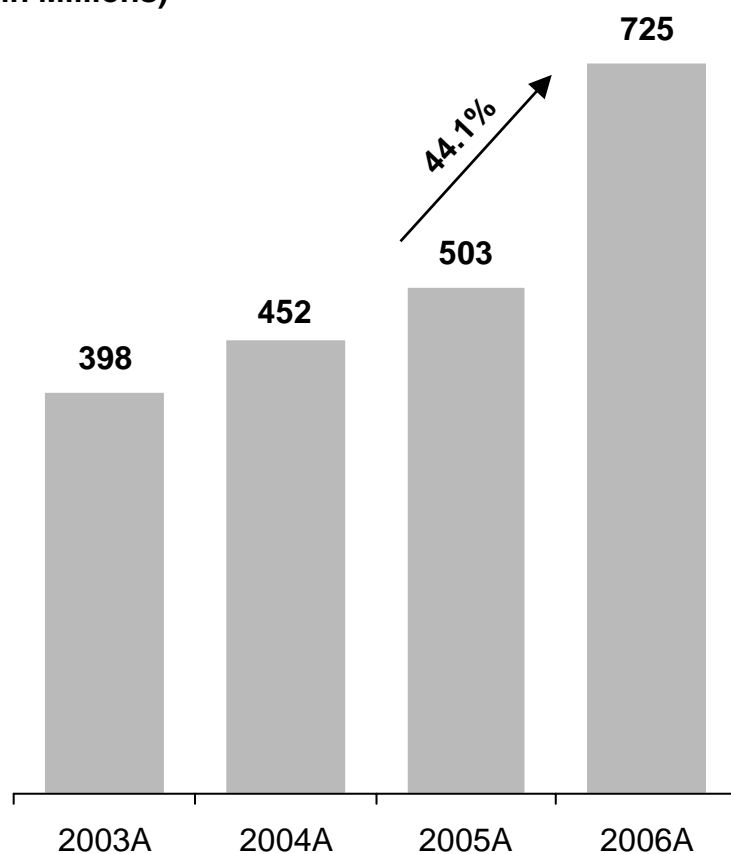
Source: KPMG

Capitalizing on Solid Track Record of Integration Success



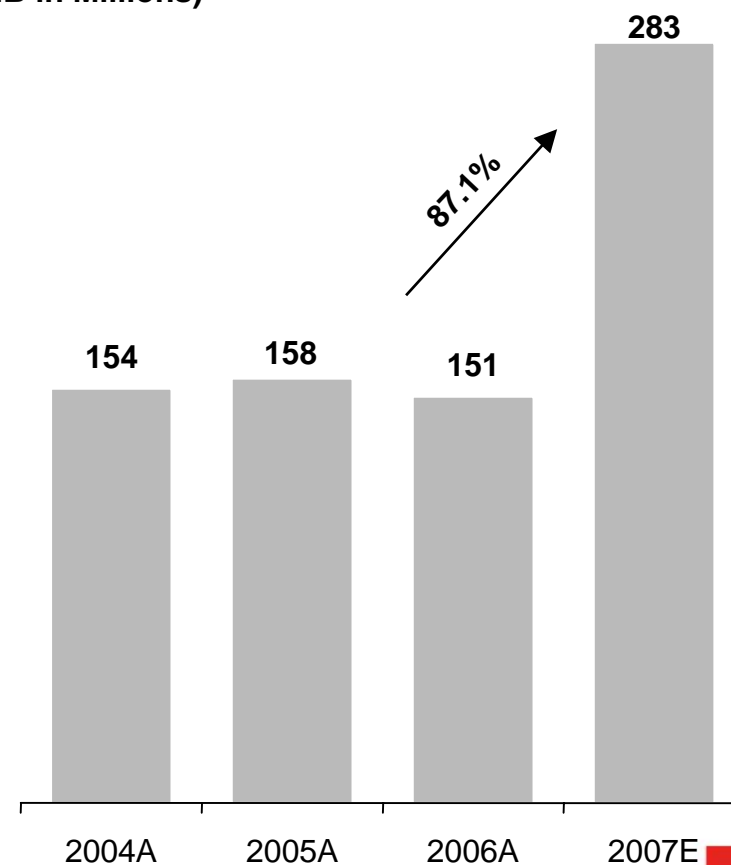
CCS ListCo Normalized Net Profit

(RMB in Millions)



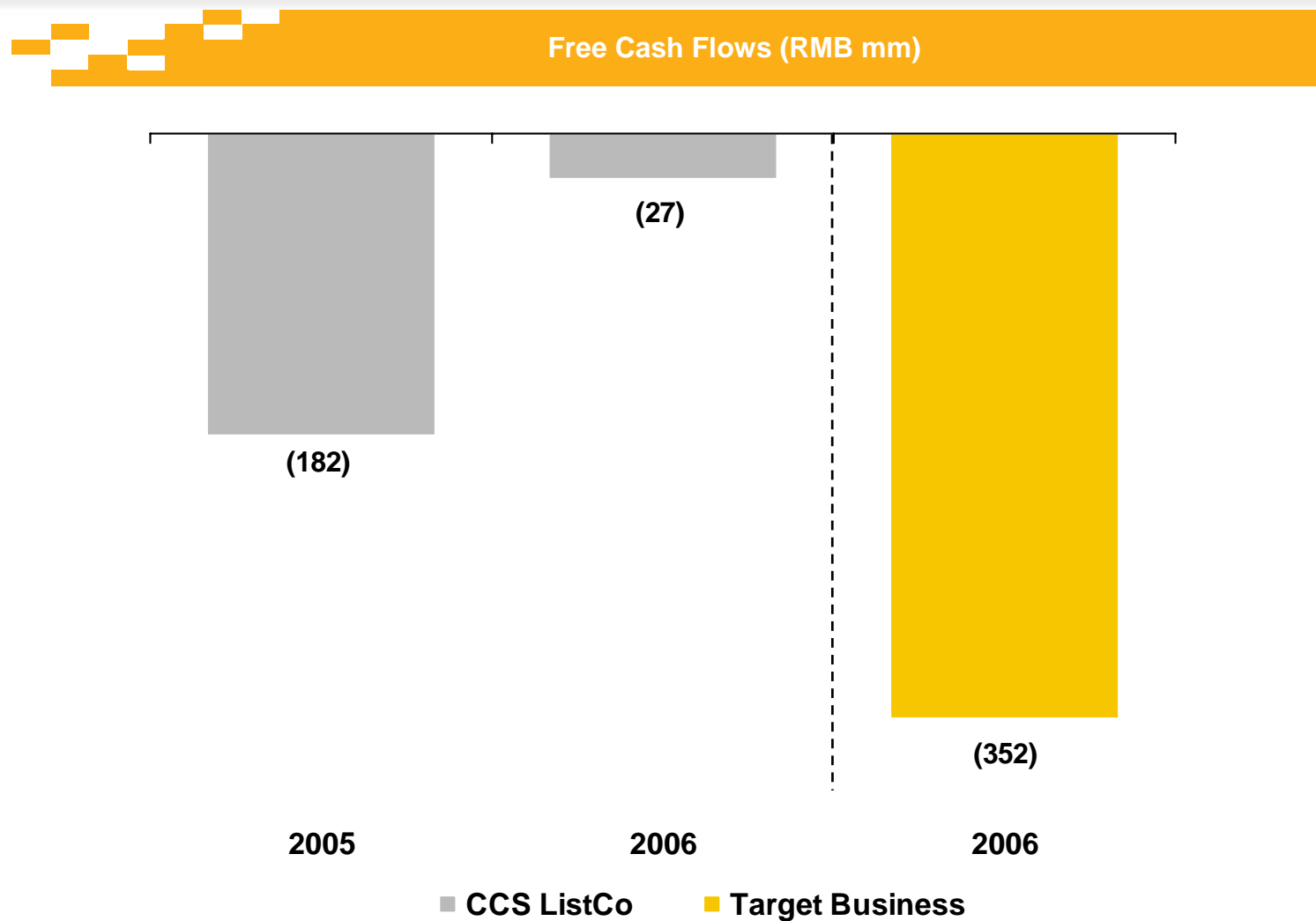
Target Business Normalized Net Profit

(RMB in Millions)



Note: normalized net profit excludes effects of non-recurring items, such as deficit on revaluation of property plant and equipment

Ample Room for Free Cash Flow Improvement

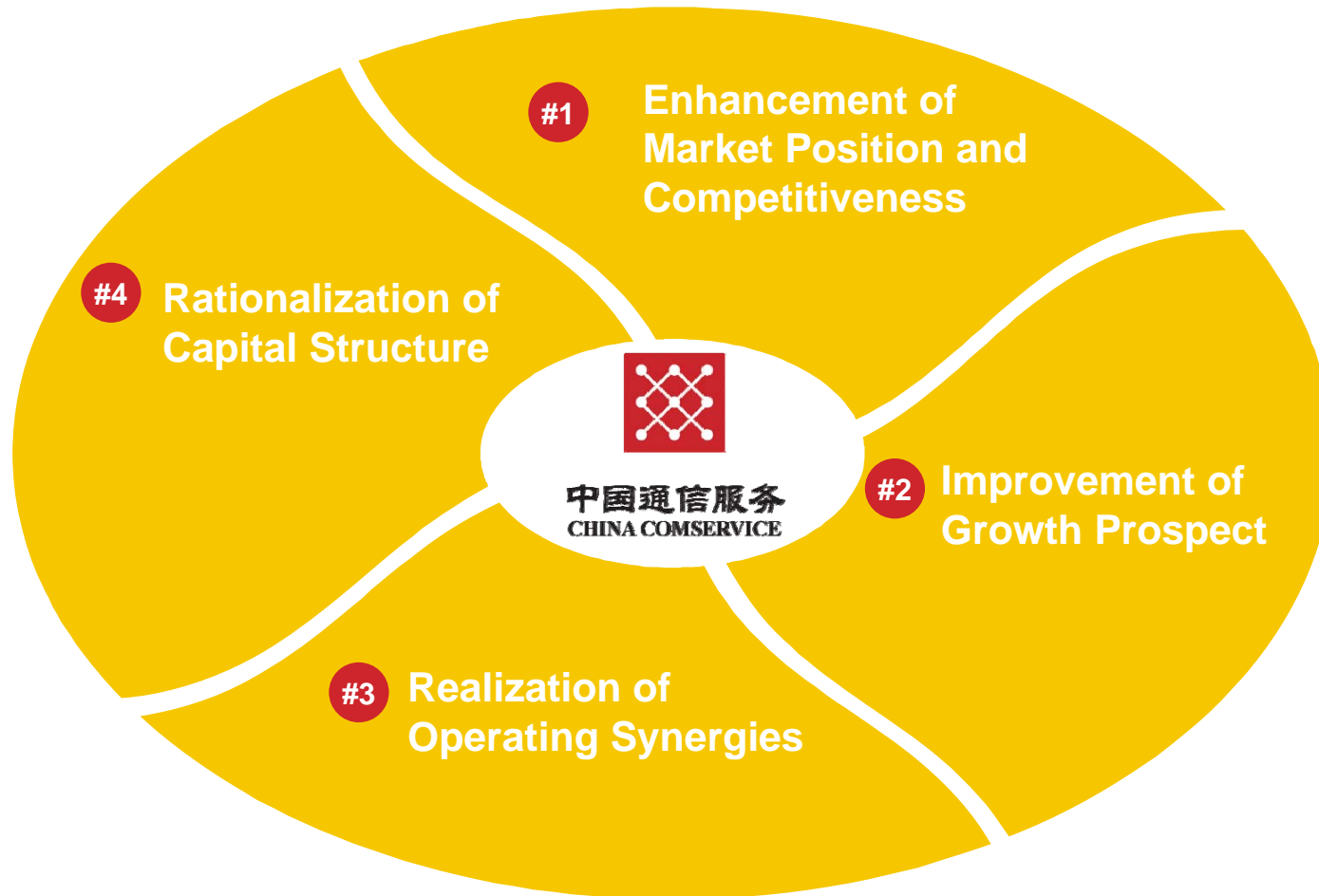


Note: Free cash flow = profit for the year + depreciation and amortization – changes in working capital – capital expenditure
Source: KPMG

Benefits of the Acquisition



Acquisition Highlights



#1

Enhancement of Market Position and Competitiveness



Consolidation of 19 provincial leaders will further enhance CCS' ability to provide high quality and cost efficient services on a national scale

- Expanded primary service area will further enhance CCS' capability of operating on a nation-wide basis, thus matching telecommunication operators' footprints
- The Acquisition will boost CCS' ability to deploy resources across wider regions to facilitate quick response to market trends and customers' comprehensive needs
- The Acquisition is expected to increase CCS' customer base, revenue and net profit, enabling the Company to better address competitive pressure and capture growth opportunities

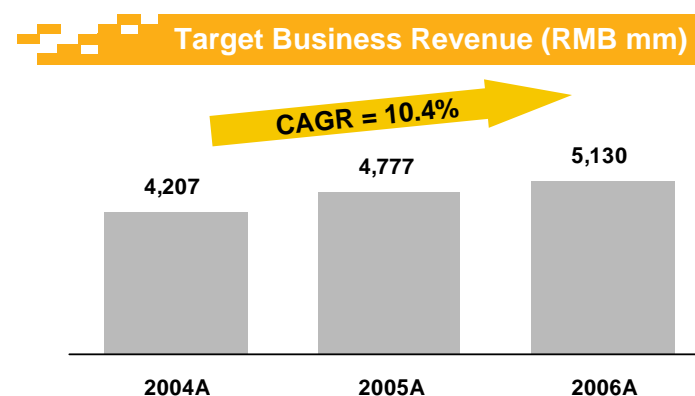
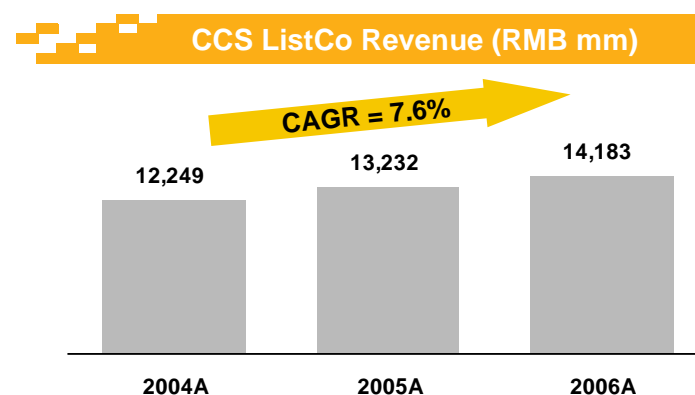


#2 Improvement of Growth Prospects



Target Service Areas are markets with high growth potential

- The majority of the Target Business are located in the middle and western provinces where PRC central government has implemented policies to promote economic growth
 - ◆ These policies are likely to stimulate a boom in the spending on infrastructure construction, including telecommunications network construction and upgrade
- The Target Business will be direct beneficiaries to leverage CCS ListCo's know-how, top-ranked technical qualifications and competitive advantages to win market share in the Target Service Areas
- CCS will be able to quickly replicate ListCo's successful business model to the Target Service Areas to capture growth opportunities



#3 Realization of Operating Synergies



The acquisition offers great opportunities for the Target Business to capitalize on cost synergies

- **There are meaningful cost-cutting opportunities within the Target Business, especially in SG&A spending**
- **Cost-reduction measures that have been effectively used for the six Listed Provinces can be readily applied to the target business to achieve operational efficiency**
 - ◆ **Centralized financial management and budgeting process**
 - ◆ **Centralized procurement process**
 - ◆ **Centralized IT management systems**
- **Cost synergies from shared R&D spending, corporate management resources, and understanding of customers' needs**
- **Cost reduction will contribute to the significant earnings growth in 2007**

#4 Rationalization of Capital Structure



(RMB in millions,
except percentages)

ListCo Before
Acquisition

Cash	7,071
Total Debt	96
Total Equity	9,583
Total Capitalization	9,679
Total Debt/Total Capitalization	1.0%
Total Debt/Total Equity	1.0%

Summary



The acquisition represents a new and important opportunity for CCS to solidify its market leading position, improve its growth prospects, achieve operating synergies and realize long-term financial benefits

- **Solidify market leading position through expanded primary service areas to better serve operators' nation-wide operations**
- **Benefit from higher growth potential in the target areas and expand into new business line**
- **Take advantage of economies of scale to control operating costs and realize various synergies**
- **Rationalize capital structure through debt financing in the acquisition**