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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)

DISCLOSEABLE TRANSACTION

Acquisition of China International Telecommunications Construction Corporation

The Board announces that the Company has entered into the Equity Transfer Agreement with the Vendor for the acquisition of the 100% equity interest of China International Telecommunications Construction Corporation for a consideration of RMB505.46 million in cash.

The Board considers that the Acquisition provides an opportunity for the Company to enhance its market position and competitiveness, optimise its customer base, further expand in overseas markets and realize operational synergies.

The Acquisition constitutes a discloseable transaction of the Company under the Listing Rules. A circular containing, among others, details of the Acquisition will be despatched to Shareholders as soon as practicable.

CICC is the financial adviser to the Company in respect of the Acquisition.

1. ACQUISITION OF CITCC GROUP

(a) The Acquisition

The Company submitted a bid on 3 April 2008 for the acquisition of the 100% equity interest of China International Telecommunications Construction Corporation (“CITCC”) which was put to open tender on the China Beijing Equity Exchange (北京產權交易所) by the Vendor on 7 March 2008. The Board is pleased to announce that the Company’s bid for CITCC was successful and the Company entered into the Equity Transfer Agreement with the Vendor on 3 April 2008, pursuant to which the Company agreed to purchase, and the Vendor agreed to sell, the 100% equity interest of CITCC for a consideration of RMB505.46 million.

CITCC is a limited liability company incorporated under PRC law and wholly owned by the Vendor. Upon Completion, CITCC will become a wholly owned subsidiary of the Company.

The principal businesses of the CITCC Group are the provision of telecommunications infrastructure (“TIS”) services and business process outsourcing (“BPO”) services. Details of CITCC’s principal services are as follows:

- TIS services: the CITCC Group offers comprehensive telecommunications infrastructure services, including construction and engineering, design and project supervision for both fixed-line and mobile telecommunications network related projects.
- BPO services: the CITCC Group offers a range of BPO services to customers, including the maintenance of telecommunications networks and facilities, and procurement of telecommunications equipment upon demand from customers.

CITCC was one of the first providers of telecommunications infrastructure services in the PRC and holds top tier regulatory qualifications for communications project construction contractors (通信工程施工總承包一級資質). To date, CITCC has received 11 top-tier national awards and 43 provincial awards for telecommunications infrastructure projects. CITCC has also been involved in the formulation of various industry standards, such as the Acceptance Specifications for Long-Haul Optical Fiber Cable Line Project (YD 5121-2005) (長途通信光纜線路工程驗收規範) and the Acceptance Specification for SDH Local Network Optical Fiber Cable Transmission Project (YD/T 5149 – 2007) (SDH本地網光纜傳輸工程驗收規範), both officially issued by the Ministry of Information Industry of the PRC.

(b) Consideration and payment

The total consideration for the Acquisition is RMB505.46 million. The consideration is principally determined with reference to the appraised value of CITCC’s net assets of RMB505.46 million on the Date of Appraisal as provided by the PRC appraiser and various other factors, including, among others, the quality of the assets, the financial and operational indicators of CITCC Group, and the reasons and benefits of the Acquisition as set out in Section 2 below.

The consideration shall be paid in cash within 30 days from execution of the Equity Transfer Agreement. The Company made a deposit of RMB50.00 million upon submitting the bid for CITCC which will be applied to the total consideration for the Acquisition. The Company will fund the consideration for the Acquisition from the Company’s internal resources, including proceeds from the placing of new H shares as disclosed in the announcement of the Company dated 28 March 2008.

The Equity Transfer Agreement was entered into and consideration has been reached through an open tender process and subsequent arm’s length negotiations and on normal commercial terms. The Board is of the view that the consideration payable and payment method for the Acquisition and the other terms of the Equity Transfer Agreement are fair and reasonable and the Acquisition is in the best interest of the Company and its shareholders taken as a whole.

(c) Conditions precedent to Completion of the Acquisition

Completion of the Acquisition is conditional upon the following:

- (i) approval of the Acquisition by the Company and the Vendor respectively in accordance with their corporate constitutional documents;
- (ii) obtaining all necessary approvals from the relevant governmental and regulatory authorities; and
- (iii) there being no material adverse change to the financial condition, business operations or prospects of the CITCC Group.

Moreover, the Company is entitled to terminate the Acquisition prior to Completion if the representations and warranties made by the Vendor under the Equity Transfer Agreement are discovered to be untrue or inaccurate.

The parties to the Equity Transfer Agreement agreed that Completion will take place as soon as practicable after satisfaction of the above conditions precedent.

2. REASONS AND BENEFITS OF THE ACQUISITION

The Board considers that the Acquisition provides an opportunity for the Company to enhance its market position and competitiveness, optimise its customer base, further expand in overseas markets and realize operational synergies. The Board believes that the Acquisition would be in line with the Company's objective of creating long-term value for its shareholders.

(a) Enhancement of domestic market position and competitiveness

CITCC is one of the principal service providers in the TIS market, including TD-SCDMA (one of the 3G technology standards) construction projects, and has an established market reputation. The Acquisition will boost the Group's market share, and enhance the Group's market position and competitiveness domestically.

(b) Good complement to the Group's current businesses

The Acquisition is expected to help optimise the Company's customer base and geographic coverage.

CITCC has a diversified customer base, which includes both telecommunications operators and other large-scale enterprises and government agencies. The Acquisition will enable the Company to increase the percentage of revenue from clients other than China Telecom Group. The Company believes that an optimised customer base will enable it to capture more growth opportunities.

CITCC also has particular advantages in the TIS market of the 10 Northern Provinces. The Acquisition will enable the Group to better provide services in the Expanded Primary Service Areas.

(c) Benefits to the Group’s overseas expansion

The Acquisition will also benefit the Group in its further expansion in overseas markets. CITCC has established representative offices in 11 countries and regions, including among others, Tanzania and the Democratic Republic of Congo. The Acquisition will enable the Group to further leverage on its own overseas market resources to accelerate its overseas business development, and enhance the Group’s market position and competitiveness abroad.

(d) Realization of operating synergies

The Board believes that the Acquisition represents an opportunity to create shareholder value through potential operating synergies. The Acquisition of CITCC will enable the Company to further benefit from economies of scale through sharing of resources and expertise across the Expanded Primary Service Areas, ultimately benefiting the Company’s clients and Shareholders. There is room for cost-cutting following the Acquisition of CITCC. The Company intends to apply the same measures to CITCC that have been successfully used for the Group, including centralized financial management, procurement and IT management systems, to achieve cost efficiencies. Cost synergies are also reflected in the shared research and development spending, corporate management resources, and understanding of key customers’ needs. The best business practices and revenue models can be readily replicated in all of the Expanded Primary Service Areas of the Group.

3. FINANCIAL INFORMATION

According to CITCC’s consolidated management accounts prepared in accordance with the PRC GAAP, CITCC’s profit before and after tax and extraordinary items for the year ended 31 December 2006 was approximately RMB31.43 million and RMB20.16 million respectively, and for the year ended 31 December 2007 was approximately RMB45.95 million and RMB29.46 million respectively; the book value of CITCC’s net assets as at 31 October 2007 was approximately RMB469.07 million.

Upon Completion, CITCC will become a subsidiary of the Company, and its financial results will be consolidated thereafter into the accounts of the Company. It is expected that the Acquisition will not have any material impact on the earnings, total assets and liabilities of the Group.

4. OTHER PRINCIPAL TERMS OF THE ACQUISITION AGREEMENT

The parties to the Equity Transfer Agreement agreed that the Vendor will be entitled to any increase of the net assets of the CITCC Group resulting from its profits between the Date of Appraisal and the date of Completion as determined in accordance with the PRC GAAP, and that the Vendor shall also make up for any decrease in the net assets of the CITCC Group resulting from any loss sustained by it between the Date of Appraisal and the date of Completion.

The relevant subsidiaries of CITCC entered into certain property sale and purchase agreements with the relevant subsidiaries of the Vendor prior to the date of the Equity Transfer Agreement to acquire certain properties necessary for the daily business operation of the CITCC Group (the “Property Acquisition(s)”). The total preliminary appraisal value of the properties involved in the Property Acquisition(s) was RMB192.54 million and the total consideration for the

Property Acquisition(s) will be determined with reference to the final results of an appraisal of the properties to be conducted by an independent third party valuer in accordance with applicable PRC rules. Completion of the Property Acquisition(s) is subject to fulfillment of the conditions under the relevant property acquisition agreement(s) including, among others, the Vendor's relevant subsidiaries having obtained all necessary title certificates under PRC laws and regulations for the properties. The assets acquired and the consideration (namely, RMB505.46 million) given in respect of the Equity Transfer Agreement is only related to the Acquisition of the 100% Equity Interest of CTICC, and does not include those of the Property Acquisition(s). The Company may consider further capital investment in CITCC or other appropriate means in order for the CITCC's subsidiaries to fulfill the payment obligations under the Property Acquisition(s).

5. INFORMATION OF THE GROUP AND VENDOR

The Company is principally engaged in the provision of specialised telecommunications support services to telecommunications operators in the PRC, offering telecommunications infrastructure services (including design, construction and project supervision and management), business process outsourcing services and applications, content and other services. The Group operates countrywide, with 19 provinces and municipalities as its Existing Primary Service Areas.

The Vendor is a large state-owned enterprise established under the laws of the PRC managed by the State Assets Supervision and Administration Commission of the State Council, PRC. The Vendor's principal businesses include the sales and logistics support for communications terminals, international trade and exhibition, and telecommunications infrastructure services (before the sale of the 100% equity interest of CITCC by the Vendor).

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, the Vendor and its ultimate beneficial owner are all third parties independent of the Company and the Company's connected persons.

6. IMPLICATIONS UNDER THE LISTING RULES

As the relevant percentage ratios involved in the Acquisition under Chapter 14 of the Listing Rules exceed 5% but are less than 25%, the entering into of the Equity Transfer Agreement constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules. A circular containing, among others, details of the Acquisition will be dispatched to the Shareholders as soon as practicable.

7. FINANCIAL ADVISER

CICC is the financial adviser to the Company in respect of the Acquisition.

8. DEFINITIONS

In this announcement, the following expressions have the following meanings, unless the context otherwise requires:

“Acquisition”	the proposed acquisition by the Company of the 100% equity interest of CITCC pursuant to the Equity Transfer Agreement, as further described in this announcement
“CICC”	China International Capital Corporation (Hong Kong) Limited, which is licensed by the Securities and Futures Commission for Types 1, 4, 6 and 9 regulated activities under the Securities and Futures Ordinance, being the financial adviser to the Company in respect of the Acquisition
“CITCC”	China International Telecommunications Construction Corporation* (中國通信建設集團有限公司, formerly known as “中國通信建設總公司”)
“CITCC Group”	CITCC and its subsidiaries
“Company”	China Communications Services Corporation Limited (中國通信服務股份有限公司), a joint stock limited company incorporated in the PRC with limited liability on 30 August 2006, whose H Shares are listed on the Stock Exchange
“Completion”	Completion of the Acquisition
“China Telecom Group”	China Telecommunications Corporation and its subsidiaries (excluding the Group)
“Date of Appraisal”	31 October 2007, being the benchmark date used in the appraisal of the net assets of CITCC
“Director(s)”	the director(s) of the Company
“Equity Transfer Agreement”	the agreement dated 3 April 2008 between the Company and the Vendor relating to the Acquisition
“Existing Primary Service Areas”	the primary service regions of the Company prior to the Acquisition comprising Shanghai Municipality, Jiangsu Province, Zhejiang Province, Anhui Province, Fujian Province, Jiangxi Province, Hubei Province, Hunan Province, Guangdong Province, Hainan Province, Guangxi Zhuang Autonomous Region, Chongqing Municipality, Sichuan Province, Guizhou Province, Yunnan Province, Shaanxi Province, Gansu Province, Qinghai Province and Xinjiang Uygur Autonomous Region in the PRC
“Expanded Primary Service Areas”	The Existing Primary Service Areas of the Company and the 10 Northern Provinces

“Group”	the Company and its subsidiaries
“H Share(s)”	overseas listed foreign invested shares in the Company’s issued share capital with a par value of RMB1.00 per share which are listed on the Stock Exchange
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“PRC”	the People’s Republic of China and for the purpose of this announcement, excluding Hong Kong, Taiwan and the Macau Special Administrative Region of the People’s Republic of China
“PRC GAAP”	the generally accepted accounting principles of the PRC
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholders”	shareholders of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subsidiary(ies)”	has the meaning ascribed thereto in section 2 of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong)
“Vendor”	China National Postal and Telecommunications Appliances Corporation* (中國郵電器材集團公司)
“10 Northern Provinces”	Beijing Municipality, Tianjin Municipality, Hebei Province, Shanxi Province, Inner Mongolia Province, Liaoning Province, Jilin Province, Heilongjiang Province, Shandong Province and Henan Province

By order of the Board
China Communications Services Corporation Limited
Li Ping
Executive Director

Beijing, 3 April 2008

As at the date of this announcement, our Chairman and non-executive director is Wang Xiaochu, our Vice Chairman, Chief Executive Officer and executive director is Li Ping, our Executive Vice President, Chief Operating Officer and executive director is Mr. Zhang Zhiyong, our Executive Vice President, Chief Financial Officer and executive director is Mr. Yuan Jianxing, 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.

* *For identification purpose only*