



**中国通信服务**  
CHINA COMSERVICE

**CHINA COMMUNICATIONS SERVICES CORPORATION LIMITED**

STOCK CODE: 552

# 2006

## ANNUAL RESULTS

[www.chinaccs.com.hk](http://www.chinaccs.com.hk)

**17 APRIL, 2007**

# Management Team



**Mr. Li Ping**

**Vice Chairman & CEO**

**Mr. Zhang Zhiyong**

**Executive Vice President & COO**

**Mr. Yuan Jianxing**

**Executive Vice President & CFO**

**Overview**

**Business Review**

**Financial Results**



# OVERVIEW

- **Completed business reorganization to focus on three core businesses**
- **Continue to reinforce customer-centric service strategy and culture**
- **Favorable financial results**
  - Revenue growth of 7.2% year over year
  - Double-digit growth in both EBITDA and net profit
  - Continued improvement in cash flow
- **Brought in new strategic investors: China Mobile, China Unicom and Cisco**
- **Continue to develop 3G capabilities**

# Business Overview



## Our Strategic Position

We provide integrated and indispensable services throughout our operators' value chain

## Operators' Value Chain

Network Construction

Network Operation

Content, Value Adding to Products

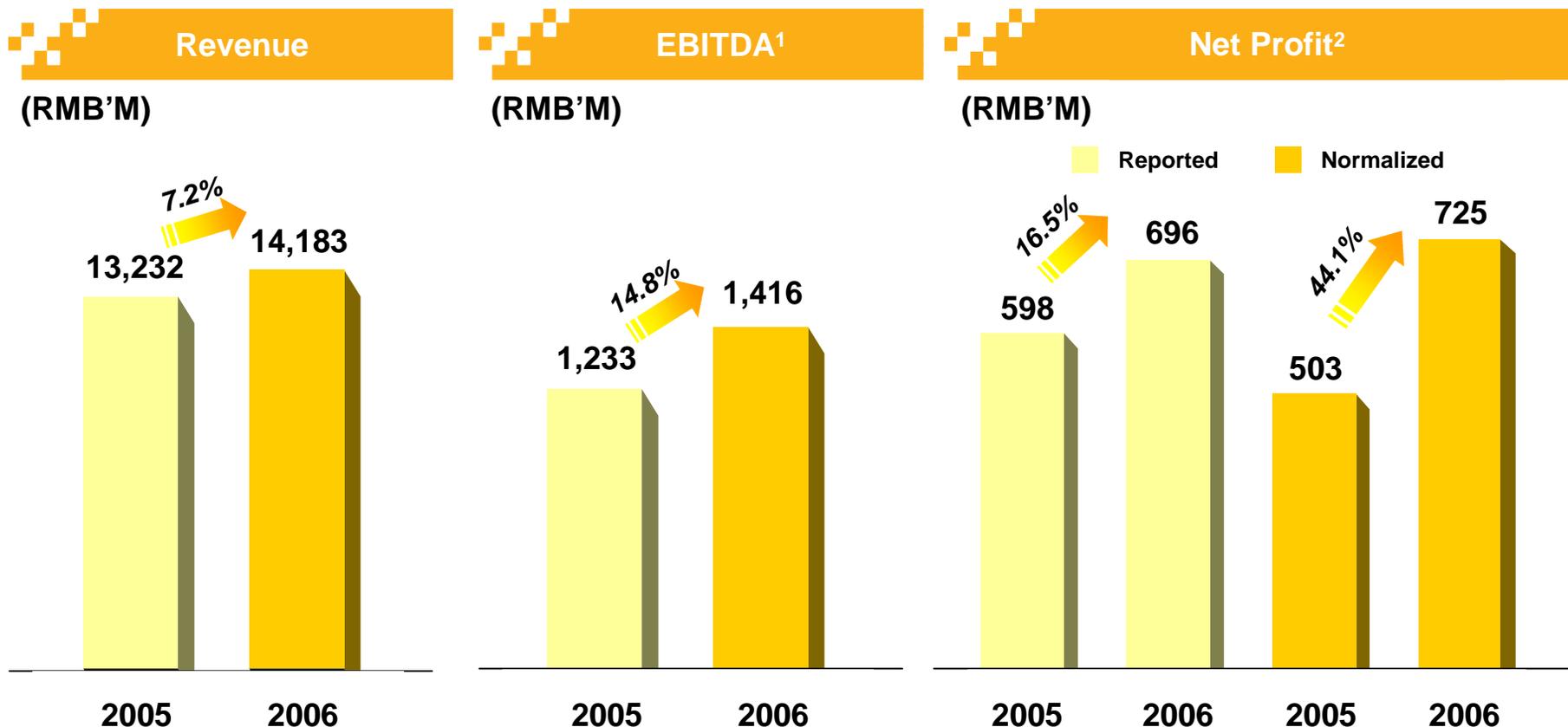
## Our Services

Telecommunications Infrastructure Services			Business Process Outsourcing Services			Applications, Content and Others			
Design	Construction	Supervision	Maintenance	Facilities Management	Distribution Channels	IT Applications	Internet Services	Value-added Voice Services	Others

## Key Customers

- China Telecom
- China Mobile
- China Unicom
- Other telecom operators
- Municipal governments
- Large enterprises

# Strong Revenue and Profit Growth



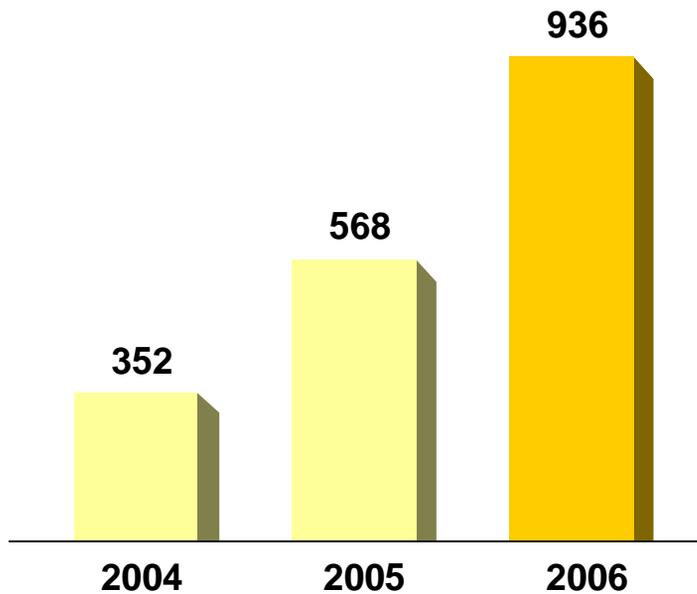
1 EBITDA = Gross profit + Other operating income – SG&A – other operating expense + depreciation

2 Normalized net profit excludes effects of non-recurring items, including deficit on revaluation of property plant and equipment, negative goodwill, share of profits/losses of associates, net gain on disposal of investments and interest income from IPO subscription monies

# Continued Cash Flow Improvement

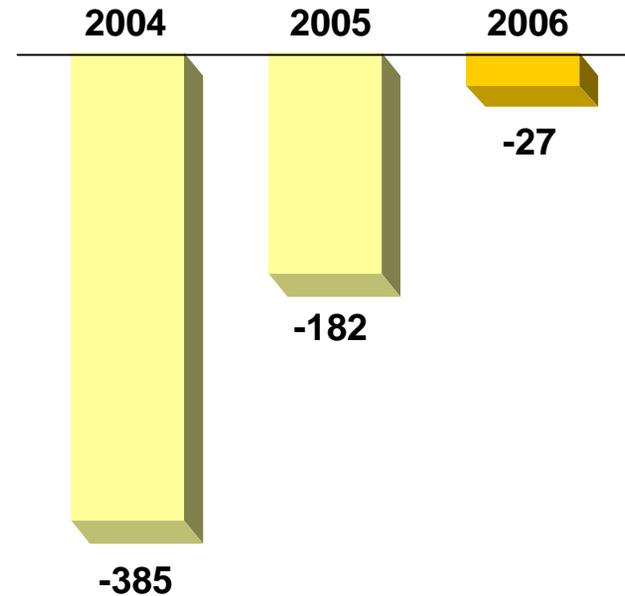
## Net Cash Inflow from Operations

(RMB'M)



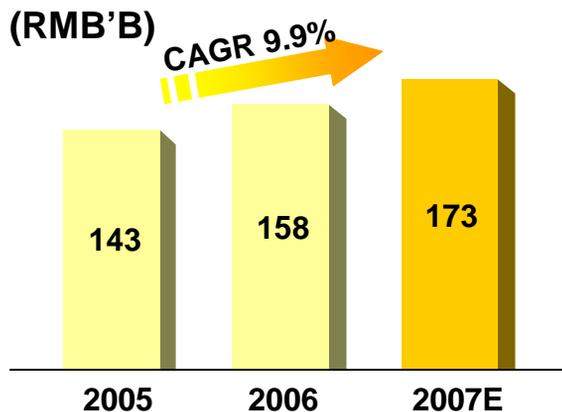
## Free Cash Flow

(RMB'M)

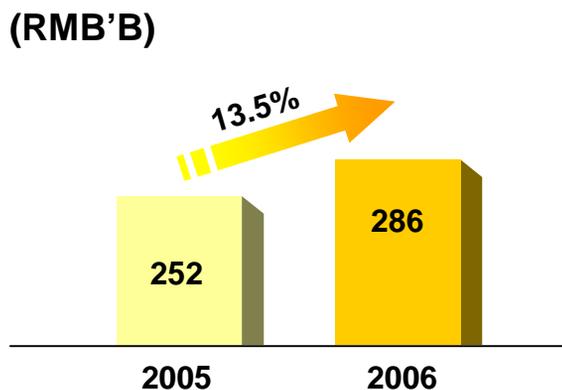


# Key Initiatives to Capture Market Opportunities

## CAPEX of our top 3 customers\* (RMB'B)



## OPEX\*\* of our top 3 customers\* (RMB'B)



## Key Initiatives

- Reorganized businesses to focus on three core operations
- Integrated internal resources to realize synergies
- Established partnerships with major equipment vendors
- Dedicated teams to serve key clients
- Instituted “Chinese Wall” to maintain neutralities
- Integrated one-stop business model

\*Source: 2006 annual results of China Telecom, China Mobile and China Unicom  
\*\* Opex represents operating expenses, excluding depreciation

# Well Prepared for 3G Opportunities

## Experienced 3G service team

- *Design: 1,200*
- *Construction: 7,000*
- *Supervision: 500*

## Early involvement with operators

- *3G feasibility studies*
- *3G network & business plans*
- *3G trial networks*

## Cooperation with equipment vendors

- *Training*
- *Overseas 3G projects in Egypt, Russia, etc.*

- *Actively participated in TD-SCDMA trial network constructions in 4-5 cities*
- *The 'turn-key' service provider in Baoding TD-SCDMA projects, providing design, construction and supervision*

## Opportunities

- Strong organic growth potential in attractive and growing markets
- Major beneficiary from 3G deployment in China
- External growth opportunities through strategic acquisition

## Challenges

- Diversify customer base
- Enhance profit margin

- Optimize resource allocation and realize synergies
- Increase market share for operator market and further explore non-operator market
- Stringently control costs and investment
- Actively participate in 3G-related projects
- Acquire quality assets from parent company



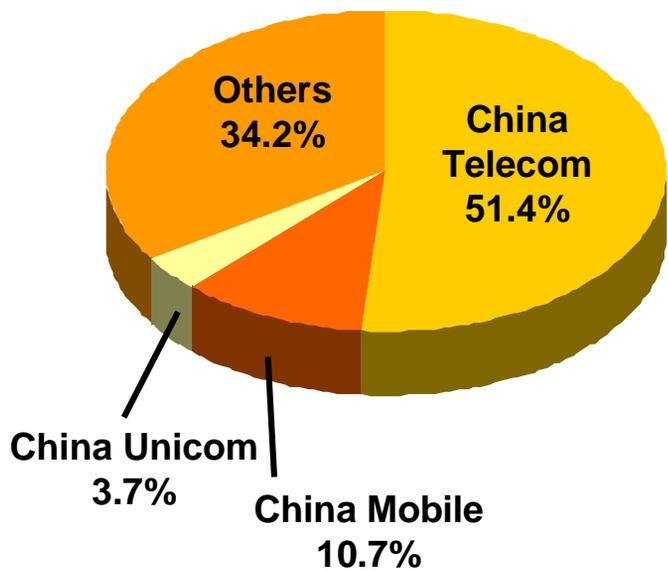
# BUSINESS REVIEW

# Revenue Breakdown

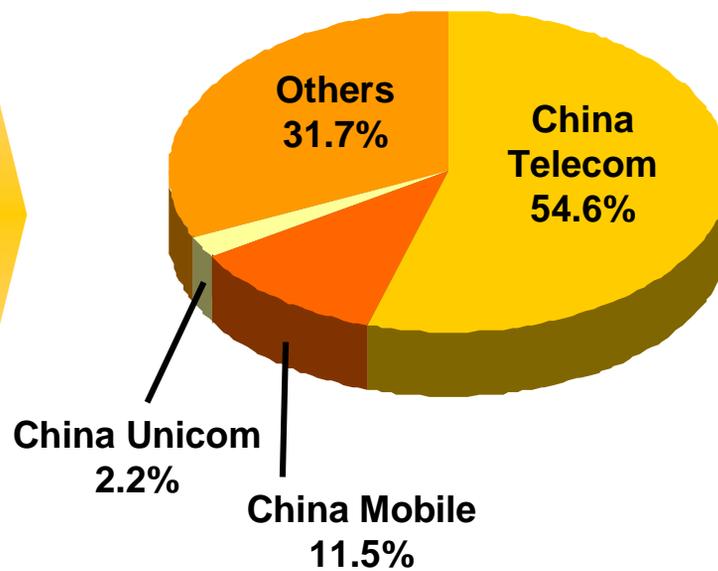
(RMB'M)	2005	2006	Change	Contribution to total revenue
<b>TIS</b>	<b>7,199</b>	<b>7,472</b>	<b>3.8%</b>	<b>52.7%</b>
<i>Design</i>	1,438	1,621	12.8%	11.4%
<i>Construction</i>	5,480	5,546	1.2%	39.1%
<i>Supervision</i>	281	305	8.4%	2.2%
<b>BPO</b>	<b>4,363</b>	<b>5,154</b>	<b>18.1%</b>	<b>36.3%</b>
<i>Maintenance</i>	594	577	-2.9%	4.0%
<i>Distribution</i>	2,576	3,516	36.5%	24.8%
<i>Facility Management</i>	1,193	1,061	-11.1%	7.5%
<b>ACO</b>	<b>1,670</b>	<b>1,557</b>	<b>-6.8%</b>	<b>11.0%</b>
<i>IT Applications</i>	671	567	-15.4%	4.0%
<i>Internet Services</i>	337	344	2.1%	2.4%
<i>Voice VAS</i>	226	274	21.3%	1.9%
<i>Others</i>	436	372	-14.7%	2.7%
<b>Total</b>	<b>13,232</b>	<b>14,183</b>	<b>7.2%</b>	<b>100%</b>

# Revenue Mix

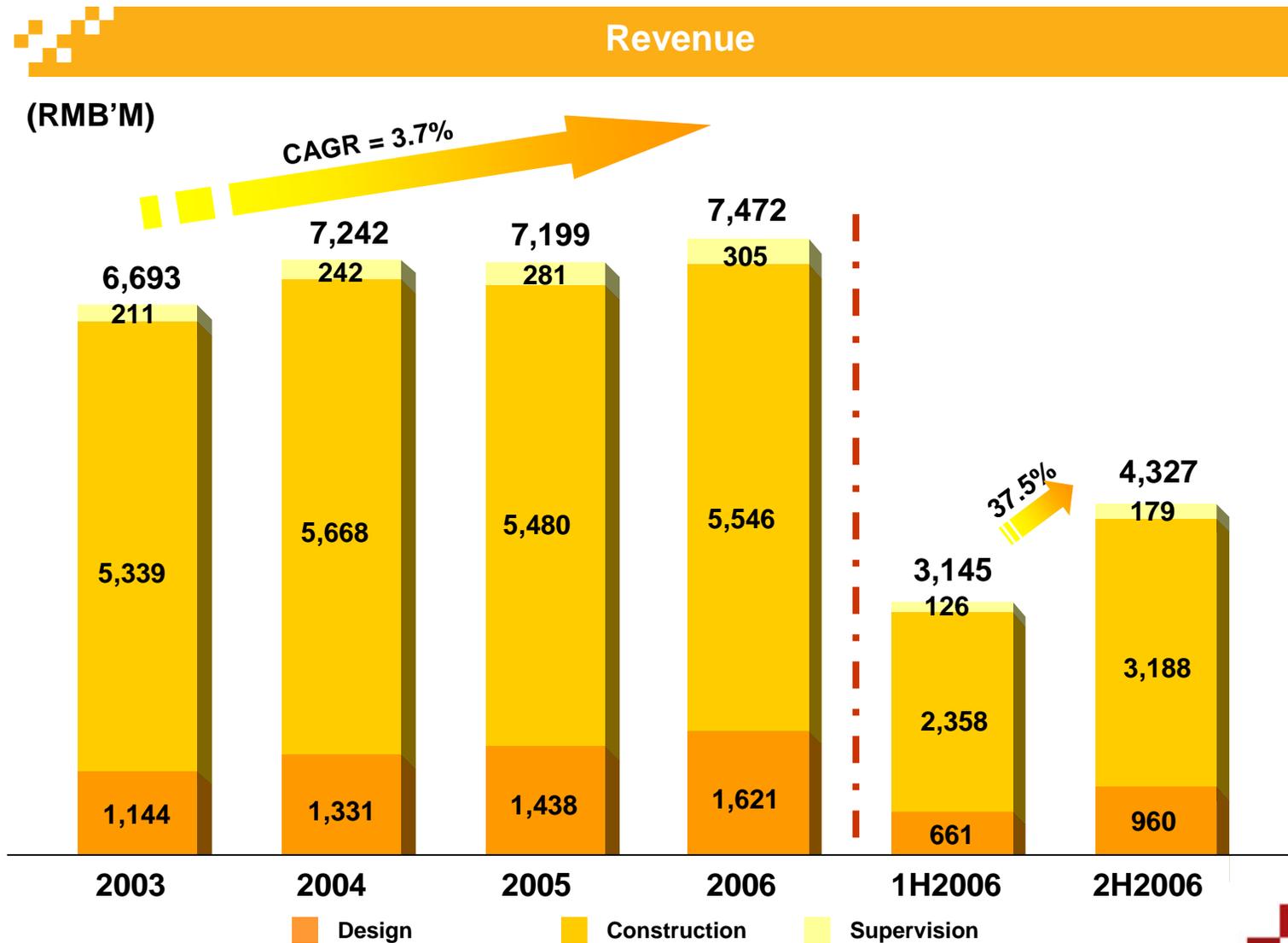
1H2006



2H2006



# TIS Performance

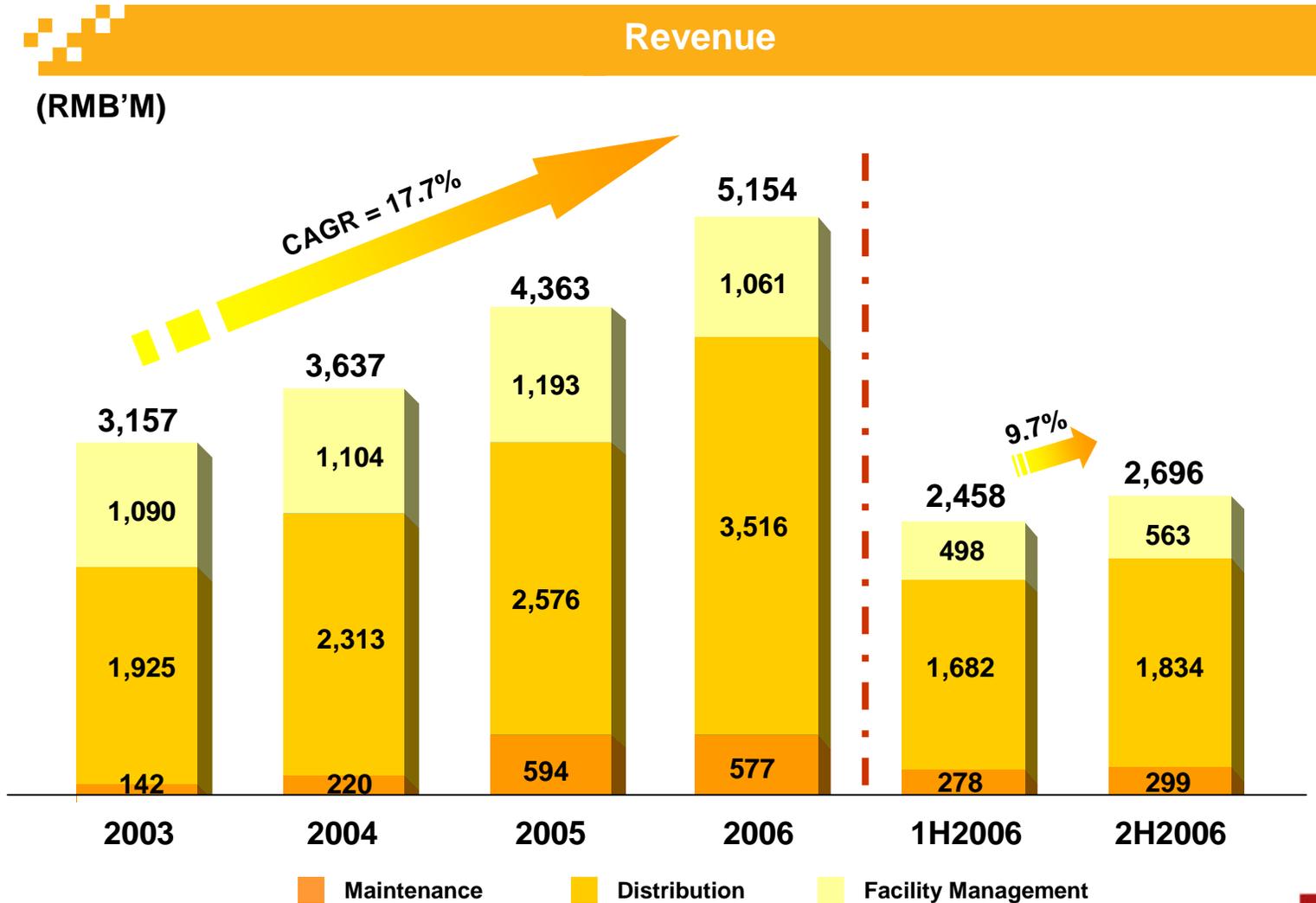


## Key Initiatives

- Further strengthen our relationship with operators and enhance customer satisfaction
- Continue to grow high-end services such as consultancy and project management
- Continue to expand into non-operator and overseas market together with our partners

**Maintain steady growth of TIS and diversify its revenue sources**

# BPO Performance



## Key Initiatives

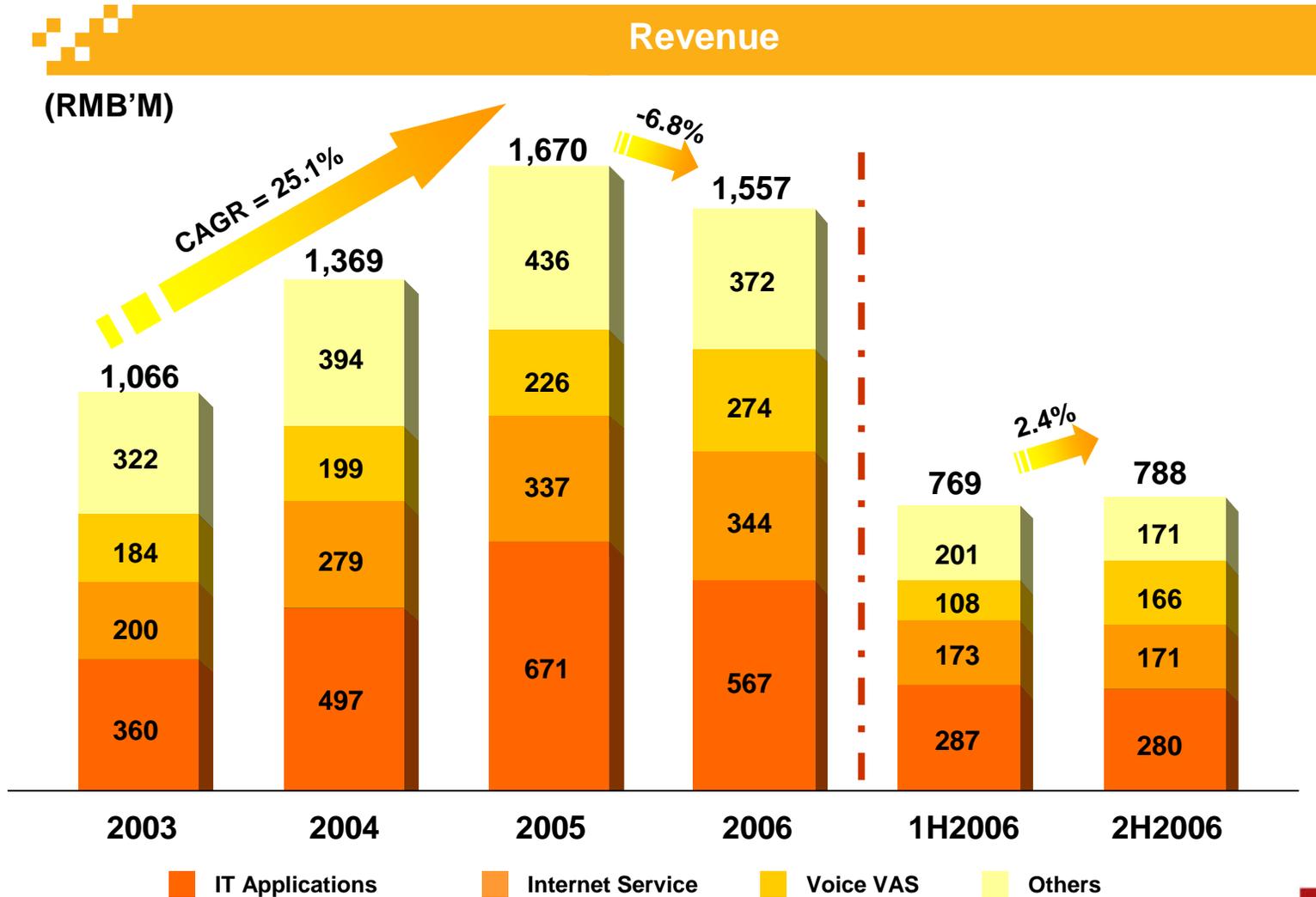
- Increase efforts in maintenance services for operators and equipment vendors

- Expand into business of the facilities management business for non-operators

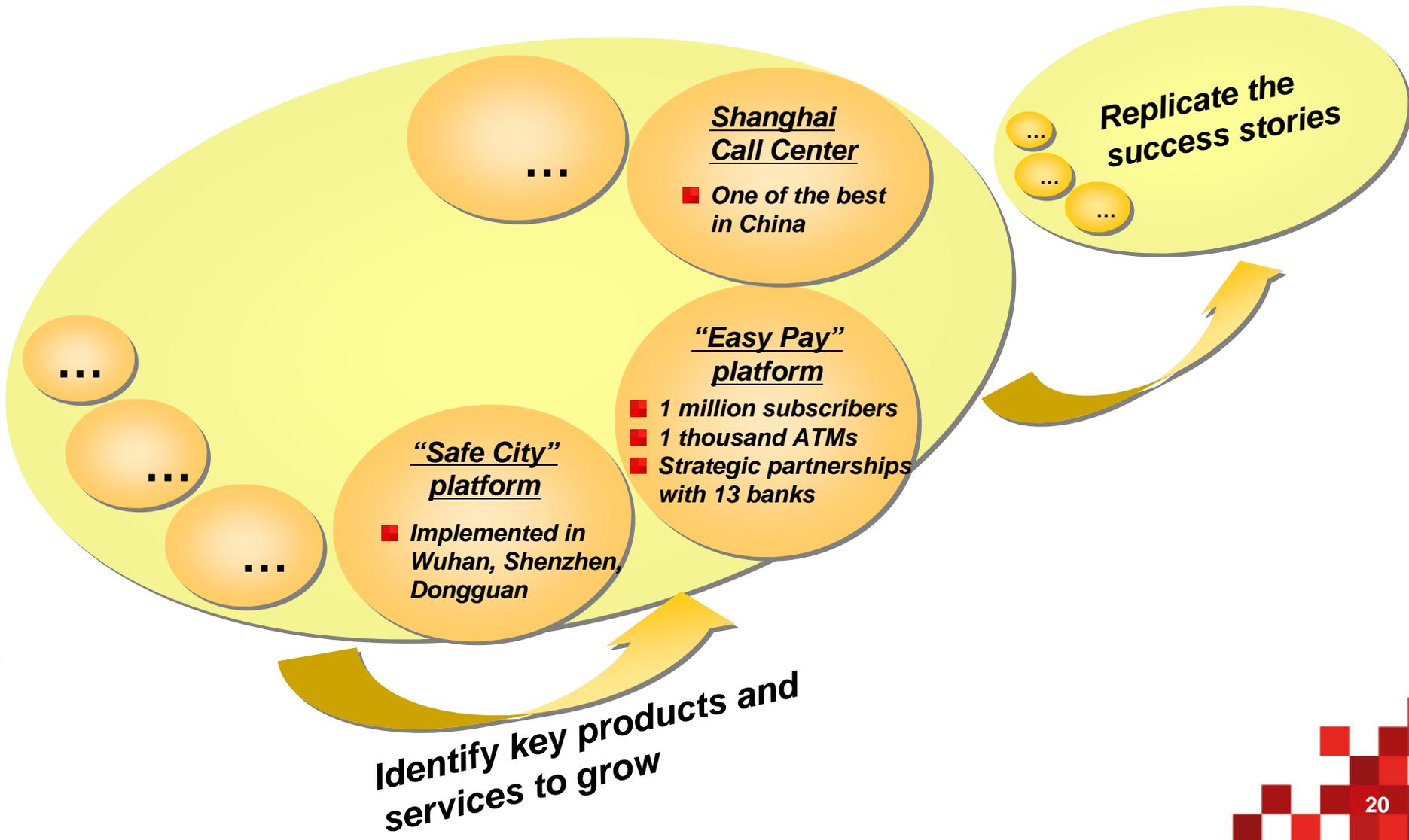
- Grow market share in technical maintenance and knowledge-intensive modern facilities management services

- Take advantages of operator's outsourcing trend
- Capture market shares in high-end, value-added services

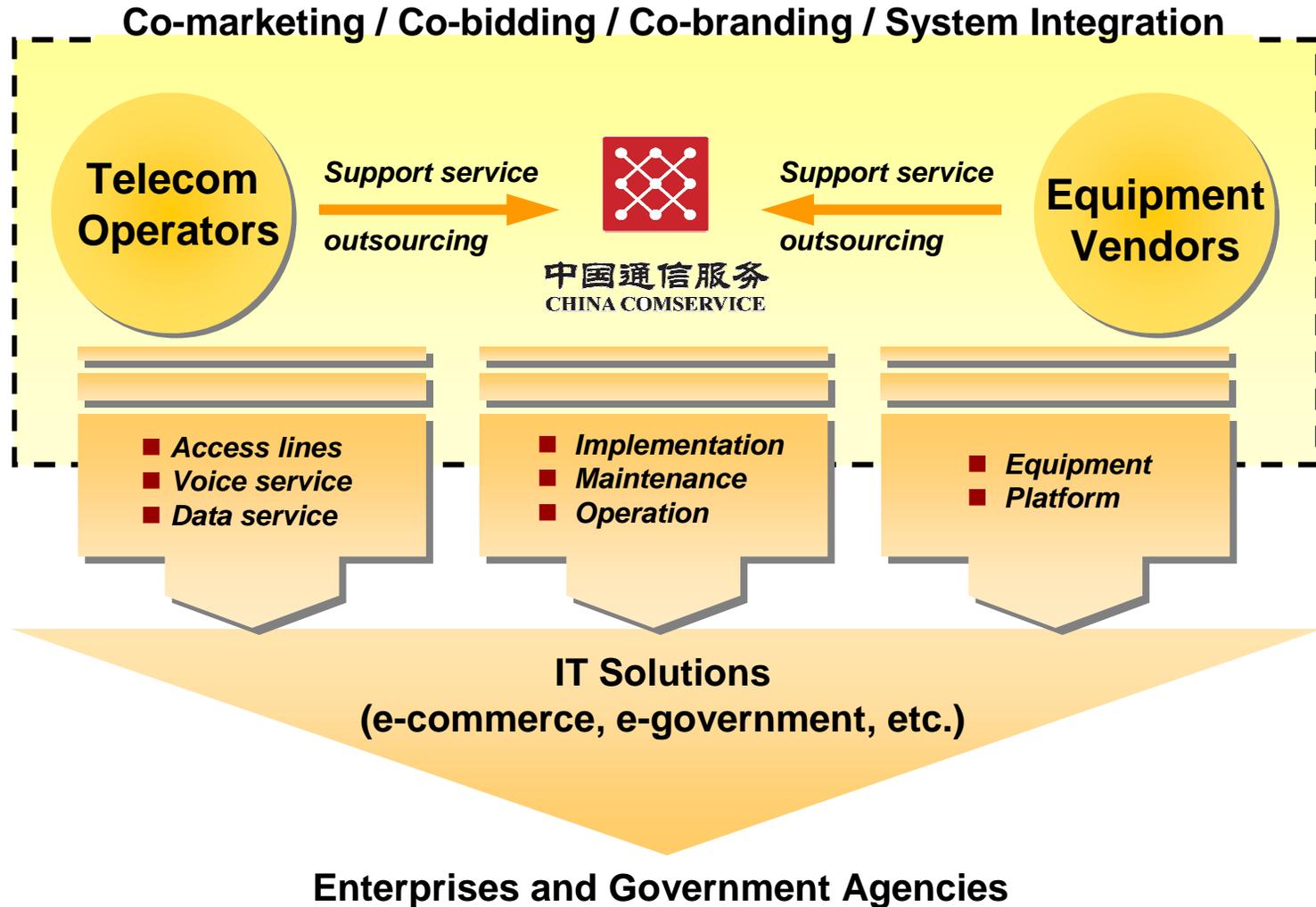
# ACO Performance



# ACO Future Growth Strategies



# Strategic Cooperation with Operators and Equipment Vendors to Explore Non-Operator Market





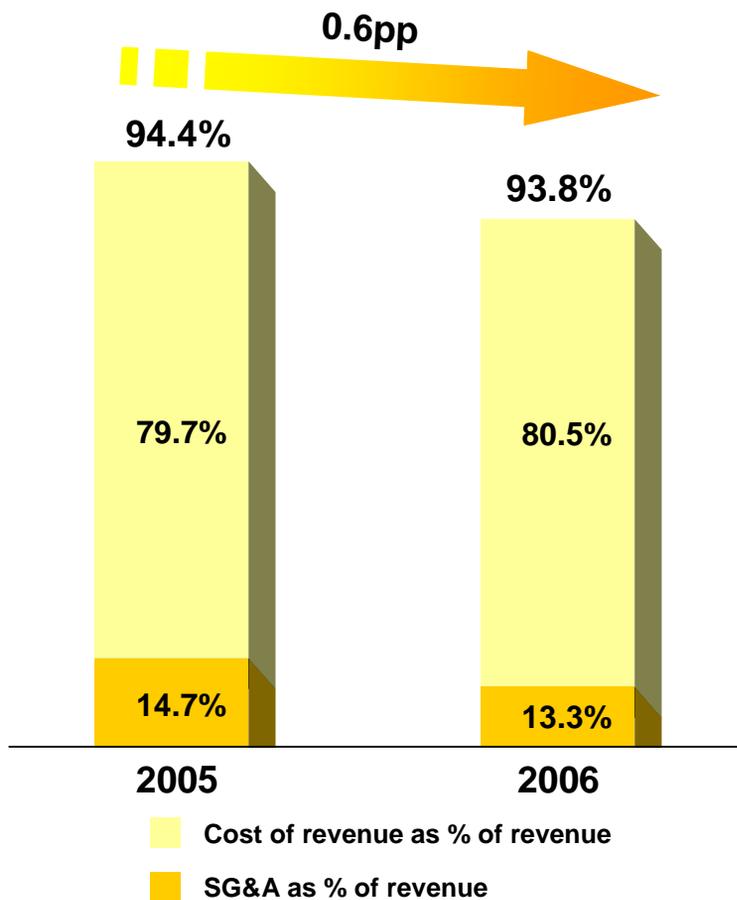
# FINANCIAL RESULTS

# Financial Performance

(RMB'M)	2005	2006	Change	% of revenue
<b>Revenue</b>	<b>13,232</b>	<b>14,183</b>	<b>7.2%</b>	<b>100%</b>
<b>Cost of revenue</b>	<b>10,544</b>	<b>11,424</b>	<b>8.3%</b>	<b>80.5%</b>
Direct personnel	2,522	2,604	3.3%	18.4%
Subcontracting	2,029	2,761	36.0%	19.5%
Materials	4,338	4,333	-0.1%	30.5%
D&A	239	250	4.3%	1.7%
Others	1,416	1,476	4.2%	10.4%
<b>Gross profit</b>	<b>2,688</b>	<b>2,759</b>	<b>2.7%</b>	<b>19.5%</b>
<b>SG&amp;A</b>	<b>1,951</b>	<b>1,891</b>	<b>-3.1%</b>	<b>13.3%</b>
<b>EBITDA</b>	<b>1,233</b>	<b>1,416</b>	<b>14.8%</b>	<b>10.0%</b>
<b>Net profit</b>	<b>598</b>	<b>696</b>	<b>16.5%</b>	<b>4.9%</b>
<b>EPS (RMB)</b>	<b>0.151</b>	<b>0.172</b>	<b>13.9%</b>	<b>N.A.</b>

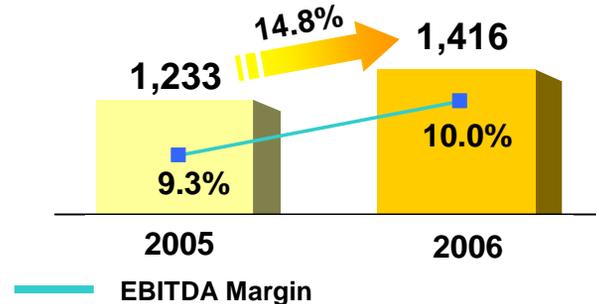
# Enhanced Profitability

## Cost of Revenue and SG&A



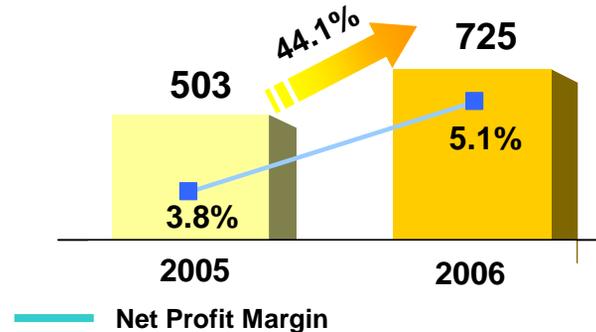
## EBITDA

(RMB'M)



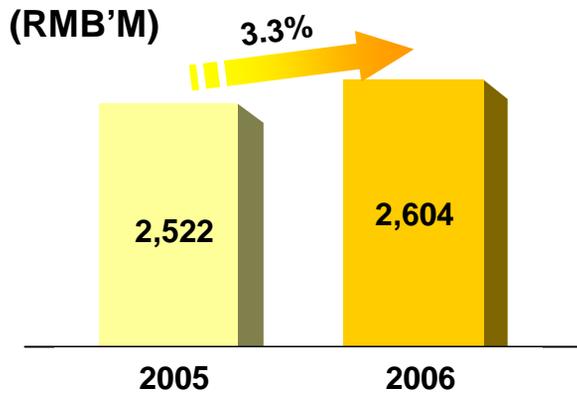
## Normalized Net Profit

(RMB'M)

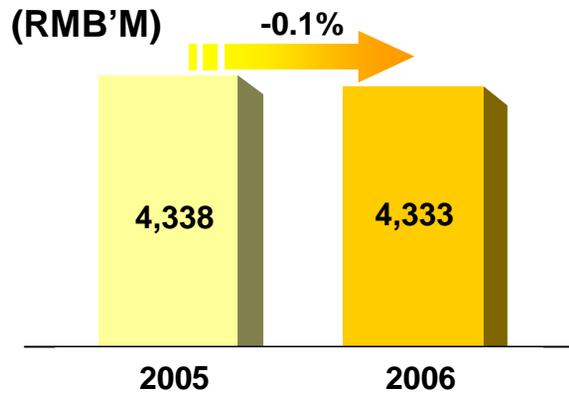


# Costs in Line with Business Development

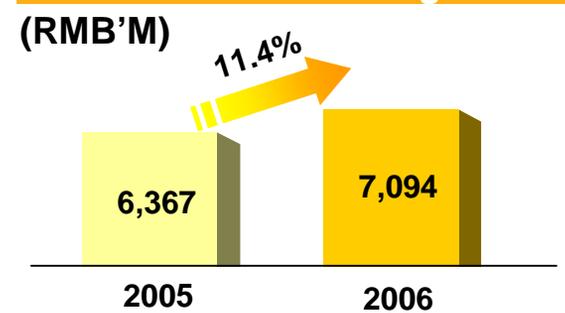
## Direct Personnel Costs



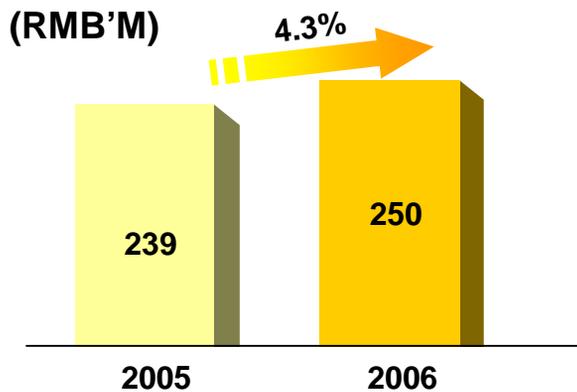
## Material Costs



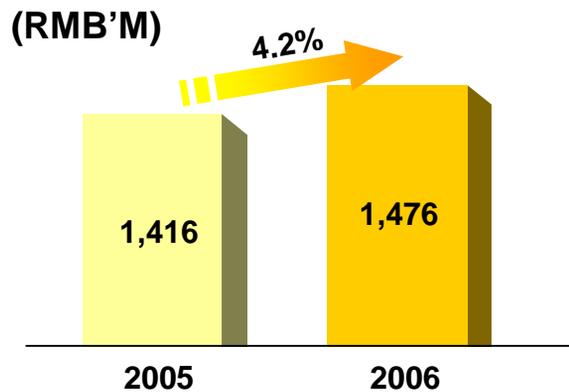
## Material & Subcontracting Costs



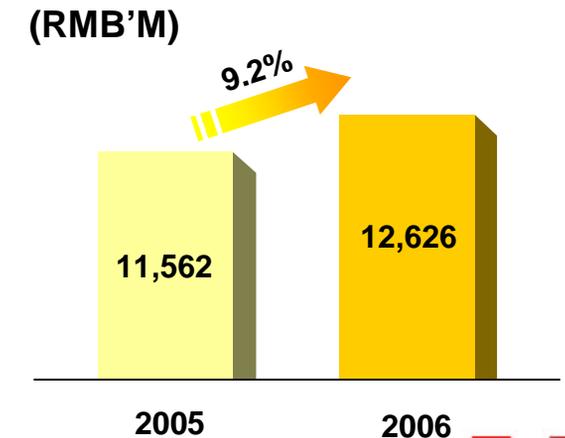
## D&A



## Others



## TIS & BPO Revenues



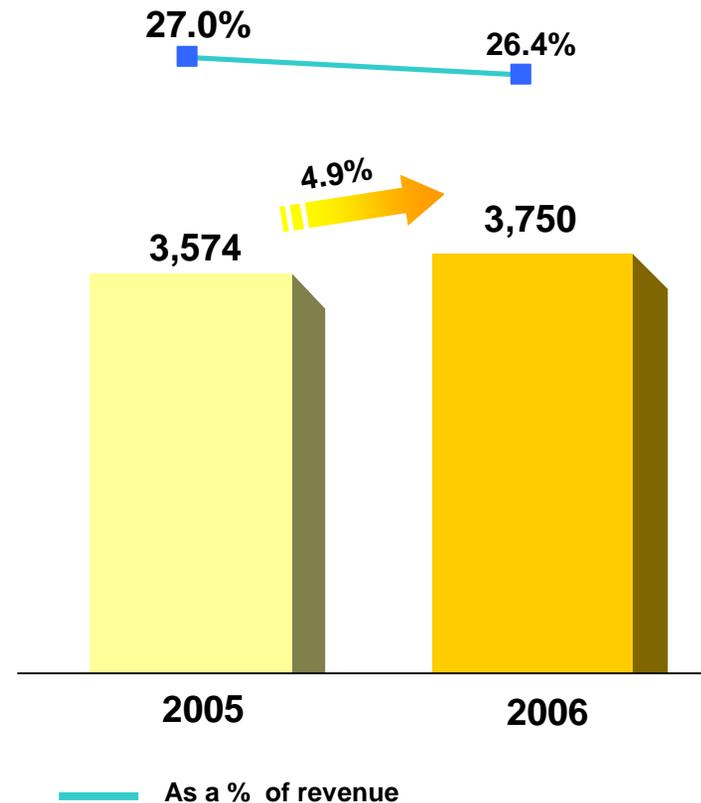
# Effective Personnel Cost Control

## Human Resource Management

- Established performance based remuneration mechanism
- Realigned human resource structure to match revenue growth needs
- Reduced layers of management and administrative structure
- Personnel costs grow at lower rate than that of revenue growth

## Total Personnel Costs\*

(RMB'M)



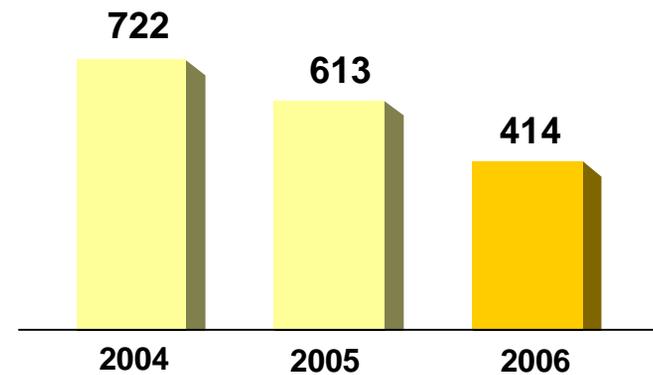
\* Total personnel costs include direct personnel costs and staff costs in SG&A

# Better Working Capital Management

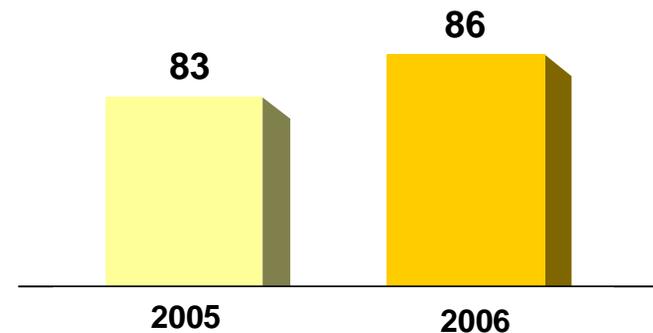
- Enhanced working capital management through budgeting and performance review
- Gained more favorable business terms from our customers and suppliers through long term cooperation and centralized procurement

## Working capital as use of cash

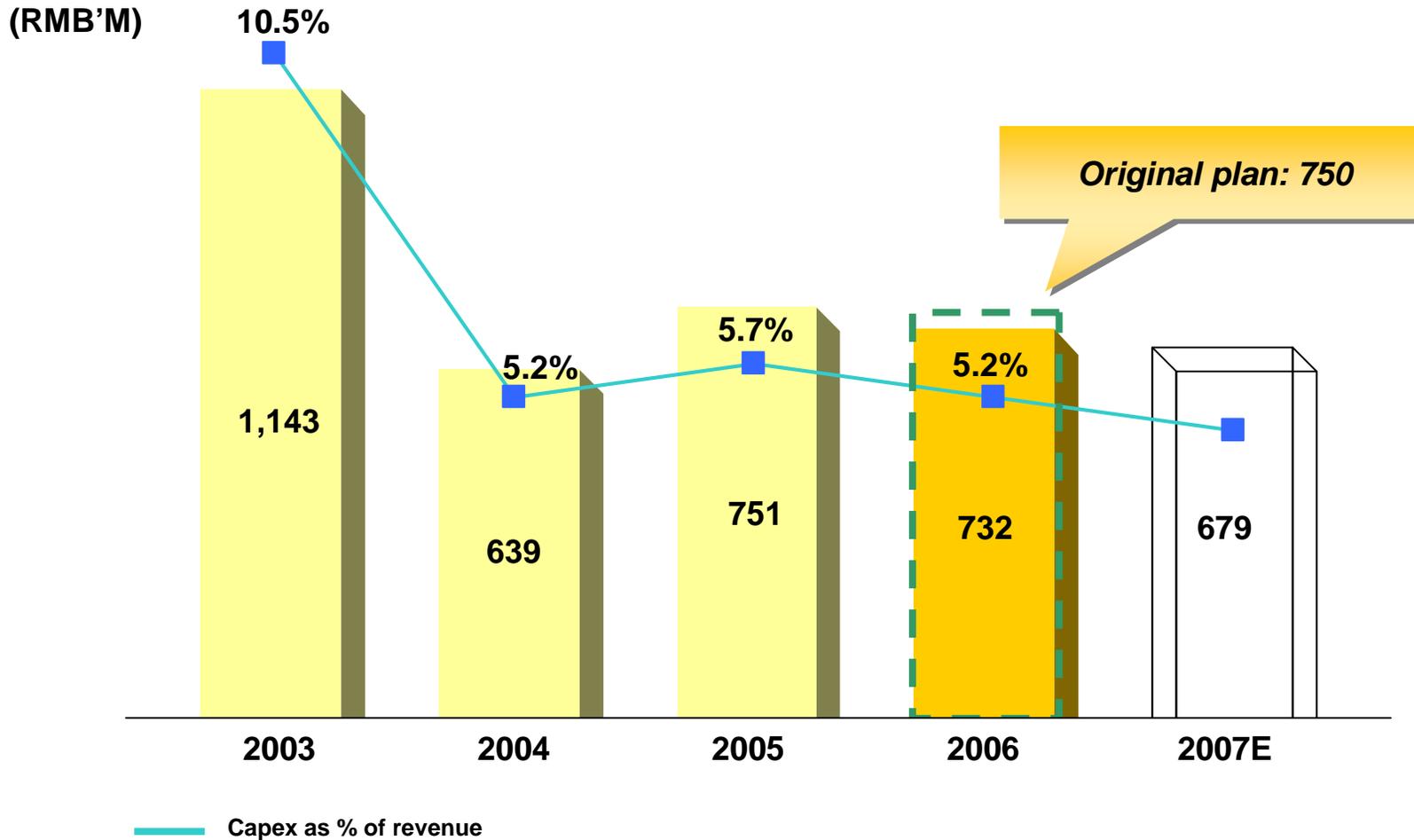
(RMB'M)



## Accounts receivable turnover days



# CAPEX Under Control



\* CAPEX of 2006 excludes the payment for the acquisition of certain assets during our restructuring.

# Solid Financial Position

### Total Liabilities/Total Assets

46.0%



2005

37.5%

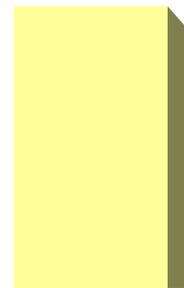


2006

### Net Cash & Cash Equivalents

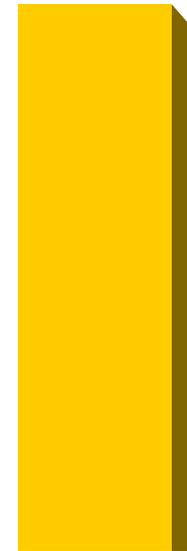
(RMB'M)

3,476



2005

6,976



2006

**Solid financial position fostering future business development**

# Enhance Shareholders' Value

- Realize organic and external growth potential
- Enhance operating efficiency
- Strengthen internal control to reduce risk
- Improve corporate governance and transparency



THANK  
YOU