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CHINA COMMUNICATIONS SERVICES CORPORATION LTD:
BLESS THE PUPPETRY OF THE GOVERNMENT
OF THE PEOPLE'S REPUBLIC OF CHINA !

Without suggesting that Senior Management of publicly listed China Communications Services Corporation Ltd () (Code: 552, Main Board, The Stock Exchange of Hongkong Ltd) is in the habit of telling fibs or even little white lies, **TARGET ()** finds it exceedingly difficult to swallow some of the waffle, contained in this Company's communication to shareholders, dated June 15, 2007.

China Communications Services is about 70 percent owned by corporate entities, controlled by the Government of the People's Republic of China (PRC).

These corporate entities are:

1. China Telecommunications Corporation () – about 64.05 percent;

2. Guangdong Telecom Industry Group Corporation () – about 4.34 percent; and,

3. Zhejiang Telecom Industry Corporation (), wholly owned by China Telecommunications Corporation – about 1.61 percent.

When China Communications Services pitched its **I**nitial **P**ublic **O**ffering (IPO) in the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC) on November 27, 2006, it was stated, at Page 150 of its Global Offering Prospectus, how the Company would be applying the net proceeds from the IPO as follows:

1. Up to 50 percent of the net proceeds ($HK1,633.50 million) *'for capital expenditure items over the next 24 months …';*

2. Up to 40 percent of the net proceeds ($HK1,306.80 million) *'for the implementation of our business strategies and funding of business expansion, including potential selective acquisitions from China Telecom Group* (China Telecommunications Corporation) *and other strategic investments, although no acquisitions or strategic investments are pending …'*; and,

3. Up to $HK326.70 million of the net proceeds *'for additional working capital and other general corporate purposes.'*

Then, 7 months, following the launch of IPO of China Communications Services, Management announced that it had entered into a binding agreement with China Telecommunications Corporation to acquire from its Substantial and Controlling Shareholder and Promoter, assets at the cost of 4,630 million renminbi (about $HK4,735.60 million).

Without bothering to name any or all of the corporate entities, which were acquired by China Communications Services for 4,630 million renminbi – because it is highly likely that most HKSAR investors and **TARGET** Subscribers would never have heard of these entities – suffice it to state that, in terms of profitability, one could not be impressed by these entities' aggregate financial performances over the past 3 years.

The following table is lifted from Page 10 of the information, sent to shareholders of China Communications Services on about June 15, 2007, in respect of what was termed as *'The Target Business'* (the aggregate financial picture of that which China Communications Services had acquired for 4,630 million renminbi from its Controlling Shareholder):

	Financial Year, Ended December 31		
	2004	2005	2006
	All Figures Are Denominated In Renminbi'000 (except where otherwise specified)		
Revenues	4,206,858	4,776,637	5,129,932
Cost of Revenues	(3,250,072)	(3,748,519)	(4,024,385)
Gross Profit	956,786	1,028,118	1,105,547
Gross Profit Margin*	**22.74 percent**	**21.52 percent**	**21.55 percent**
Other Operating Income	61,901	25,192	37,267
Selling, General And Administrative Expenses	(751,873)	(773,622)	(883,995)
Other Operating Expenses	(11,668)	(12,728)	(16,052)
Deficit On Revaluation Of Property, Plant And Equipment	Nil	Nil	(30,330)
Net Financing Income	1,461	1,238	1,671
Share Of Profits Less Losses Of Associates	1,944	2,989	2,005
Profit Before Taxation	258,551	271,187	216,113
Income Tax	(73,968)	(87,949)	(93,902)
Net Profit Attributable To Shareholders	184,583	183,238	122,211

Net Profit Margin*	**4.39 percent**	**3.84 percent**	**2.38 percent**

* These are **TARGET**'s calculations

Not very appealing **...** **CLICK TO ORDER FULL ARTICLE**

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