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)

MAJOR AND CONNECTED TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS

SUMMARY

The Acquisition

The Board announced that the Company had entered into the Acquisition Agreement on 15 June 2007 after trading hours of the Stock Exchange, pursuant to which the Company agreed to acquire and China Telecommunications Corporation, the Company's controlling shareholder and promoter, agreed to sell the Total Acquisition Assets, subject to certain conditions.

The Target Business in each of the Target Service Areas consists of companies and businesses which together comprise the leading providers of specialised telecommunications support services, offering telecommunications infrastructure ("**TIS**") services, business process outsourcing ("**BPO**") services and applications and content and other ("**ACO**") services to telecommunications operators in the relevant Target Service Areas. The Target Service Areas are Jiangsu province, Anhui province, Jiangxi province, Hunan 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. For the financial year ended 31 December 2006, the revenue of the Target Business was RMB3,468.7 million, RMB1,013.9 million and RMB647.3 million for TIS services, BPO services and ACO services. The cumulative annual growth rate of revenue for the three years ended 31 December 2006 of the TIS services provided by the Target Business was 8.8%, 8.8% for the BPO services and 24.0% for the ACO services.

The Acquisition also involves the acquisition of the Target Assets, which comprises 21.3% of the aggregate appraised value of the Total Acquisition Assets.

Consideration for the Acquisition

The Acquisition was negotiated and entered into on an arm's length basis and on normal commercial terms. The total purchase price for the Acquisition payable by the Company is RMB4,630 million (equivalent to approximately HK$4,735.6 million), to be paid in cash within 60 days from the completion date of the Acquisition. The Company will finance the Acquisition by using RMB1,200 million from the proceeds of its IPO, RMB1,430 million from its cash on hand and RMB2,000 million from debt financing on normal commercial terms. The indebtedness of the Target Business as of 31 December 2006 amounted to approximately RMB75.2 million (equivalent to approximately HK$76.9 million). The Board (including the independent non-executive directors) is of the view that the Acquisition, including the purchase price and the method of financing is fair and reasonable, and that the Acquisition is in the best interests of the Company and its Shareholders as a whole.

Major and Connected Transaction

As of the Latest Practicable Date, China Telecommunications Corporation directly and indirectly owns and is entitled to exercise control of 70% of the voting rights in respect of the issued share capital of the Company and is hence a connected person of the Company as defined under Rule 14A.11 of the Listing Rules. Each of the asset ratio and the revenue ratio under Rule 14.07 of the Listing Rules of the Acquisition exceeds 25% but is below 75%. Accordingly, under the Listing Rules, the Acquisition constitutes both a major and a connected transaction for the Company.

Reasons for and benefits of the Acquisition

As disclosed in the Prospectus, the Company plans to expand its business geographically in the domestic PRC market through selective acquisitions, including the acquisitions of other affiliates of China Telecommunications Corporation engaging in similar businesses in regions other than the Listed Service Areas. The Board believes that the Acquisition represents a new and important opportunity for the Company to enhance its market position and competitiveness, improve its growth prospects, realise operating synergies and rationalise its capital structure, hence allowing the Company to benefit further from the sustained growth of the telecommunications industry in the PRC and the increase in demand for specialised telecommunications support services.

Prospective Connected Transactions

A number of transactions were entered into between (a) the Combined Group on the one hand; and (b) China Telecommunications Corporation and/or its subsidiaries/Associates (other than the Combined Group) on the other. The transactions of the Target Business with China Telecommunications Corporation and/or its subsidiaries/Associates (other than the Combined Group) which will arise on a continuing basis after the Acquisition, will constitute continuing connected transactions for the Company under the Listing Rules upon completion of the Acquisition. These continuing connected transactions fall within the scope of the various framework agreements entered into in respect of the Existing Connected Transactions at the time of the Company's IPO and which were disclosed in the Company's Prospectus. The Company now seeks to renew the framework agreements and to amend the annual caps of these transactions in light of the Acquisition. In connection with the Acquisition, the terms of the Strategic Cooperation Agreement will be amended by way of the Supplemental Strategic Agreement to include transactions between the Target Business and the subsidiaries of China Telecom Listco in the Target Service Areas.

Further details of these transactions are set out in this announcement.

Independent Shareholders' Approval and Independent Financial Adviser

An Independent Board Committee has been established to advise the Independent Shareholders in respect of the terms of the Acquisition, the Supplemental Agreement, the Supplemental Strategic Agreement and the annual caps of the Non-exempt Prospective Connected Transactions. ING has been retained as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the terms of the Acquisition, the Supplemental Agreement, the Supplemental Strategic Agreement and the annual caps of the Non-exempt Prospective Connected Transactions.

The Acquisition, the Supplemental Agreement, the Supplemental Strategic Agreement and the annual caps of the Non-exempt Prospective Connected Transactions, which comprise continuing connected transactions with China Telecom Group under each of the engineering framework agreement, the ancillary telecommunications services framework agreement, the operation support services framework agreement, the IT application services framework agreement and the centralized services agreement will require the approval of the Independent Shareholders at the EGM at which China Telecommunications Corporation and its Associates will abstain from voting. The votes of the Independent Shareholders at the EGM shall be taken by poll.

Financial Advisers

CICC and Goldman Sachs are the financial advisers to the Company in respect of the Acquisition and the Prospective Connected Transactions.

Dispatch of shareholders' circular and closure of the register of members

A circular containing, amongst other things, details of the terms of the Acquisition, the Prospective Connected Transactions, letters from the Independent Board Committee and from the Independent Financial Adviser, additional financial and other information of the Target Business and the Target Assets (including the Accountants' Report on the financial information of the Target Business for the three years ended 31 December 2006 and the unaudited pro forma financial information of the Combined Group to illustrate how the proposed acquisition of the Target Business and the Target Assets might have affected the Company's most recent financial information) and a notice to shareholders of the Company convening the EGM to approve, amongst other things, the terms of the Acquisition, the Supplemental Agreement, the Strategic Supplemental Agreement and the annual caps of the Non-exempt Prospective Connected Transactions will be dispatched to the shareholders of the Company as soon as practicable after the publication of this announcement.

1. THE TOTAL ACQUISITION ASSETS

(a) The Acquisition

The Company entered into the Acquisition Agreement on 15 June 2007 after the trading hours of the Stock Exchange, pursuant to which the Company agreed to acquire and China Telecommunications Corporation, the Company's controlling shareholder and promoter, agreed to sell, the Total Acquisition Assets (comprising of the Target Business and the Target Assets), subject to certain conditions.

The purchase price to be paid for the Total Acquisition Assets is RMB4,630 million (equivalent to approximately HK$4,735.6 million). The indebtedness of the Target Business as of 31 December 2006 amounted to approximately RMB75.2 million (equivalent to approximately HK$76.9 million). Upon completion of the Acquisition, the Combined Group will provide specialised telecommunications support services primarily in the Combined Service Areas and the Target Assets will become the assets to be owned by the Company.

The Target Business in each of the Target Service Areas consists of companies and business assets which together comprise the leading providers of specialised telecommunications support services offering telecommunications infrastructure ("**TIS**") services, business process outsourcing ("**BPO**") services and applications and content and other ("**ACO**") services to telecommunications operators in the relevant Target Service Areas. The Target Service Areas are Jiangsu province, Anhui province, Jiangxi province, Hunan 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. For the financial year ended 31 December 2006, the revenue of the Target Business was RMB3,468.7 million, RMB1,013.9 million and RMB647.3 million for TIS services, BPO services and ACO services, respectively. The cumulative annual growth rate of revenue for the three years ended 31 December 2006 of the TIS services provided by the Target Business was 8.8%, 8.8% for the BPO services and 24.0% for the ACO services.

The principal businesses of the Target Business in the Target Service Areas are:

- **TIS services** — The Target Business offers a range of telecommunications infrastructure services, including design, construction and engineering and project supervision and management for telecommunications network infrastructure related projects.

- **BPO services** — The Target Business offers a range of BPO services for telecommunications operators including network maintenance, facilities management, and distribution of telecommunications services and products.

- **ACO services** — The Target Business offers a variety of value added telecommunications and information technology services, including system integration, Internet services and value added voice services, as well as other services.

The Target Business also includes two companies, Guangdong Nanfang Communications GSM Intelligent Card System Co., Ltd. (廣東南方通信全球通智能卡系统有限公司) and NingBo Public Information Industry Co., Ltd. (寧波公眾信息產業有限公司) located in the Guangdong and Zhejiang provinces, respectively. These two companies are engaged in the business of manufacturing and distribution of encryption cards and IC cards, and providing localised web portal services in the Guangdong and Zhejiang provinces respectively. Their aggregate appraised value comprises 0.61% of the aggregate appraised value of the Target Business and is relatively insignificant compared to that of the aggregate appraised value of the Target Business. The businesses conducted by these two companies were not previously conducted by the Company in the Guangdong and Zhejiang provinces. However, since the businesses of the two companies are complementary to the existing business of the Group, the Company intends to acquire them to facilitate the growth and expansion of the Company's operations. Accordingly the acquisition of these companies is in the interest of the Company. Upon the completion of the Acquisition the above-mentioned two companies will be held by the relevant provincial subsidiaries of the Company in Guangdong province and Zhejiang province.

The Acquisition also involves the acquisition of the Target Assets and the aggregate appraised value of the Target Assets comprises 21.3% of the aggregate appraised value of the Total Acquisition Assets. The Target Assets include non-specialised assets such as office buildings, equipment, leases and land in the Combined Service Areas which will be used by the Company in the Combined Service Areas for daily operations. The Target Assets also include minority shareholding interests of 10% each in two companies, Guangdong Electronic Certification Authority Co., Ltd. (廣東電子商務認證有限公司) and Shanghai Telephone Property Co., Ltd. (上海德律風物業有限公司), which are already part of the Listed Group on the basis that the financial information of such companies are consolidated as part of the Listed Group's financial information. The original purchase cost of the Target Assets is RMB904.6 million. The aggregate appraised value of the Target Assets is RMB984.7 million. The Target Assets represent stand-alone and non-specialised assets which do not qualify as a business or businesses and will be acquired by the

Company pursuant to the Acquisition Agreement. Accordingly, no historical financial information is available to be provided in relation to the Target Assets as in the case of the Target Business. The following is a table showing the breakdown of the Target Assets in terms of their original purchase price and their appraised value:

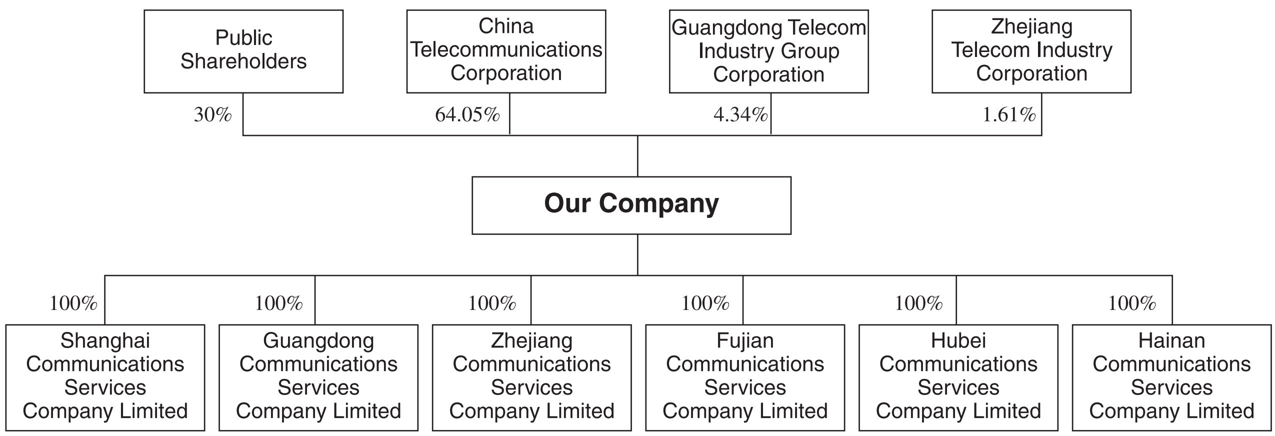
	Original Purchase Cost *RMB million*	**Appraised Value** *RMB million*
Office buildings	573.2	473.2
Equipment	91.5	39.4
Construction in progress	46.1	47.1
Land[1]	70.2	256.9
Leases	37.1	83.9
Minority equity interest	12.3	10.3
Other assets	74.2	73.9
Total	904.6	984.7

(1) The difference between the original purchase cost and the appraised value is attributed in part to the rising property price in the PRC.

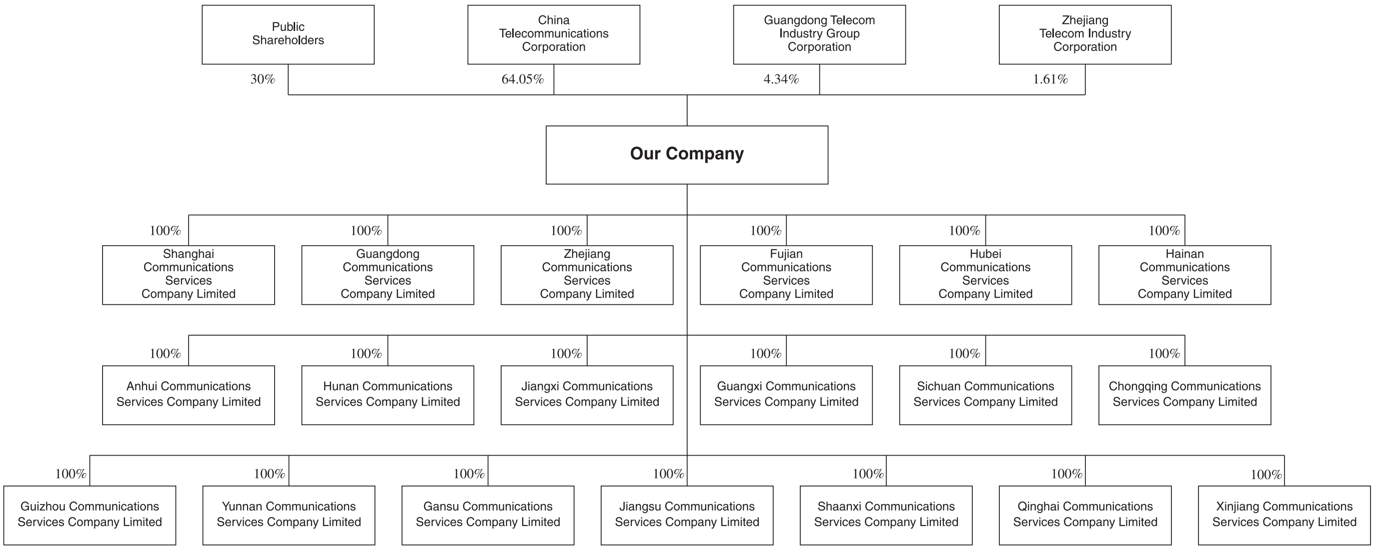
The Company plans to introduce the provision of logistics services as a new business and as part of its business expansion initiatives, which comprises of the provision of comprehensive professional logistics services, including purchase agency, transportation, delivery, testing, warehousing and inspection, logistics information management and distribution ("Comprehensive Logistics Services"). In this regard, the Company intends to use part of the Target Assets to embark on the Comprehensive Logistics Services.

Set out below are the corporate structures of the Company and its principal subsidiaries prior to and immediately following the Acquisition. After the completion of the Acquisition, the Target Business and the Target Assets will be held by the relevant provincial subsidiaries of the Company.

Corporate structure immediately before the Acquisition



Corporate structure immediately following completion of the Acquisition



**Note:* Names of the provincial subsidiaries in the Target Service Areas in the chart above pending final approval by relevant company registration authorities.

(b) The Consideration

The Acquisition was negotiated and entered into on an arm's length basis and on normal commercial terms. The total purchase price for the Acquisition payable by the Company is RMB4,630 million (equivalent to approximately HK$4,735.6 million), to be paid in cash within 60 days from the completion date of the Acquisition. The Company will finance the Acquisition by using RMB1,200 million from the proceeds of its IPO, RMB1,430 million from its cash on hand and RMB2,000 million from debt financing on normal commercial terms.

The purchase price of the Acquisition was determined based on various factors, including the quality of the assets being acquired, their growth prospects, earnings potential, competitive advantages in their respective markets, the prospective profit contributions by the Total Acquisition Assets to the Combined Group, the comparable companies public trading multiples and other relevant valuation benchmarks. The purchase price for the Acquisition represents a multiple of approximately 16.4 times the 2007 forecast combined net profit attributable to the owner of the Target Business which is unlikely to be less than RMB283 million (equivalent to approximately HK$289.5 million). Such forecast has been prepared under the IFRS by the Directors of the Company and the management of the Target Business, and 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' 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 the shareholders' circular to be issued by the Company;

(4) there will be no material changes in the bases or rates of taxation appropriate to the Target Business, except as otherwise disclosed on the date of the shareholders' circular. In addition, the enactment of the Corporate Income Tax Law of the PRC passed by the Fifth Plenary

Session of the Tenth's National People's Congress on 16 March 2007 to be effective on 1 January 2008 is not expected to have any significant financial effect on the Target Business for the year ending 31 December 2007; 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.

Each of the Financial Advisers to the Company confirms that it is satisfied that the profit forecast has been made by the Directors after due and careful enquiry.

(c) Conditions to Completion of the Acquisition

The Company and China Telecommunications Corporation have agreed that the completion of the Acquisition will take place on 31 August 2007 or such other date as the parties may agree and is subject to the following conditions:

(i) the sale of the Total Acquisition Assets being duly approved by China Telecommunications Corporation and its relevant subsidiaries in accordance with their constitutional documents;

(ii) the passing of ordinary resolutions by Independent Shareholders approving the terms of the Acquisition, the terms of the Prospective Connected Transactions between the Company and China Telecommunications Corporation (in relation to the proposed amendments to the framework agreements and the proposed annual caps but excluding the Property Leasing Framework Agreement);

(iii) the obtaining of all necessary approvals from the relevant governmental and regulatory authorities, including the SASAC's approval; and

(iv) there having been no material adverse change to the financial conditions, business operations or prospects of the Target Business and, where applicable, the Target Assets.

The parties to the Acquisition Agreement agreed that China Telecommunications Corporation and its relevant subsidiaries will be entitled to any increase of the net assets of the Target Business resulting from the profits of the Target Business as determined under the PRC accounting standards between 31 January 2007, being the Date of Appraisal, and the date of completion of the Acquisition, and that China Telecommunications Corporation and its relevant subsidiaries shall make up for any decrease of the net assets of the Target Business resulting from any loss sustained by the Target Business between 31 January 2007, being the Date of Appraisal, and the date of completion. The adjustment mechanism, as agreed between the Company and China Telecommunications Corporation, is in line with the principles set out in the "Notice of the Forwarding the Implementation Opinions of the State-owned Assets Supervision and Administration Commission about Further Standardisation of the Work Relating to the Reconstructing of State-owned Enterprises" issued by the General Office of the State Council of the PRC (the "Notice") and provides for the vendor to make up to the purchaser any negative change in the net assets of the Target Business and for the purchaser to account to the vendor for any increase in net assets. The amount of change in net assets will be subject to a special audit and payments will be made in cash subject to alternative arrangements as the parties may agree. Changes in the net asset value of the Target Assets will not be included in the adjustment as the scope of the Notice does not include the sale and purchase of standalone assets. The Board believes such adjustment mechanism is fair and reasonable.

2. REASONS FOR AND BENEFITS OF THE ACQUISITION

It is the Company's existing strategy to strengthen its competitive position through selective acquisitions. As disclosed in the Prospectus, the Company plans to expand its business geographically in the domestic PRC market through selective acquisitions, including the acquisitions of other affiliates of China Telecommunications Corporation engaging in similar business in regions other than the Company's Listed Service Areas. Under the non-competition undertaking entered into with China Telecommunications Corporation in connection with the initial public offering of the Company, the Company has a priority right (expiring on the third anniversary of its listing date) to acquire from China Telecom Group, its retained specialised telecommunications support businesses outside of the Company's Listed Service Areas, at the discretion of the Company.

The Acquisition represents a new and important opportunity for the Company to enhance its market position and competitiveness, improve its growth prospects, realise operating synergies and rationalise its capital structure hence allowing the Company to benefit further from the sustained growth of the telecommunications industry in the PRC and the increase in demand for specialised telecommunications support services.

(a) Enhancement of market position and competitiveness

Our key customers, including China Telecom Group, China Mobile and China Unicom, are China's top fixed-line and wireless telecommunications operators that have national operations. There is increasing demand for telecommunications support service providers to offer high quality and cost efficient services on a national scale. The Acquisition complements the Company's existing business strategy to meet the customers' comprehensive needs.

The Target Business in each of the Target Service Areas are the leading providers of specialized telecommunications support services. The addition of 13 provinces will enable the Company to expand its geographic footprint and will allow the Company to standardise its services and technology in its Combined Service Areas, hence enhancing the Company's competitiveness through the provision of nation-wide integrated one-stop services.

The Acquisition will also boost the Group's ability to deploy resources across wider regions based on our customers' comprehensive needs. After completion of the Acquisition, our primary service areas will consist of 19 geographically adjacent regions which will create flexibility in internal resources allocation to facilitate quick response to market trends and customers' comprehensive needs, especially in light of the Company's on-going efforts to increase customer base and develop new business outside of the China Telecom Group.

The Acquisition is also expected to increase the Company's customer base, revenue and net profit. The Company believes that the enhanced financial position resulting from such growth in customer base, revenue and net profit will enable us to better address the competitive pressure and capture growth opportunities.

(b) Improvement of growth prospects

The Board believes that the Target Service Areas are markets with high growth potential. The majority of the Target Business are located in the middle and western provinces where the PRC central government has implemented policies to promote economic development. These policies are likely to stimulate a boom in the spending on infrastructure construction, including telecommunications network infrastructure construction and upgrade hence benefiting the Company. The Target Business will be direct beneficiaries to leverage the Listed Group's know-how, top-ranked technical qualifications and competitive advantages to win market share in the Target Service Areas.

The Acquisition will better position the Company to capture strategic opportunities such as the 3G rollout in the PRC, as capital expenditure of telecommunications network is, to a significant degree, based on geographic areas to be covered.

The Target Business, like the Listed Group, was part of the overall operations of China Telecommunications Corporation, the predecessor of most of the PRC telecommunications operators with long and established relationship with telecommunications services customers and a deep understanding of the telecommunications industry, will integrate with our current operations nation-wide and effectively capture strategic opportunities.

(c) Realization of operating synergies

The Board believes that the Acquisition represents an opportunity to create shareholders' value through potential operating synergies.

The Board believes that the Acquisition of the Target Business will enable the Company to reach economies of scale through sharing of resources and expertise across provinces and business areas, ultimately benefiting the Company's clients.

The Target Business' historical gross margin, being 21.6% for the year ended 31 December 2006, has been higher than that of the Listed Group due to a favorable revenue mix; however, selling, general and administrative expenses as 17.2% of revenue for the same period have been higher. There is room for cost-cutting and the Company intends to apply the same measures that have been successfully used for the Listed Group to the Target Business, 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 19 provinces.

(d) Rationalisation of Capital Structure

The Board believes that the Acquisition serves as an important step towards optimisation of the Company's capital structure, thereby maximising shareholders' value. The Acquisition will be an all-cash transaction. RMB2,630 million of the consideration will come from the IPO proceeds and cash on hand, and the rest will come from debt financing. The relevant pro forma financial information of the Combined Group will be included in the circular to be dispatched to the shareholders of the Company.

FINANCIAL INFORMATION

The following is a summary of the unaudited combined results of the Target Business for each of the years ended 31 December 2004, 2005 and 2006 prepared in accordance with IFRS.

	Years ended 31 December		
	2004	2005	**2006**
	RMB'000	*RMB'000*	***RMB'000***
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**
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	—	—	**(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 tax	258,551	271,187	**216,113**
Income tax	(73,968)	(87,949)	**(93,902)**
Profit for the year	184,583	183,238	**122,211**

The following is a summary of the unaudited combined balance sheets of the Target Business as at 31 December 2004, 2005 and 2006 prepared in accordance with IFRS.

	31 December		
	2004	2005	**2006**
	RMB'000	*RMB'000*	***RMB'000***
ASSETS			
Non-current assets			
Property, plant and equipment, net	632,643	754,469	**764,739**
Investment properties	147,028	149,893	**158,626**
Construction in progress	54,380	6,384	**26,239**
Lease prepayments	52,976	58,077	**52,221**
Intangible assets	7,856	8,141	**12,344**
Interests in associates	21,478	23,955	**16,240**
Other investments	47,304	44,305	**35,078**
Deferred tax assets	15,461	24,255	**32,959**
Total non-current assets	979,126	1,069,479	**1,098,446**
Current assets			
Inventories	141,359	122,596	**152,106**
Accounts and bills receivable, net	1,921,924	2,117,584	**2,453,507**
Prepayments and other current assets	671,092	793,475	**1,178,296**
Cash and cash equivalents	1,132,849	1,269,952	**1,092,726**
Total current assets	3,867,224	4,303,607	**4,876,635**
Total assets	4,846,350	5,373,086	**5,975,081**

LIABILITIES AND EQUITY			
Current liabilities			
Short term borrowings and current portion of long term borrowings	105,200	92,500	**62,200**
Accounts and bills payable	1,097,345	1,144,743	**1,322,040**
Receipts in advance for contract work	178,228	187,063	**67,230**
Accrued expenses and other payables	956,045	1,137,699	**1,582,642**
Income tax payable	114,733	123,892	**113,964**
Total current liabilities	2,451,551	2,685,897	**3,148,076**
Net current assets	1,415,673	1,617,710	**1,728,559**
Total assets less current liabilities	2,394,799	2,687,189	**2,827,005**
Non-current liabilities			
Long term borrowings, less current portion	22,000	12,000	**13,000**
Deferred tax liabilities	—	—	**18,473**
Total non-current liabilities	22,000	12,000	**31,473**
Total liabilities	2,473,551	2,697,897	**3,179,549**
Owner's equity	2,137,013	2,515,137	**2,735,804**
Minority interests	235,786	160,052	**59,728**
Total equity	2,372,799	2,675,189	**2,795,532**
Total liabilities and equity	4,846,350	5,373,086	**5,975,081**

Further detailed information in respect of the Target Business' historical results of operations and financial position is set out in the shareholders' circular to be issued by the Company.

3. PROSPECTIVE FINANCIAL INFORMATION

The Company and the Target Business have prepared certain prospective financial information for the year ending 31 December 2007 in compliance with Rule 14A.56(8) and Rule 14.62 of the Listing Rules. Neither the Target Business nor the Company intends to update this information during the year or to update such information in future years, although the Directors are aware of the requirements of Rule 13.09 notes 9 and 10 of the Listing Rules. This information is necessarily based upon a number of assumptions that, while presented with numerical specificity and considered reasonable by the Target Business and the Company, are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the control of the Company or the Target Business, and upon assumptions with respect to future business decisions which are subject to change. Accordingly, there can be no assurance that this result will be realised. The prospective financial information presented below may vary from actual results, and these variations may be material.

The Company and the Target Business believe that, on the bases and the assumptions discussed in the shareholders' circular to be issued by the Company and in the absence of unforeseen circumstances, the forecast combined net profit attributable to the owner of the Target Business for the year ending 31 December 2007 under IFRS of the Target Business is unlikely to be less than RMB283 million (equivalent to approximately HK$289.5 million). Such forecast 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 operates or which are otherwise material to the revenues of the Target Business;

(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 the shareholders' circular to be issued by the Company;

(4) there will be no material changes in the bases or rates of taxation applicable to the Target Business, except as otherwise disclosed in the shareholders' circular to be issued by the Company. In addition, the enactment of the Corporate Income Tax Law of the PRC passed by the Fifth Plenary Session of the Tenth's National People's Congress on 16 March 2007 to be effective on 1 January 2008 is not expected to have any significant financial effect on the Target Business for the year ending 31 December 2007; 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.

The text of the letters from the reporting accountants and the Financial Advisers in respect of the profit forecast are set out in the shareholders' circular to be issued by the Company.

4. INFORMATION OF THE TARGET BUSINESS

THE PRC TELECOMMUNICATIONS INDUSTRY BACKGROUND

China is the largest telecommunications market in the world in terms of the number of fixed-line and mobile telephone subscribers, reflecting China's sustained economic growth over the past two decades, and the PRC government's policies promoting telecommunications usage and orderly competition among telecommunications operators.

According to MII, the total number of fixed line subscribers increased from 6.9 million as at the end of 1990 to 367.8 million as at 31 December 2006. There are currently four licensed fixed-line operators in China, namely, China Telecom Group, China Unicom, China Netcom Group and China Railcom.

The mobile services industry sector also saw significant growth in the PRC with the number of mobile telephone subscribers increasing from 3.6 million as at the end of 1995 to 461.1 million as at 31 December 2006. China Mobile and China Unicom are the only licensed providers of mobile communications services in China.

According to MII, China is also one of the largest market in the world in terms of Internet subscribers, with a total of 137 million subscribers as at 31 December 2006. In line with China's economic development and the increase in corporate users in recent years, the demand for business and data communications services also increased in the same period. The rise of the Internet and the wider adoption of broadband applications as well as the increased demand for corporate networks and communications, have stimulated demand for managed data services, particularly from business customers.

Total telecommunications spending in China is closely linked with the growth of the overall economy and the gross domestic product. From 2003 to 2006, China's gross domestic product grew from RMB13.6 trillion to RMB20.9 trillion. Growth in the PRC economy in the recent years has led to significant increases in per capita income levels, business activity and consumer wealth, which, in turn led to increasing demand for telecommunications services. This greater demand is reflected in the significant growth of penetration rate and total usage of fixed-line telephone, mobile telephone, broadband and other Internet related services, and business and data communications services in China. From 2003 to 2006, total revenues for China's telecommunications industry grew from RMB459.3 billion to RMB648.0 billion.

China has an extensive telecommunications network infrastructure. According to the MII, in 2005, the aggregate capital expenditure of telecommunications operators in the PRC amounted to RMB209.7 billion, comprising 1.1% of the GDP for the year.

The PRC government has been actively promoting 3G development in the PRC. In 1998, the development of "TD-SCDMA", one of the 3G technologies which are adopted by ITU as widely accepted 3G standards, commenced in the PRC. In 2007, China Telecom Group, China Mobile, and China Netcom have been conducting expanded field testing of TD-SCDMA in 10 cities, including Baoding, Beijing, Tianjin, Qinhuangdao, Shenyang, Shanghai, Xiamen, Guangzhou, Shenzhen and Qingdao.

In addition to TD-SCDMA, research and development of other 3G technologies like WCDMA and CDMA2000 commenced in 1998 and over 100 methods of know-how have been developed since international telecommunications equipment manufacturers like Nokia and Motorola are also establishing R&D centers in China.

Despite of the active promotion of 3G developments in the PRC, there is currently no further clear official indication as to when and what 3G licenses will be granted to Chinese operators.

MARKET ENVIRONMENT OF THE TARGET BUSINESS

The Target Service Areas are Jiangsu province, Anhui province, Jiangxi province, Hunan 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, which accounted for 32.8% of the total GDP of China in 2005, with a compound annual growth rate of GDP of 12.8% from 2003 to 2005. The wireline penetration rate and mobile penetration rate in the Target Service Areas reached 24.1% and 26.3% respectively as of 31 December 2006. The map below indicates the Target Service Areas and the Listed Service Areas. The accompanying table sets out selected demographic and market information related to the Target Service Areas and the whole country.

	Listed Service Areas	Target Service Areas	Combined Service Areas
Total population[(1)] (in millions)	261.9	572.2	834.1
GDP[(2)] (in billions)	5,758.1	6,027.7	11,785.9
GDP per capita[(2)] (in thousands)	22.2	10.6	14.2
CAPEX of PRC telecommunications operators[(2)] (in billions)	65.8	67.7	133.5
Wireline penetration rate[(3)] (%)	38.9	24.1	28.7
Mobile penetration rate[(3)] (%)	58.1	26.3	36.3
Internet penetration rate[(4)] (%)	17.1	7.9	10.8

Notes:

(1) Data in respect of population for the year ended 31 December 2006 was published by National Bureau of Statistics of China.

(2) Data in respect of GDP, GDP per capita and CAPEX of PRC telecommunications operators is for the year ended 31 December 2005, published by MII.

(3) Data in respect of wireline penetration rate and mobile penetration rate for the year ended 31 December 2006 was published by MII.

(4) Data in respective of Internet penetration rate for the year ended 31 December 2006 was published by China Internet Network Information Center.

Telecommunications Infrastructure Services

According to the MII, in 2005, the aggregate capital expenditure of telecommunications operators in the Target Service Areas and the Listed Service Areas amounted to RMB67.7 billion and RMB65.8 billion respectively.

According to the MII, there are currently a total of 153 telecommunications network design service providers, 487 construction service providers and 104 project supervision and management service providers in China in 2005, of which only 59 telecommunications network design service providers, 11 construction services providers and 37 project supervision and management service providers hold qualifications that fall within the top tier of qualifications.

The following table shows the number of enterprises that have been awarded first tier qualifications relating to TIS services:

	Number of First-tier Telecommunications Network Design Service Providers	Number of First-tier Telecommunications Construction Service Providers	Number of First-tier Telecommunications Project Supervision and Management Service Providers
Listed Service Areas	15	5	7
Target Service Areas	19	2	10
Total nationwide	59	11	37

Source: MII report published in August 2006.

Business Process Outsourcing Services

BPO services, which include the provision of network maintenance and distribution of telecommunications services to telecommunications operators, are comparatively less regulated than the infrastructure services sector in the telecommunications industry. Telecommunications operators usually outsource network maintenance to service providers that understand their needs and network facilities. Telecommunications equipment manufacturers provide core network equipment maintenance services as part of their turn-key solutions to operators. In addition to operators' own sales outlets, which usually provide the most comprehensive services and products, telecommunications operators also rely on a diversified group of service providers ranging from large scale franchise dealers capable of providing a full range of distribution services, to small retail agents selling stored value cards only.

Demand for BPO services is a function of the operating expenditure (for example, network operating and support costs and sales expenses) of telecommunications operators. The following table shows the operating expenses of the publicly listed PRC telecommunications operators in the past three years ended 31 December 2006:

	2004	2005	2006
		(RMB in billion)	
China Telecom Listco	74.2	80.7	85.2
China Mobile	88.7	113.0	135.9
China Unicom	52.1	58.6	62.6
China Netcom	40.8	41.7	41.3

Source: Data come from annual reports of each of the telecommunications operators.

Applications, Content and Other Services

Propelled by rapid technology advancement in the telecommunications sector and China's fast economic growth, the demand for applications, content and other services, which include systems integration, Internet services and value added telecommunications services, has grown rapidly in China over the recent years.

According to China Internet Network Information Centre, as of the end of 2006, there were 45.0 million Internet users, 0.8 million domain names, and 161.1 thousand websites in the Target Service Areas, compared to 44.8 million Internet users, 1.8 million domain names, and 361.2 thousand websites in the Listed Service Areas.

OVERVIEW OF THE BUSINESS OF THE TARGET BUSINESS

The Target Business in each of the Target Service Areas consists of companies and businesses which together comprise a leading provider of specialised telecommunications support services offering TIS services, BPO services and ACO services to telecommunications operators in the relevant Target Service Areas. The following table sets out the amount and percentages of contribution by the Target Business' different services to the total revenue of the Target Business for the periods indicated:

	Years ended 31 December					
	2004		2005		**2006**	
	RMB'000	%	*RMB'000*	%	***RMB'000***	**%**
Telecommunications Infrastructure Services:						
Design services	573,696	14%	629,265	13%	**720,529**	**14%**
Construction services	2,212,153	53%	2,451,765	51%	**2,535,974**	**49%**
Project supervision and management services	144,023	3%	170,369	4%	**212,245**	**4%**
Sub-total	2,929,872	70%	3,251,399	68%	**3,468,748**	**67%**
Business Process Outsourcing Services:						
Network maintenance	94,173	2%	109,060	2%	**145,953**	**3%**
Distribution of telecommunications services and products	495,557	12%	561,927	12%	**501,823**	**10%**
Facilities management	266,023	6%	293,961	6%	**366,081**	**7%**
Sub-total	855,753	20%	964,948	20%	**1,013,857**	**20%**
Applications, Content and Others:	421,233	10%	560,290	12%	**647,327**	**13%**
Total revenues of the Target Business	4,206,858	100%	4,776,637	100%	**5,129,932**	**100%**

Telecommunications Infrastructure Services

The Target Business in the Target Service Areas provides telecommunications infrastructure services, including telecommunications network planning and design, construction and project supervision and management in the Target Service Areas. Details of the key services are as follows:

- **Design services** — The Target Business offers planning and design services for fixed-line and mobile telecommunications networks, which includes, consultancy, planning field survey and design of telecommunications networks, civil engineering projects and other facilities.

- **Construction services** — The Target Business carries out the construction, installation and adjustment work relating to fixed-line and mobile telecommunications infrastructures, and help telecommunications operators form their network capability to provide telecommunications services.

- **Project supervision and management services** — The Target Business provides project supervision and management services to clients to help them control the quality, progress, cost and security of communications related projects, organise project completion inspections and acceptance and conduct settlement auditing services.

Telecommunications Infrastructure Services are the Target Business' main services, generating 67% of the total revenue of the Target Business in 2006. Revenue from these services increased by RMB321.5 million in 2005 and RMB217.4 million in 2006.

The Target Business is ranked among the leading service providers in a number of key areas of our core businesses. The Target Business has 2 out of 2 top tier construction qualifications, 11 out of 19 top tier design qualifications and 7 out of 10 top tier project supervision and management qualifications in the Target Service Areas, based on statistics published by the MII.

Business Process Outsourcing Services

The Target Business provides comprehensive, quality BPO services to telecommunications operators in China, offering a range of network maintenance, distribution of telecommunications services and products and facilities management services in the Target Service Areas. Details of these services are:

- **Network maintenance** — The Target Business offers services for the maintenance and repair of telecommunications network infrastructure and enterprise intranet, including the maintenance of telecommunications pipelines, cables and telecommunications related physical premises and the maintenance of mobile telecommunications base stations.

- **Distribution of telecommunications services and products** — The Target Business provides distribution channels for telecommunications services and products, including, subscriber base development for telecommunications services for telecommunications operators, installing and removing fixed-lines and broadband lines, bill delivery and fee collection for telecommunications operators and the distribution of scratch cards for telecommunications operators.

- **Facilities management** — The Target Business provides facilities management services for telecommunications operators, including the management, maintenance and security of communications premises and equipment rooms, as well as other telecommunications facilities. The Target Business also provides maintenance services for intelligent buildings and management services for office buildings, residential compounds and commercial buildings. In 2006, the Target Business managed approximately 10.24 million square metres of facilities.

Applications, Content and Others

The Target Business offers a variety of IT applications, value added voice services, and other services for telecommunications operators and enterprise customers, as well as the public in the Target Service Areas. Details of these services are:

- **Applications** — The Target Business offers information technology applications services, including system integration, communications network support services and software and hardware development to telecommunications operators and other enterprise users.

- **Value added voice services** — The Target Business offers call centre services for telecommunications operators and enterprise customers and provides marketing, customer-assistance and after-sale services on behalf of the Target Business' customers through such call centres.

- **Internet Services** — The Target Business offers, either independently or in cooperation with telecommunications operators, Internet services like information and content services (such as online games and "infortainment" news), the provision internet resources, the provision of e-commerce certificate authentication and electronic payment services and the operation of Internet cafes.

Major Customers

The following table sets forth the amount of revenue from customers of the Target Business and respective percentages of revenue from customers to the total revenue of the Target Business for the years indicated:

	Years ended 31 December					
	2004		2005		**2006**	
	RMB'000	%	*RMB'000*	%	***RMB'000***	**%**
China Telecom Group	2,439,220	58.0%	2,662,576	55.8%	**2,915,400**	**56.8%**
China Mobile	316,618	7.5%	422,036	8.8%	**518,106**	**10.1%**
China Unicom	134,217	3.2%	169,034	3.5%	**184,831**	**3.6%**
Others	1,316,803	31.3%	1,522,991	31.9%	**1,511,595**	**29.5%**
	4,206,858	100.0%	4,776,637	100.0%	**5,129,932**	**100.0%**

Employees

As at 31 December 2006, the total number of employees of the Target Business was 35,671, including 3,541 management staff, 11,739 technical and marketing staff, and 20,391 operational staff.

Year on Year Comparison

The discussion below relates to the financial condition and results of operations of the Target Business for the years ended 31 December 2004, 2005 and 2006.

	Years ended 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Revenues	4,206,858	4,776,637	5,129,932
Gross profit	956,786	1,028,118	1,105,547
Profit attributable to equity owner	154,329	157,940	120,676

2006 Compared to 2005

Revenue of the Target Business increased by RMB353.3 million, or 7.4%, from RMB4,776.6 million for 2005 to RMB5,129.9 million for 2006. The Target Business saw an increase in revenue of 6.7% for its TIS services, 5.1% for its BPO services and 15.5% for its ACO services. The increase is attributable to the business growth and expansion of the Target Business within each of the Target Service Areas. Gross profit increased by RMB77.4 million from RMB1,028.1 million for 2005 to RMB1,105.5 million for 2006. The increase in gross profit is in line with the revenue growth of the Target Business. Net profit attributable to equity owner decreased by RMB37.3 million from RMB157.9 million for 2005 to RMB120.7 million for 2006. This decrease is attributable to a deficit on revaluation of property, plant and equipment and increased expenses associated with business expansion.

2005 Compared to 2004

Revenue increased by RMB569.8 million, or 13.5%, from RMB4,206.9 million for 2004 to RMB4,776.6 million for 2005. The Target Business saw an increase in revenue of 11.0% for its TIS services (attributable to increase in market share), 12.8% for its BPO services (attributable to favourable growth and increase in market share) and 33.0% for its ACO services (attributable to the increase in the business volume of its system integration services). Gross profit increased by RMB71.3 million from RMB956.8 million for 2004 to RMB1,028.1 million for 2005. The increase in gross profit is generally in line with the revenue growth of the Target Business. Net profit attributable to equity owner slightly increased by RMB3.6 million from 2005 to 2006.

Liquidity and Capital Resources

As of 31 December 2004, 2005 and 2006, the Target Business had interest-bearing borrowings of RMB127.2 million, RMB104.5 million and RMB75.2 million respectively. Gearing ratios of the Target Business as at 31 December 2004, 2005 and 2006 were approximately 5.4%, 3.9% and 2.7%. Gearing ratio represents total debts to total equity.

Total cash and cash equivalents of the Target Business as of 31 December 2004, 2005 and 2006 amounted to RMB1,132.8 million, RMB1,270.0 million and RMB1,092.7 million respectively.

After completion of the Acquisition, all the cash and cash equivalents of the Target Business will be carried over to the Company. Total cash and cash equivalents of the Company and its subsidiaries prior to the Acquisition amounted to RMB7,071.0 million as of 31 December 2006.

Exposure to Exchange Rates

Substantially all the revenue and expenses of the Target Business are denominated in RMB. As a result, foreign currency exchange rate risk has not had a material impact on the performance of the Target Business.

5. RELATIONSHIP WITH CHINA TELECOMMUNICATIONS CORPORATION

As of the Latest Practicable Date, China Telecommunications Corporation directly and indirectly owned 70.0% of the Company's issued share capital. China Telecommunications Corporation has retained and operated certain specialised telecommunications support business through its subsidiaries outside the Listed Service Areas, including the Target Service Areas within China, prior to the completion of the Acquisition. Under the non-competition undertaking entered into with China Telecommunications Corporation in connection with the IPO of the Company, the Company has a priority right (expiring on the third anniversary of its listing date) to acquire from China Telecommunications Corporation, its retained specialised telecommunications support businesses outside of the Company's Listed Service Areas, at the discretion of the Company.

As disclosed in the Prospectus, the transactions under the non-competition undertaking is exempt from announcement and independent shareholders' approval requirements. The non-competition undertaking will be amended in connection with the Acquisition to expand the geographic scope of the non-competition undertaking to include the Target Service Areas. The proposed amendments to the non-competition undertaking is also exempt from announcement and independent shareholders approval requirements.

6. PROSPECTIVE CONNECTED TRANSACTIONS

Upon the completion of the Acquisition, there will be a number of continuing transactions between (a) the Combined Group on the one hand; and (b) the China Telecom Group on the other. The transactions of the Target Business with the China Telecom Group will constitute continuing connected transactions for the Company under the Listing Rules upon completion of the Acquisition. These continuing connected transactions fall within the scope of the various framework agreements entered into in respect of the Existing Connected Transactions in connection with the Company's IPO disclosed in the Company's Prospectus. Details of these continuing connected transactions between the Combined Group and the China Telecom Group (including China Telecom Listco) are discussed in this section.

The additional Prospective Connected Transactions arising as a result of the Acquisition and which relate to the operations of the Target Business are mainly identical in nature and in substance to the corresponding Existing Connected Transactions. The pricing standards and principal terms of the Prospective Connected Transactions are also identical to those of the Existing Connected Transactions. The Company now seeks to amend the proposed annual caps under the Existing Waiver granted by the Stock Exchange at the time of the IPO so as to include the additional continuing connected transactions which will arise as a result of the completion of the Acquisition.

The Listed Group and the Target Business have included certain historical amounts in this announcement of the Prospective Connected Transactions that occurred for the three financial years ended 31 December 2006.

(a) Continuing Connected Transactions Between the Company and China Telecom Group

The Company entered into various agreements with China Telecommunications Corporation relating to the mutual provision of ongoing specialised telecommunications support services.

The mutual provision of ongoing telecommunications and other services between the Company and China Telecommunications Corporation constitute continuing connected transactions within the meaning of the Listing Rules. Such agreements include the following:

Engineering Framework Agreement

The Company has entered into an engineering framework agreement dated 16 November 2006 with China Telecommunications Corporation (the "Engineering Framework Agreement"), pursuant to which the Company has agreed to provide certain engineering related services, such as design, construction, project supervision and management for telecommunications infrastructure projects undertaken by China Telecom Group. The term of the Engineering Framework Agreement will expire on 31 December 2008, automatically renewable for further periods of no more than three years subject to shareholders' approval unless terminated early by either party with a three months' written notification. The Company has entered into the Supplemental Agreement to extend the current term of the Engineering Framework Agreement to 31 December 2009 and hence shareholders' approval for the Supplemental Agreement and the proposed annual caps for the three years ended 31 December 2009 is sought. The current scope of the Engineering Framework Agreement covers transactions between the Company (and its subsidiaries) and China Telecommunications Corporation (and its subsidiaries), as may be applicable from time to time.

The charges payable for engineering related services rendered under the Engineering Framework Agreement shall be determined by reference to market rates or as reflected by prices obtained through the tender process. According to the relevant regulations and under the internal policy of China Telecom Group, whenever the value of any design and/or project supervision and management contracts exceeds RMB0.5 million, or the value of any construction contracts exceeds RMB2 million, the award of the relevant contract is required to be the subject of a tender process (with a minimum of three parties tendering bids). The Company be accorded priority by China Telecom Group in the provision of the engineering related services except in the tender process, provided that the terms and conditions offered by independent third parties to China Telecom Group are no more favourable than those offered by us for the same services, and in return, the Company has undertaken to China Telecom Group that it shall not provide services to it on terms which are less favourable than those offered by the Company to independent third parties.

The revenue for the transactions between the Target Business and China Telecom Group falling within the scope of the Engineering Framework Agreement for the three years ended 31 December 2006 were RMB1,959.1 million, RMB2,141.3 million and RMB2,253.5 million. The revenue for the transactions between the Combined Group and the China Telecom Group falling within the scope of the Engineering Framework Agreement for the three years ended 31 December 2006 were RMB5,427.7 million, RMB5,467.6 million and RMB6,379.8 million.

The transactions under the Engineering Framework Agreement are continuing connected transactions on normal commercial terms subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Ancillary Telecommunications Services Framework Agreement

The Company has entered into an ancillary telecommunications services framework agreement dated 16 November 2006 with China Telecommunications Corporation (the "**Ancillary Telecommunications Services Framework Agreement**"), pursuant to which we have agreed to provide to the China Telecom Group certain ancillary telecommunications services such as maintenance of network facilities including equipment, ducts and cables, equipment rooms and base stations; distribution of telecommunications products and services; provision of application, content and other services such as fixed-line value added services, wireless value added services, Internet value added services, and development of online gaming, certificate authentication and value added business platform of Internet cafes (the "**Ancillary Telecommunications Services**"). The terms of the Ancillary Telecommunications Services Framework Agreement will expire on 31 December 2008, automatically renewable for further periods of no more than three years subject to shareholders' approval unless terminated early by either party with a three months' written notification. The Company proposes to enter into the Supplemental Agreement to extend the current term of the Ancillary Telecommunications Services Framework Agreement to 31 December 2009 and hence shareholders' approval for the Supplemental Agreement and the proposed annual caps for the three years ended 31 December 2009 is sought. The scope of the Ancillary Telecommunications Services Framework Agreement covers transactions between the Company (and its subsidiaries) and China Telecommunications Corporation (and its subsidiaries), as may be applicable from time to time.

The Company also proposes to amend the Ancillary Telecommunications Services Framework Agreement, by way of the Supplemental Agreement, to include the provision of Comprehensive Logistics Services to China Telecom Group. The Company believes that the expansion into this area of specialised telecommunications services is in line with the Company's expansion plans and will ensure the Company's sustainable growth. The Company's Comprehensive Logistics Services business will include the provision of compressive professional logistics services, including purchase agency, warehousing, transportation, delivery, testing and inspection, logistics information management and distribution.

The Ancillary Telecommunications Services Framework Agreement stipulates that the Ancillary Telecommunications Services shall be provided at:

(1) government-prescribed price;

(2) where there is no government-prescribed price but where there is a government-guidance price, the government-guidance price applies;

(3) where there is neither a government-prescribed price nor a government-guidance price, the market price applies. The market price is defined as the price at which the same type of services are provided by independent third parties in the ordinary course of business; or

(4) where none of the above is applicable, the price is to be agreed between the relevant parties for the provision of the above services, which shall be the reasonable cost incurred in providing the same plus a reasonable profit (For this purpose, "reasonable costs" means the costs confirmed by both parties after negotiations, and "reasonable profits" means a profit ratio confirmed by both parties during the course of normal commercial negotiation, taking into account factors such as historical price, transaction size, average profit ratio within the relevant industry, supply and demand, labour cost, local commodity prices and economic development levels).

The Company will be given priority by the China Telecom Group in the provision of the Ancillary Telecommunications Services, provided that the terms and conditions offered by independent third parties to the China Telecom Group are no more favourable than those offered by the Company for the same services, and in return, the Company has undertaken to China Telecommunications Corporation that the Company and its subsidiaries shall not provide Ancillary Telecommunications Services to it on terms which are less favourable than those offered by the Company to independent third parties.

The revenue for the transactions between the Target Business and China Telecom Group falling within the scope of the Ancillary Telecommunications Services Framework Agreement for the three years ended 31 December 2006 were RMB235.9 million, RMB239.3 million and RMB268.2 million. The revenue for the transactions between the Combined Group and the China Telecom Group falling within the scope of the Ancillary Telecommunications Services Framework Agreement for the three years ended 31 December 2006 were RMB1,616.0 million, RMB1,735.4 million and RMB2,466.2 million.

The transactions under the Ancillary Telecommunications Services Framework Agreement are continuing connected transactions on normal commercial terms subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Operation Support Services Framework Agreement

The Company has entered into an operation support services framework agreement dated 16 November 2006 with China Telecommunications Corporation (the "**Operation Support Services Framework Agreement**") to govern the arrangements with respect to mutual provision of operation support services. The Company agreed to provide operation support services, including but not limited to facilities management and renovation, network facilities management in relation to buildings used for telecommunications purposes, labour resources management, equipment maintenance, advertisement, conferencing services, vehicles, and certain repair and leasing of equipment to the China Telecommunications Corporation. Under the same Operation Support Services Framework Agreement, China Telecom Group agreed to provide operation support services such as logistics services, warehouse, medical care, food and beverages, educational, hotel and travelling services, labour services and so on to us. The terms of the Operation Support Services Framework Agreement will expire on 31 December 2008, automatically renewable for further periods of no more than three years subject to shareholders' approval unless terminated early by either party with a three months' written notification. The Company proposes to enter into a Supplemental Agreement to extend the current term of the Operation Support Services Framework Agreement to 31 December 2009 and hence shareholders' approval for the Supplemental Agreement and the proposed annual caps for the three years ended 31 December 2009 is sought. The scope of the Operation Support Services Framework Agreement covers transactions between the Company (and its subsidiaries) and China Telecommunications Corporation (and its subsidiaries), as may be applicable from time to time.

Each of the parties to the Operation Support Services Framework Agreement will accord priority to the other party in the provision of the operation support services, provided that the terms and conditions offered by independent third parties to the relevant party are no more favourable than those offered by the other party for the same services, and in return, each of the parties has undertaken to the other that it shall not provide services to the other on terms which are less favourable than those offered to independent third parties.

The operation support services under the Operation Support Services Framework Agreement are provided in accordance with the same pricing policy as that of the Ancillary Telecommunications Services Framework Agreement.

The revenue for the transactions between the Target Business and China Telecom Group falling within the scope of the Operation Support Services Framework Agreement for the three years ended 31 December 2006 were RMB208.1 million, RMB225.1 million and RMB284.0 million, and the expenditure were RMB51.1 million, RMB49.7 million and RMB85.8 million. The revenue for the transactions between the Combined Group and the China Telecom Group falling within the scope of the Operation Support Services Framework Agreement for the three years ended 31 December 2006 were RMB1,103.7 million, RMB1,240.6 million and RMB1,301.3 million, and the expenditure were RMB128.7 million, RMB151.4 million and RMB190.0 million.

The transactions under the Operation Support Services Agreement are continuing connected transactions on normal commercial terms subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

IT Application Services Framework Agreement

The Company has entered into an IT application services framework agreement date 16 November 2006 with China Telecommunications Corporation (the "**IT Application Services Framework Agreement**") to govern the arrangements with respect to mutual provision of IT application services. The Company agreed to provide China Telecom Group with telecommunications network support services, software and hardware development and other related IT services. China Telecom Group has also agreed to provide to us certain IT application services including but not limited to, basic telecommunications services such as voice and data, value added services and information application services. The terms of the IT Application Services Framework Agreement will expire on 31 December 2008, automatically renewable for further periods of no more than three years subject to shareholders' approval unless terminated early by either party with a three months' written notification. The Company proposes to enter into a Supplemental Agreement to extend the current term of the IT Application Services Framework Agreement to 31 December 2009 and hence shareholders' approval for the Supplemental Agreement and the proposed annual caps for the three years ended 31 December 2009 is sought. The scope of the IT Application Services Framework Agreement covers transactions between the Company (and its subsidiaries) and China Telecommunications Corporation (and its subsidiaries), as may be applicable from time to time.

The charges payable for such IT application services under the IT Application Services Framework Agreement shall be determined by reference to market rates, for example, rates as reflected by prices obtained through the tender process (with a minimum of three parties tendering bids). The party receiving the relevant services will accord priority to the party providing such services, provided that the terms and conditions offered by independent third parties to the relevant party are no more favourable than those offered by the other party for the same services, and in return, each of the parties has undertaken to the other that it shall not provide services to the other on terms which are less favourable than those offered to independent third parties.

The revenue for the transactions between the Target Business and China Telecom Group falling within the scope of the IT Application Services Framework Agreement for the three years ended 31 December 2006 were RMB30.3 million, RMB53.7 million and RMB104.9 million, and the expenditure were RMB3.8 million, RMB4.7 million and RMB11.6 million. The revenue for the transactions between the Combined Group and the China Telecom Group falling within the scope of the IT Application Services Framework Agreement for the three years ended 31 December 2006 were RMB163.7 million, RMB160.1 million and RMB251.9 million, and the expenditure were RMB105.2 million, RMB181.5 million and RMB182.5 million.

The transactions under the IT Application Services Agreement are continuing connected transactions on normal commercial terms subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Centralized Services Agreement

The Company has entered into a centralized services agreement dated 16 November 2006 with China Telecommunications Corporation (the "**Centralized Services Agreement**"). The terms of the Centralized Services Agreement will expire on 31 December 2008, automatically renewable for further periods of no more than three years subject to shareholders' approval unless terminated early by either party with a three months' written notification. The Company proposes to enter into a Supplemental Agreement to extend the current term of the Centralized Services Agreement to 31 December 2009 and hence shareholders' approval for the Supplemental Framework Agreement and the new annual caps for the three years ending 31 December 2009 is sought. The scope of the Centralized Services Agreement covers transactions between the Company (and its subsidiaries) and China Telecommunications Corporation (and its subsidiaries), as may be applicable from time to time.

The centralized services to be provided by the Company to China Telecommunications Corporation include:

1. the corporate headquarter management function to manage assets of China Telecommunications Corporation's certain retained specialised telecommunications support businesses in the PRC other than the Combined Group and any remaining assets, such as hotels, manufacturing plants not in association with the specialized telecommunications support businesses, schools and hospitals in the Target Service Areas and Listed Service Areas; and

2. the provincial headquarters management function to manage remaining assets resulting from the Target Service Areas and the Listed Service Areas.

Except otherwise agreed by parties, the aggregate administrative expenses incurred by the Company for the provision of the centralized services referred to above (all expenses incurred in connection with the above-mentioned headquarter management functions except remuneration for Directors, share appreciation rights and provision of bad debts) will be apportioned pro rata between the Company and China Telecommunications Corporation according to a ratio based on the net asset value of each of the relevant parties.

Prior to the restructuring in connection with the IPO and the Acquisition, as the Company and the Target Business conducted its operations as part of the overall business of the China Telecom Group, no such comparable centralized services were provided and therefore no historical figures of a comparable nature are available except as disclosed below which relates to the Listed Group for the years ended 31 December 2006.

The historical amount for the transactions between the Listed Group and the China Telecom Group falling within the scope of the Centralized Services Agreement for the year ended 31 December 2006 is RMB45.1 million.

The transactions under the Centralized Services Agreement are continuing connected transactions on normal commercial terms subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Property Leasing Framework Agreement

After the completion of the Acquisition, the China Telecom Group will be leasing from the Company and its subsidiaries a total of 24 properties covering an aggregate gross floor area of approximately 39,118 square metres for use as business premises, offices, equipment storage facilities and sites for network equipment. These properties are located throughout the Listed Service Areas and the Target Service Areas. The Company and its subsidiaries will also be leasing from the China Telecom Group a total of 284 properties covering an aggregate gross floor area of approximately 268,368 square metres for use as business premises, offices and equipment storage facilities. These arrangements will fall within the property leasing agreement dated 16 November 2006 between the Company and China Telecommunications Corporation to govern the mutual leasing arrangements (the "**Property Leasing Framework Agreement**").

The terms of the Property Leasing Framework Agreement will expire on 31 December 2008, automatically renewable for further periods of no more than three years unless terminated earlier by either party with a three months' written notification. The Company proposes to enter into a Supplemental Agreement to extend the current term of the Property Leasing Framework Agreement to 31 December 2009 and to set new annual caps for the transactions under this agreement for the financial year ending 31 December 2009. The scope of the Property Leasing Framework Agreement covers transactions between the Company (and its subsidiaries) and China Telecommunications Corporation (and its subsidiaries), as may be applicable from time to time.

The rental charges in respect of each property are based on market rates. Rental charges are payable monthly in arrears, except otherwise agreed by parties, and subject to review every three years by both parties confirming after negotiations whether to adjust the rental charges and the amount of such adjustment.

The revenue for the transactions between the Target Business and China Telecom Group falling within the scope of the Property Leasing Framework Agreement for the three years ended 31 December 2006 were RMB5.8 million, RMB3.2 million and RMB4.8 million, and the expenditure were RMB7.1 million, RMB8.4 million and RMB10.3 million. The historical amounts for the transactions between the Combined Group and China Telecom Group falling within the scope of the Property Leasing Framework Agreement for the three years ended 31 December 2006 were RMB44.1 million, RMB42.0 million and RMB50.2 million, and the expenditure were RMB34.5 million, RMB44.4 million and RMB55.7 million.

The transactions under the Property Leasing Framework Agreement are continuing connected transactions on normal commercial terms subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules but exempt from the independent shareholders' approval as the percentage ratios (other than profits ratio) calculated by reference to Rule 14.07 of the

Listing Rules are expected on an annual basis to be more than 0.1% but less than 2.5%. As such, the extension of the term and the annual caps of the Property Leasing Framework Agreement is not subject to the approval of the independent shareholders.

Savills, an independent appraiser appointed by us for the purpose of the Acquisition, has reviewed the Property Leasing Framework Agreement and has confirmed that the rental rates payable under the Property Leasing Framework Agreement with regards to the Target Business represent market rates and are fair and reasonable so far as the Company is concerned.

(b) Proposed Changes of Annual Caps and Reasons for the Proposed New Annual Caps

The table below shows the proposed annual caps for transactions between the Combined Group and the China Telecom Group under the above framework agreements.

Transactions			**Annual Caps under the Existing Waiver**		**Proposed New Annual Caps**		
			2007	**2008**	**2007**	**2008**	**2009**
			(RMB in million)				
1.	Engineering Framework Agreement	Revenue	4,700	4,700	8,000	8,000	8,000
2.	Ancillary Telecommunications Services Framework Agreement	Revenue	2,300	2,300	3,660	3,660	3,660
3	Operation Support Services Framework Agreement	Revenue	1,300	1,300	1,750	1,750	1,750
		Expenditure	170	170	260	260	260
4.	IT Application Services Framework Agreement	Revenue	250	250	700	700	700
		Expenditure	190	190	210	210	210
5.	Centralized Services Agreement	Reimbursed apportioned cost	250	250	350	350	350
6.	Property Leasing Framework Agreement	Revenue	68.5	68.5	76	76	76
		Expenditure	76.5	76.5	106.5	106.5	106.5

The increase in the proposed annual caps of each of the Prospective Connected Transactions (excluding the Strategic Cooperation Agreement to which annual caps are not applicable) can be mainly attributed to the larger size of the Combined Group and the growth and expansion of the Company's business. The proposed annual caps were arrived at based on the historical transaction amounts of the Combined Group, industry trends and the forecast growth of the Combined Group.

In particular, the compound annual growth rate of revenue for the three years ended 31 December 2006 for the Target Business in relation to the services provided under the Engineering Framework Agreement is 7.3% and the Company expects this growth rate to be maintained for the next three financial years. The Company believes that in order to reduce operational costs, China Telecom Listco will progressively appoint service providers to procure raw materials used in connection with the engineering related services it receives. The Combined Group will be providing such procurement services in connection with the engineering related services to be provided to the China Telecom Listco Group and hence the proposed annual caps for the three financial years ending 31 December 2009 takes into account the expected levels of raw materials procurement.

The cumulative annual growth rate of revenue for the three years ended 31 December 2006 for the Target Business in relation to the services provided under the Ancillary Telecommunications Services Framework Agreement is 6.6%. The historical revenue for transactions under this agreement grew rapidly in 2006 within the Listed Service Areas with a growth rate of 46.9% from 2005 to 2006. The proposed annual caps for the Ancillary Telecommunications Services

Framework Agreement have taken into account: (i) the rapid historical growth of both the Listed Group and the Target Business; (ii) China Telecom Listco's plans to continue outsourcing more of their support services to the Combined Group and (iii) the projected level of the new Comprehensive Logistics Services to be provided by the Combined Group to China Telecom Listco.

The cumulative annual growth rate of revenue for the three years ended 31 December 2006 for the Target Business in relation to the services provided under the IT Application Services Framework Agreement is 86.1%.The proposed annual caps have taken into account the potential expansion of this area of services provided by the Target Business.

The cumulative annual growth rate of revenue for the three years ended 31 December 2006 for the Target Business in relation to the services provided and under the Operation Support Services Framework Agreement is 16.8%. The proposed annual caps are based on the expected growth rate of the services to be provided by the Target Business under the Operation Support Services Framework Agreement.

The Company expects that the future revenue under the Property Leasing Framework Agreement would remain stable in the next three years.

The cumulative annual growth rate of expenditure for the three years ended 31 December 2006 for the Target Business in relation to the services provided under the IT Application Services Framework Agreement is 73.9%, under the Property Leasing Framework Agreement is 20.3% and under the Operation Support Services Framework Agreement is 29.6%.

(c) Continuing Connected Transactions Between the Company and China Telecom Listco — the Strategic Cooperation Agreement

At the time of the IPO of the Company, in order to strengthen the Company's well-established relationship with China Telecom Listco and to bring forth further strategic mutual benefits, the Company entered into a Strategic Cooperation Agreement dated 30 August 2006 with China Telecom Listco (on behalf of its six wholly-owned subsidiaries in the Listed Service Areas and their respective subsidiaries) for a period of three years commencing from 1 January 2007 until 31 December 2009, renewable by mutual agreement and extendable in geographical areas. The areas for the strategic business cooperation between the parties included engineering related services in connection with design, construction, project supervision and management businesses; maintenance and management services including but not limited to network maintenance and facilities management; and certain BPO services such as integrated information solution and call centres; and provision of applications, content and other services such as system integration and value added services.

The relevant services provided under the Strategic Cooperation Agreement shall be provided at an applicable standard price determined in the following order:

1. government prescribed price;

2. where there is no government prescribed price but there is a government guidance price, the government guidance price applies;

3. where there is neither a government prescribed price nor a government guidance price, the market price applies. The market price is defined as the price at which the same type of services are provided by independent third parties in the ordinary course of business; or

4. where none of the above is applicable, the price is to be agreed between the relevant parties for the provision of the above services based on arm's length negotiation and shall be the reasonable cost incurred in providing the same plus a reasonable profit.

The above pricing mechanism is hereinafter referred to as the "Applicable Standard Prices". The Company would be accorded priority by China Telecom Listco in the provision of the relevant services, provided that the terms and conditions offered by independent third parties to China Telecom Listco are no more favourable than those offered by the Company for the same services, and in return, under the same terms and conditions, the Company has undertaken to China Telecom Listco that the Company shall not provide services to it on terms which are less favourable than those offered by the Company to independent third parties.

In connection with the Acquisition, the terms of the Strategic Cooperation Agreement will be amended by a supplemental agreement (the "Supplemental Strategic Agreement") to include transactions between the Target Business (which will be acquired by the Company pursuant to the Acquisition) and the subsidiaries of China Telecom Listco in the Target Service Areas. The amendments in the Supplemental Strategic Agreement will be subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. Details of the Supplemental Strategic Agreement are set out in the paragraphs below.

In relation to the provision by the Combined Group of engineering related services in connection with design, construction, project supervision and management businesses, China Telecom Listco has undertaken that, the relevant subsidiaries of China Telecom Listco in the Combined Service Areas, shall spend an annual minimum amount of not less than 10.6% (the original undertaking for the Listed Group provided for 12.5%) of the total annual capital expenditure of the corresponding wholly-owned provincial subsidiaries of China Telecom Listco in the Combined Service Areas, provided the provision of the engineering related services by the Company are on terms and conditions similar or no less favourable than those offered by any independent third parties and in return, the Company shall offer at least 5% discount for the engineering related services to be provided to the relevant wholly-owned provincial subsidiaries of China Telecom Listco based on the Applicable Standard Prices. Such discount is on normal commercial terms and in-line with market practice to give discount as a favourable treatment offered to large enterprise customers which are able to commit to a minimum purchase volume per annum. China Telecom Listco's undertaking is based on the historical amounts of transactions between the Target Business and wholly-owned subsidiaries of China Telecom Listco in the Target Service Areas and the committed amounts of transactions under the current undertaking of China Telecom Listco to the Company applicable to the Listed Service Areas under the existing terms of the Strategic Cooperation Agreement.

The percentage of discount depends on a number of factors, including the committed minimum purchase volume, competition and market conditions. Given that China Telecom Listco has undertaken that the relevant subsidiaries of China Telecom Listco within the Combined Service Areas shall spend an annual minimum amount of not less than 10.6% of the total annual capital expenditure of the wholly-owned provincial subsidiaries of China Telecom Listco in the Combined Service Areas, the Directors are of the view that the 5% discount to be given to China Telecom Listco is on normal commercial terms.

In relation to the provision by the Combined Group of maintenance and management services including but not limited to network maintenance and facilities management businesses, China Telecom Listco has undertaken, the relevant subsidiaries of China Telecom Listco in the Combined Service Areas shall spend an annual minimum amount of not less than RMB1,780 million (the original undertaking for the Listed Group provided for RMB1,330 milllion) provided that the provision of the maintenance and management services by the Company are on terms and conditions no less favourable than those offered by any independent third parties and in return, the Company has undertaken to fully utilise its competitive edge on having established professional operation with economies of scales to assist China Telecom Listco to achieve the goals of lowering its costs and expenditure. The amount of China Telecom Listco's undertaking is based on the historical amounts of transactions between the Target Business and China Telecom Listco in the Target Service Areas and the committed amounts of transactions under the current undertaking of

China Telecom Listco to the Company applicable to the Listed Service Areas under the existing terms of the Strategic Cooperation Agreement. The Directors believe there will not be any adverse impact on the operation of the Company in rendering certain assistance to China Telecom Listco. By assisting China Telecom Listco in controlling its costs, the Company will be able to strengthen its relationship with China Telecom Listco and this will in turn benefit the Company as the large customer base of China Telecom Listco will be a potential source of additional business opportunities for the Company. In addition, the one-stop integrated business model of the Company has in itself enabled the Company to provide cost-efficient outsourcing services to China Telecom Listco.

For the purpose of calculation of the amount of transactions falling under the above undertakings for the year ending 31 December 2007, all the transactions entered into by the Target Business with China Telecom Listco would be aggregated.

In relation to the provision of BPO services, integrated information solution, call centre and other services such as system integration and value added services by the Combined Group, China Telecom Listco has undertaken to use its best endeavours to grant the Company business opportunities, provided the provision of such services by the Company are on terms and conditions similar or no less favourable than those offered by any independent third parties. In return, the Company will utilize its capacities and resources to support the strategic transformation of China Telecom Listco into an integrated information service provider.

The independent shareholders of China Telecom Listco have passed a resolution at an extraordinary general meeting dated 25 October 2006 to approve the Strategic Cooperation Agreement and the transactions contemplated thereunder. The Supplemental Strategic Agreement is also conditional upon China Telecom Listco having obtained the requisite independent shareholders' approval under Chapter 14A of the Listing Rules. China Telecom Listco has, on even date, made an announcement in relation to the Supplemental Strategic Agreement and will be convening an extraordinary general meeting to obtain the approval of its independent shareholders for the Supplemental Strategic Agreement. The annual caps for the provision of the relevant services contemplated under the Strategic Cooperation Agreement have already been included and set out in the Engineering Framework Agreement, the Ancillary Telecommunications Services Framework Agreement, the Operation Support Services Framework Agreement and the IT Application Services Framework Agreement referred to above and therefore no separate annual caps shall be applied to the Strategic Cooperation Agreement as amended by the Supplemental Strategic Agreement.

7. COMPLIANCE WITH THE HONG KONG LISTING RULES

Each of the asset ratio and the revenue ratio under Rule 14.07 of the Listing Rules of the Acquisition exceeds 25% but is below 75%. Accordingly, under the Listing Rules, the Acquisition constitutes both a major and a connected transaction for the Company.

Pursuant to the Listing Rules, each of the percentage ratios (other than the profits ratio) for the annual caps of the prospective connected transactions under each of the framework agreements described in section 6 (other than the Strategic Cooperation Agreement and the Property Leasing Framework Agreement) above is on an annual basis higher than 2.5%. As such, these annual caps as well as the Supplemental Agreement amending certain terms of the relevant framework agreement are subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. The Strategic Agreement is also subject to the reporting, announcement and independent shareholders' approval under the Chapter 14A of the Listing Rules as the annual cap for the transactions under the Strategic Agreement are subsumed under certain framework agreements subject to these requirements correspondingly, independent shareholders' approval for the Supplemental Strategic Agreement is sought. The Property Leasing Framework Agreement is subject to reporting and announcement requirements but exempt from independent shareholders approval requirements.

In determining the proposed annual values of the categories above of the connected transactions for the Combined Group, the Board has considered the relative size of the total assets and operating revenues of the Target Business against the Listed Group, the budget of the Combined Group in terms of capital expenditures, general and administrative expenses and sales and maintenance expenses. The Board (including the independent non-executive directors) is of the view that the monetary limits are set so as to (i) not hinder the ability of the Combined Group to conduct its business in the ordinary and usual course and (ii) allow the Combined Group to benefit from future growth.

The Company undertakes to comply with the rules in relation to annual review of continuing connected transactions set out in the Listing Rules. The Company specifically undertakes upon any variation or renewal of the above relevant agreements, the Company will comply in full with all applicable requirements set out in Chapter 14A of the Listing Rules.

8. FURTHER INFORMATION

The Company is principally engaged in the provision of specialized 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. China Telecommunications Corporation is a state-owned enterprise engaged in the investment holding of companies primarily involved in the provision of telecommunications services, the provision of specialized telecommunications support services and other business.

Save as the proposed Acquisition described in this announcement, the Company has no current intention to acquire further assets from China Telecommunications Corporation.

As disclosed in the Prospectus, the Company has set up a right of first refusal and priority right committee (the ***Right of First Refusal and Priority Right Committee***) which comprises entirely of the independent non-executive directors to consider the exercise of the priority right of the Company. The Right of First Refusal and Priority Right Committee had convened on 14 June 2007 to consider the exercise of this priority right and the proposed Acquisition and was of the view that such exercise would be in interests of the Company.

The Board (including the Independent Board Committee) is of the opinion that the terms of the Acquisition are on normal commercial terms which are fair and reasonable and in the best interests of the Company and shareholders as a whole, and the Acquisition is carried out in the ordinary and usual course of business of the Company.

An Independent Board Committee has been established to advise the Independent Shareholders in respect of the terms of the Acquisition and the terms of the Prospective Connected Transactions. ING has been retained as the Independent Financial Adviser to the Independent Board Committee and Independent Shareholders in respect of the terms of the Acquisition, the Supplemental Agreement, the Supplemental Strategic Agreement and the annual caps of the Non-Exempt Prospective Connected Transactions.

The Board (including the independent non-executive directors) is of the opinion that the terms of the Acquisition, the Prospective Connected Transactions (including the proposed annual caps and the Supplement Agreement) and the amendment to the Strategic Cooperation Agreement described in section 6 of this announcement have been entered into, and will be carried out, in the ordinary and usual course of business of the Combined Group and on normal commercial terms which are fair and reasonable so far as the interests of the Independent Shareholders of the Company are concerned. The Company confirms that none of the independent non-executive directors has any interests in the Acquisition and the Prospective Connected Transactions.

As of the Latest Practicable Date, China Telecommunications Corporation directly and indirectly owns and is entitled to exercise control of 70% of the voting rights in respect of the issued share capital of the Company and is hence a connected person of the Company as defined under Rule 14A.11 of the Listing Rules. China Telecommunications Corporation and its Associates being connected persons to the Acquisition, will abstain from voting on the ordinary resolutions to approve the terms of the Acquisition, the Supplement Agreement, the Supplemental Strategic Agreement and the proposed annual caps of the Non-exempt Prospective Connected Transactions. Any vote of the Independent Shareholders at the EGM shall be taken by poll.

A circular containing, amongst other things, details of the terms of the Acquisition, the Prospective Connected Transactions, letters from the Independent Board Committee and from ING (the Independent Financial Adviser), further financial and other information of the Target Business and the Target Assets (including the Accountants' Report on the financial information of the Target Business for the three years ended 31 December 2006 and the pro forma financial information of the Combined Group to illustrate how the proposed acquisition of the Target Business and the Target Assets might have affected the Company's most recent financial information) and a notice to shareholders of the Company convening the EGM to approve, amongst other things, the terms of the Acquisition, the Supplemental Agreement, the Supplemental Strategic Agreement and the Non-exempt Prospective Connected Transactions of the Company will be dispatched to the Shareholders as soon as practicable after the publication of this announcement.

The register of members of the Company will be closed from 8 July, 2007 to 7 August, 2007 (both days inclusive).

9. DEFINITIONS

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

"Acquisition"	the proposed acquisition by the Company of the Total Acquisition Assets pursuant to the Acquisition Agreement, as further described in this announcement
"Acquisition Agreement"	the conditional sale and purchase agreement dated 15 June 2007 between the Company and China Telecommunications Corporation relating to the Acquisition
"Associate"	has the meaning given to it by the Listing Rules
"Board"	the board of directors of the Company
"China" or "PRC"	the People's Republic of China (excluding, for the purposes of this announcement, Hong Kong, Macau and Taiwan)
"China Mobile"	China Mobile Communications Corporation, a state-owned enterprise established under the laws of the PRC, and its subsidiaries (including China Mobile Limited, a company whose shares are listed on the Stock Exchange)
"China Netcom"	China Network Communications Group Corporation, a state-owned enterprise established under the laws of the PRC, and its subsidiaries (including China Netcom Group Corporation (Hong Kong) Limited, a company whose shares are listed on the Stock Exchange)
"China Railcom"	China Tie Tong Telecommunication Co., Ltd., a company established under the laws of the PRC, and its subsidiaries

"China Telecom Group"	China Telecommunications Corporation and its subsidiaries, including China Telecom Listco Group but excluding the Combined Group
"China Telecom Listco"	China Telecom Corporation Limited, a company established under the laws of the PRC and whose shares are listed on the Stock Exchange
"China Telecom Listco Group"	China Telecom Listco and its subsidiaries
"China Telecommunications Corporation"	China Telecommunications Corporation (中國電信集團公司), a state-owned enterprise established under the laws of the PRC on 17 May 2000 and the controlling shareholder of the Company
"China Unicom"	China United Telecommunications Corporation, a company established under the laws of the PRC, and its subsidiaries (including China Unicom Limited, a company whose shares are listed on the Stock Exchange)
"CICC"	China International Capital Corporation (Hong Kong) Limited, which is licensed by the Securities and Futures Commission for Types 1, 4 and 6 regulated activities under the Securities and Futures Ordinance, being a financial adviser to the Company in respect of the Acquisition and the Prospective Connected Transactions
"Combined Group"	the Listed Group and the Target Business
"Combined Service Areas"	the Listed Service Areas and the Target Service Areas
"Company" or "we" or "us"	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
"Date of Appraisal"	31 January 2007, being the benchmark date used by the valuer for valuation of the Target Business in connection with the Acquisition
"Directors"	the directors of the Company
"Existing Connected Transactions"	the connected transactions entered into between a member of Listed Group (other than the Target Business) and the China Telecommunications Corporation and its subsidiaries (excluding the Listed Group) in respect of the transactions under the engineering framework agreement, ancillary telecommunications services framework agreement, operation support services framework agreement, IT application services framework agreement, centralized services agreement, property leasing framework agreement and the strategic cooperation agreement, details of which are set out in the Prospectus
"Existing Waiver"	the waiver from the strict compliance with the relevant requirements of the Listing Rules granted by the Stock Exchange in its letter dated 21 November to the Company
"Extraordinary General Meeting" or "EGM"	the extraordinary general meeting of the Company to be convened on 7 August 2007

"Financial Advisers"	CICC and Goldman Sachs, the financial advisers to the Company in respect of the Acquisition and the Prospective Connected Transactions
"GDP"	gross domestic product
"Goldman Sachs"	Goldman Sachs (Asia) L.L.C, which is licensed by the Securities and Futures Commission for Types 1, 4 and 6 regulated activities under the Securities and Futures Ordinance, being a financial adviser to the Company in respect of the Acquisition and the Prospective Connected Transactions
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	Hong Kong Special Administrative Region of the PRC
"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
"IFRS"	International Financial Reporting Standards promulgated by the International Accounting Standards Board
"Independent Board Committee"	the committee of Directors, consisting of Wang Jun, Chan Mo Po, Paul, Zhao Chunjun, Wu Shangzhi and Hao Weimin, who are independent non-executive Directors, formed to advise the Independent Shareholders in respect of the terms of the Acquisition and the terms of certain Prospective Connected Transactions
"Independent Financial Adviser" or "ING"	ING Bank N.V., a registered institution under the SFO, registered for Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) of the regulated activities
"Independent Shareholders"	Shareholders other than China Telecommunications Corporation and its Associates
"IPO"	the initial public offering of the Company in 2006 and which comprises an international offering and a Hong Kong public offering
"Latest Practicable Date"	14 June 2007, being the latest practicable date prior to the printing of this announcement for ascertaining certain information contained herein
"Listed Group" or "we"	the Company together with it subsidiaries in the Listed Service Areas (and for the avoidance of doubt, for the purpose of this announcement, excluding the Target Business)
"Listed Service Areas"	the service regions of the Company prior to the Acquisition and as disclosed in the Company's Prospectus comprising Shanghai municipality and Zhejiang, Fujian, Hubei, Guangdong and Hainan provinces
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"MII"	the Ministry of Information Industry of the PRC (中華人民共和國信息產業部)

"Non-exempt Prospective Connected Transactions"	The Prospective Connected Transactions, excluding the Property Leasing Framework Agreement
"Prospective Connected Transactions"	the connected transactions between the Combined Group and the China Telecom Group described in the section headed "Prospective Connected Transactions" under section 6 of this announcement
"Prospectus"	the prospectus dated 27 November 2006 issued by the Company in connection with its Hong Kong public offering
"RMB"	Renminbi, the lawful currency of the PRC
"SASAC"	the State-Owned Assets Supervision and Administration Commission of the PRC (國務院國有資產監督管理委員會)
"Savills"	Savills Valuation and Professional Services Limited, a chartered surveyor and independent property valuer to the Company
"Shareholders"	shareholders of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Supplemental Agreement"	The supplemental agreement between the Company and China Telecommunications Corporation to supplement and amend the terms of each of the Engineering Framework Agreement, Ancillary Telecommunications Services Framework Agreement, Operation Support Services Framework Agreement, IT Application Services Framework Agreement, Centralized Services Agreement and the Property Leasing Framework Agreement
"Supplemental Strategic Agreement"	The supplemental agreement between the Company and China Telecom Listco to supplement and amend the terms of the Strategic Cooperation Agreement
"Target Assets"	the assets to be acquired under the acquisition agreement, the details of which are set out in this announcement, and which includes, *inter alia*, equipment, leases, office buildings, land and certain equity interests in companies within the Listed Service Areas and in which majority equity interests are already owned by the Company or are already consolidated as part of the Listed Group's financial information
"Target Business"	the telecommunications infrastructure ("**TIS**") services, business process outsourcing ("**BPO**") services and applications and content and other ("**ACO**") services in the Target Service Areas and the entire equity interest of Guangdong Nanfang Communications GSM Intelligent Card System Co., Ltd. (廣東南方通信全球通智能卡系统有限公司) and NingBo Public Information Industry Co., Ltd. (寧波公眾信息產業有限公司) which are located in Guangdong and Zhejiang provinces to be purchased by the Company from China Telecommunications Corporation pursuant to the Acquisition Agreement.

"Target Service Areas"	Jiangsu Province, Anhui Province, Jiangxi Province, Hunan 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
"Total Acquisition Assets"	the Target Business and the Target Assets

For your convenience, this announcement contains translations between H.K. dollars and RMB amounts at HK$1 = RMB0.9777 the prevailing rate on the Latest Practicable Date. The translations are not representations that the RMB amounts could actually be converted into H.K. dollars at such rates, or at all.

By Order of the Board
Li Ping
Executive Director

Hong Kong, 15 June 2007

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 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.