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中国通信服务
CHINA COMSERVICE

中國通信服務股份有限公司

CHINA COMMUNICATIONS SERVICES CORPORATION LIMITED

(A joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock Code: 552)

ANNOUNCEMENT

Revision of Annual Caps for Continuing Connected Transactions

Reference is made to the announcement of the Company dated 9 November 2010 and the circular of the Company dated 12 November 2010 in relation to, among others, the continuing connected transactions under the Supplies Procurement Services Framework Agreement between the Company and China Telecommunications Corporation.

For the two years ending 31 December 2011 and 2012, the Existing Annual Caps for the service charges payable by the Company to China Telecom Group under the Supplies Procurement Services Framework Agreement are RMB900 million and RMB900 million, respectively. The continuing connected transaction under the Supplies Procurement Services Framework and the Existing Annual Caps have been approved by the Independent Shareholders at the extraordinary general meeting of the Company convened on 30 December 2010.

Based on internal estimates, the Directors consider that the Existing Annual Caps for the year ending 31 December 2011 and 2012 for the service charges payable by the Company to China Telecom Group under the Supplies Procurement Services Framework Agreement will not be sufficient for the Group's current requirements, and therefore propose that the Existing Annual Caps be amended accordingly as set out in this Announcement.

Listing Rules Implications

As at the Latest Practicable Date, China Telecommunications Corporation holds approximately 50.71% of the issued share capital of the Company. Accordingly, China Telecommunications Corporation is a substantial shareholder of the Company, being a connected person of the Company, and the transactions under the Supplies Procurement Services Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio of the Revised Annual Caps, calculated on an annual basis, exceeds 5%, the proposed Revised Annual Caps are subject to reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

An Independent Board Committee comprising all of the independent non-executive Directors of the Company has been formed to advise the Independent Shareholders on the proposed Revised Annual Caps. GF Capital (Hong Kong) Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and Independent Shareholders on the same.

A circular containing, among other things, (i) a letter from the Board setting out details of the proposed Revised Annual Caps, (ii) a letter from the Independent Board Committee, (iii) a letter of advice from the Independent Financial Adviser, and (iv) a notice of the EGM will be despatched to the Shareholders as soon as practicable and within 15 business days after the publication of this announcement.

1. BACKGROUND

Reference is made to the announcement of the Company dated 9 November 2010 and the circular of the Company dated 12 November 2010 in relation to, among others, the continuing connected transactions under the Supplies Procurement Services Framework Agreement between the Company and China Telecommunications Corporation.

The annual values of the continuing connected transactions under the Supplies Procurement Services Framework Agreement are subject to annual caps. For the two years ending 31 December 2011 and 2012, the Existing Annual Caps for the service charges payable by the Company to China Telecom Group are RMB900 million and RMB900 million, respectively, which were approved by the Independent Shareholders at the extraordinary general meeting of the Company convened on 30 December 2010.

The Directors have been closely monitoring the continuing connected transactions under the Supplies Procurement Services Framework Agreement. Based on internal estimates, the Directors consider that the Existing Annual Caps for the two years ending 31 December 2011

and 2012 for the service charges payable by the Company to China Telecom Group will not be sufficient for the Group's current requirements, and therefore propose the Revised Annual Caps, details of which are set out in this announcement.

2. SUPPLIES PROCUREMENT SERVICES FRAMEWORK AGREEMENT

According to the Supplies Procurement Services Framework Agreement, China Telecommunications Corporation agreed to provide the Company with comprehensive supplies procurement services, including, among other things, (i) sales of telecommunications supplies manufactured by China Telecom Group, (ii) resale of supplies purchased from independent third parties, (iii) agency services of supplies procurement, and (iv) warehousing, transportation and installation services. The scope of the Supplies Procurement Services Framework Agreement covers transactions between the Company (and its subsidiaries) and China Telecommunications Corporation (and its subsidiaries but excluding the Group), as may be applicable from time to time and splits off the provision of comprehensive logistics services from the Ancillary Telecommunications Services Framework Agreement and the Operation Support Services Framework Agreement. Pursuant to the same agreement, the Company also agreed to provide China Telecommunications Corporation with comprehensive supplies procurement services.

The pricing basis for the provision of comprehensive logistics services relating to facilities procurement under the Supplies Procurement Services Framework Agreement is as follows:

- (1) procurement services in respect of imported telecommunications supplies are provided at 1% of the contract value at the maximum;
- (2) procurement services in respect of domestic telecommunications supplies and other domestic non-telecommunications materials are provided at 3% of the contract value at the maximum;
- (3) other procurement services are provided at:
 - (i) the government-prescribed prices;
 - (ii) where there are no government-prescribed prices but where there are government-guidance prices, the government-guidance prices apply;
 - (iii) where there are neither government-prescribed prices nor government-guidance prices, the market prices apply. The market price is defined as the price determined by business operators which is formulated through market competition. The market price is determined at the sequence of (i) the price at which the same types of services are provided by independent third parties in the ordinary course of business in the same areas or regions in close proximity thereto; or (ii) the price at which the same types of services are provided by independent third parties in the ordinary course of business within China; or

- (iv) where none of the above is applicable, the prices are to be negotiated and agreed between the relevant parties for the provision of the above services on the basis of fairness, which shall be the reasonable costs incurred in providing the same plus reasonable profit margin (for this purpose, “reasonable costs” means such costs as confirmed by both parties after negotiations).

The pricing basis and other applicable terms for each type of services under the Supplies Procurement Services Framework Agreement will be reviewed and amended, if necessary, by way of a supplemental agreement by the parties on 31 December each year.

The Group will be given priority by China Telecom Group in the provision of comprehensive logistics services, provided that the terms and conditions offered by independent third parties to 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 supplies procurement related comprehensive logistic services to it on terms which are less favourable than those offered by the Company and its subsidiaries to independent third parties.

Subject to the terms and conditions set out above, the payment for the procurement of related comprehensive logistic services is made at the time when relevant services are provided in the manner set forth in each specific contract entered into between the parties. Settlement of payment shall be made at least once every 60 days.

The Company entered into the Supplies Procurement Services Framework Agreement with China Telecommunications Corporation on 29 October 2009 for a term of two years ending 31 December 2010, which was subsequently extended for another two years to 31 December 2012 by a supplemental agreement dated 9 November 2010.

3. REASONS FOR AND BENEFITS OF TRANSACTIONS UNDER THE SUPPLIES PROCUREMENT SERVICES FRAMEWORK AGREEMENT

China Telecom Group is one of the largest telecommunications operators in the PRC. The Group is the leading specialized telecommunications support services provider in the PRC and has been providing such services to China Telecom Group on a long-term basis which are currently governed by, among other things, the Supplies Procurement Services Framework Agreement.

It is expected that China Telecom Group will continue to expand its business operation, construct and optimize its telecommunications network as well as broaden its customer base. The Board considers that it is in the interest of the Company to promote cooperation with China Telecom Group and ensure a stable revenue source from one of the largest telecommunications operators in the PRC so as to benefit the Company’s future growth and

development. The Supplies Procurement Services Framework Agreement was entered into in the ordinary and usual course of business of the Group on normal commercial terms which are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

4. THE REVISED ANNUAL CAPS AND REASONS FOR SETTING THE REVISED ANNUAL CAPS

For the two years ending 31 December 2011 and 2012, the Existing Annual Caps for the service charges payable by the Company to China Telecom Group under the Supplies Procurement Services Framework Agreement are RMB900 million and RMB900 million, respectively. The continuing connected transaction under the Supplies Procurement Services Framework Agreement and the Existing Annual Caps have been approved by the Independent Shareholders at the extraordinary general meeting of the Company convened on 30 December 2010.

The Directors have been closely monitoring the continuing connected transactions under the Supplies Procurement Services Framework Agreement. In the past nine months of 2011, China witnessed a rapid development in the telecommunication industry and there was a rapid increase in mobile users and the corresponding demand for mobile terminals. In response to the high demand for mobile terminals, the Company increased the procurement of telecommunications supplies especially the mobile terminals from China Telecom Group, and leveraged on the existing distribution network of the Company to better address the market opportunities and promote the rapid development of business. The Company believes that the increase in the distribution of mobile terminals will increase the revenue and profit of the Company as well as reinforce its cooperation and relationship with China Telecom Group to ensure a stable revenue source, which will benefit the Company's future growth and development. In this regard, the aggregate purchases from China Telecom Group in the two years ending 31 December 2011 and 2012 are projected to be higher than that envisaged at the time of entering into the Supplies Procurement Services Framework Agreement. The Company proposed to increase the annual caps for service charges payable to China Telecom Group under the Supplies Procurement Services Framework Agreement to RMB2,100 million and RMB2,600 million respectively, for the two years ending 31 December 2011 and 2012.

When determining the Revised Annual Caps, the Board has considered: (i) the amounts paid by the Company to China Telecom Group under the Supplies Procurement Services Framework Agreement for the year of 2010 and for the period from 1 January 2011 to 30 June 2011; (ii) the dramatic increase in the amounts paid by the Company to China Telecom Group for the second half year of 2010 compared with those for the first half, which is expected to recur for the year of 2011; (iii) the existing business scale and operations of the Company together with the latest business plans for the two years ending on 31 December 2011 and 2012; and (iv) the expected rapid development of the mobile terminal market.

The table below sets out the historical figures, the Existing Annual Caps and the proposed Revised Annual Caps relating to the Supplies Procurement Services Framework Agreement.

Unit: RMB million

Transaction	Year ended		Year ending			Year ending	
	31 December 2010		31 December 2011			31 December 2012	
Supplies Procurement Services provided by China Telecom Group	Annual Cap	Actual amount	Existing Annual Cap	Actual amount (up to 30 June 2011)	Revised Annual Caps	Existing Annual Cap	Revised Annual Caps
Expenditure	900	448	900	523	2,100	900	2,600

5. INFORMATION ABOUT THE COMPANY AND CHINA TELECOMMUNICATIONS CORPORATION

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.

As at the Latest Practicable Date, China Telecommunications Corporation holds approximately 50.71% of the issued share capital of the Company.

6. LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, China Telecommunications Corporation holds approximately 50.71% of the issued share capital of the Company. Accordingly, China Telecommunications Corporation is a substantial shareholder of the Company, being a connected person of the Company, and the transactions under the Supplies Procurement Services Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio of the Revised Annual Caps, calculated on an annual basis, exceeds 5%, the proposed Revised Annual Caps are subject to reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Directors (other than the independent non-executive Directors, whose views will be formed taking into account the advice from the Independent Financial Adviser and set out in the circular to be dispatched to the Shareholders as soon as practicable and within 15 business days after publication of this announcement) are of the view that the Supplies Procurement Services Framework Agreement and the transactions contemplated thereunder have been entered into in the ordinary and usual course of business of the Group, that they are on normal commercial terms, and that they have been implemented in accordance with the terms contained therein, and that the terms, as well as the Revised Annual Caps applicable thereto, are fair and reasonable and are in the interests of the Company and its Shareholders as a whole.

The Board has approved the Revised Annual Caps. Due to their positions in China Telecommunications Corporation, Mr. Li Ping, Mr. Zheng Qibao and Mr. Yuan Jianxing, have abstained from voting on the Board resolution to approve the Revised Annual Caps.

China Telecommunications Corporation and its associates, being connected persons to the Company, will abstain from voting at the EGM on the ordinary resolution to approve the Revised Annual Caps. Any vote of the Independent Shareholders at the EGM shall be taken by poll. The Company confirms that none of the independent non-executive Directors has any interests in the Supplies Procurement Services Framework Agreement and the proposed Revised Annual Caps.

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 further material variation or renewal of the above relevant agreement, the Company will comply in full with all applicable requirements set out in Chapter 14A of the Listing Rules.

7. FURTHER INFORMATION

An Independent Board Committee comprising all of the independent non-executive Directors of the Company has been formed to advise the Independent Shareholders on the proposed Revised Annual Caps. GF Capital (Hong Kong) Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and Independent Shareholders on the same.

A circular containing, among other things, (i) a letter from the Board setting out details of the proposed Revised Annual Caps, (ii) a letter from the Independent Board Committee, (iii) a letter of advice from the Independent Financial Adviser, and (iv) a notice of the EGM will be despatched to the Shareholders as soon as practicable and within 15 business days after the publication of this announcement.

8. DEFINITIONS

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

“associate”	has the meaning ascribed to it under 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 Telecom Group”	China Telecommunications Corporation and its subsidiaries but excluding the Group
“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
“Company”	China Communications Services Corporation Limited (中國通信服務股份有限公司), a joint stock limited company incorporated in the PRC with limited liability on 30 August 2006, whose H Shares are listed on the Stock Exchange
“Directors”	the directors of the Company
“Existing Annual Caps”	the existing annual caps applicable to the service charges payable by the Company to China Telecom Group under the Supplies Procurement Services Framework Agreement for the two years ending on 31 December 2011 and 2012, which were approved by the Independent Shareholders at the extraordinary general meeting of the Company convened on 30 December 2010
“Extraordinary General Meeting” or “EGM”	the extraordinary general meeting of the Company to be convened on 30 December 2011
“Group”	the Company together with its subsidiaries
“H Share(s)”	overseas listed foreign invested shares in the Company’s issued share capital with a par value of RMB1.00 per share which are listed on the Stock Exchange
“Hong Kong”	Hong Kong Special Administrative Region of the PRC

“Independent Board Committee”	the committee of independent non-executive Directors, consisting of Wang Jun, Chan Mo Po, Paul, Zhao Chunjun, Wu Shangzhi and Hao Weimin, formed to advise the Independent Shareholders on the Revised Annual Caps
“Independent Financial Adviser”	GF Capital (Hong Kong) Limited, a corporation licensed to carry out Type 6 (advising on corporate finance) of the regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Independent Shareholders”	Shareholders other than China Telecommunications Corporation and its associates
“Latest Practicable Date”	14 November 2011, being the latest practicable date prior to the date of this announcement for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Revised Annual Caps”	the revised annual caps proposed for the service charges payable by the Company to China Telecom Group under the Supplies Procurement Services Framework Agreement for the two years ending 31 December 2011 and 2012, Independent Shareholders’ approval of which will be sought at the EGM
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholders”	shareholders of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supplies Procurement Services Framework Agreement”	the Supplies Procurement Services Framework Agreement between the Company and China Telecommunications Corporation, the term of which was renewed to 31 December 2012 by the supplemental agreement dated 9 November 2010

By Order of the Board
China Communications Services Corporation Limited
Li Ping
Chairman

Beijing, the PRC 14 November 2011

As at the date of this announcement, our executive directors are Mr. Li Ping (Chairman), Mr. Zheng Qibao (President) and Mr. Yuan Jianxing (Executive Vice President) and Ms. Hou Rui (Executive Vice President and Chief Financial Officer), our non-executive directors are Mr. Liu Aili and Mr. Zhang Junan, and our independent non-executive directors are Mr. Wang Jun, Mr. Chan Mo Po, Paul, Mr. Zhao Chunjun, Mr. Wu Shangzhi and Mr. Hao Weimin.