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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
CONTINUING CONNECTED TRANSACTIONS
AND
PROPOSED NEW ANNUAL CAPS**

1. CONTINUING CONNECTED TRANSACTIONS

Reference is made to the 2012 Announcement and Circular in relation to certain continuing connected transactions between the Group and China Telecom and/or its associates which are governed by the Original Agreements, including the Original Engineering Framework Agreement, the Original Ancillary Telecommunications Services Framework Agreement, the Original Operation Support Services Framework Agreement, the Original IT Application Services Framework Agreement, the Original Centralized Services Agreement, the Original Property Leasing Framework Agreement and the Original Supplies Procurement Services Framework Agreement.

All the Original Agreements above were entered into between the Company and China Telecom and were then amended and renewed by way of the 2012 Supplemental Agreement, pursuant to which the Original Agreements will expire on 31 December 2015. The Existing Annual Caps for the Original Agreements in respect of the three years ending 31 December 2015 were approved by the Independent Shareholders at the extraordinary general meeting of the Company held on 27 November 2012.

As each of the Original Agreements has a current term due to expire on 31 December 2015, the Board announced that the Company entered into the 2015 Agreements with China Telecom on 29 September 2015 based on the Original Agreements. Save as the adjustment of terms and description of the pricing policies, the other principal provisions of the 2015 Agreements are generally consistent with the Original Agreements.

The Directors have been closely monitoring the Continuing Connected Transactions. According to internal estimates and historical transaction amounts, the Directors also proposed the Revised Annual Caps and the New Annual Caps, details of which are set out below.

Listing Rules Implications

As at the date of this announcement, China Telecom holds approximately 51.39% of the issued share capital of the Company. Accordingly, China Telecom is a controlling shareholder of the Company, and thus a connected person of the Company as defined under Rule 14A.07 of the Listing Rules. As a result, the proposed Revised Annual Caps and the entering into the Continuing Connected Transactions under the 2015 Agreements (together with the proposed New Annual Caps) constitute continuing connected transactions of the Company.

As each of the highest applicable percentage ratios of the proposed Revised Annual Caps and the proposed New Annual Caps for the Non-exempt Continuing Connected Transactions, on an annual basis, exceeds 5%, the proposed Revised Annual Caps and the Non-exempt Continuing Connected Transactions (together with the proposed New Annual Caps thereof) are subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratios of the proposed New Annual Caps for each of the Centralized Services Agreement and the Property Leasing Framework Agreement, on an annual basis, is more than 0.1% but less than 5%, the Centralized Services Agreement, the Property Leasing Framework Agreement and the proposed New Annual Caps thereof are subject to the reporting and announcement requirements, but exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

The Independent Board Committee comprising all of the independent non-executive Directors has been formed to advise the Independent Shareholders on the proposed Revised Annual Caps and the Non-exempt Continuing Connected Transactions (together with the proposed New Annual Caps thereof) and GF Capital (Hong Kong) Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on the same.

2. GENERAL

A circular containing, among other things, (i) a letter from the Board setting out details of the Continuing Connected Transactions, (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 on or before 22 October 2015.

1. CONTINUING CONNECTED TRANSACTIONS

(1) Background

Reference is made to the 2012 Announcement and Circular in relation to continuing connected transactions between the Group and China Telecom and/or its associates which are governed by the following Original Agreements:

- (a) the Original Engineering Framework Agreement;
- (b) the Original Ancillary Telecommunications Services Framework Agreement;
- (c) the Original Operation Support Services Framework Agreement;
- (d) the Original IT Application Services Framework Agreement;
- (e) the Original Centralized Services Agreement;
- (f) the Original Property Leasing Framework Agreement; and
- (g) the Original Supplies Procurement Services Framework Agreement.

All the Original Agreements above were entered into between the Company and China Telecom and were then amended and renewed by way of the 2012 Supplemental Agreement, pursuant to which the Original Agreements will expire on 31 December 2015. The Existing Annual Caps for the Original Agreements in respect of the three years ending 31 December 2015 were approved by the Independent Shareholders at the extraordinary general meeting of the Company held on 27 November 2012.

Since the issuance of 4G (LTE FDD) licenses in 2015, China Telecom Group has put more efforts on network construction, and its demand for the Company's engineering services has been increasing. Therefore, the aggregate service charges receivable by the Company from China Telecom Group under the Original Engineering Framework Agreement are anticipated to be higher than the applicable Existing Annual Caps. Besides, the growth of the Company's engineering services and network maintenance business has led to an increase in demand for operation support services, and the aggregate service charges payable by the Company to China Telecom Group under the Original Operation Support Services Framework Agreement

are also anticipated to be higher than the applicable Existing Annual Caps. The Directors proposed to increase the relevant annual caps for the service charges receivable by the Company from China Telecom Group under the Original Engineering Framework Agreement and the service charges payable by the Company to China Telecom Group under the Original Operation Support Services Framework Agreement for the year ending 31 December 2015.

As each of the Original Agreements has a current term due to expire on 31 December 2015, the Company entered into the 2015 Agreements with China Telecom on 29 September 2015 based on the Original Agreements. According to internal estimates and historical transaction amounts, the Directors also proposed the New Annual Caps, details of which are set out below.

(2) Continuing Connected Transactions under the 2015 Agreements

Details of the Continuing Connected Transactions under the 2015 Agreements are set out below. Save as the adjustment of terms and description of the pricing policies, the other principal provisions of the 2015 Agreements are generally consistent with the Original Agreements.

(a) *Engineering Framework Agreement*

Pursuant to the Engineering Framework Agreement, the Company 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 scope of the Engineering Framework Agreement covers transactions between the Company (and its subsidiaries) and China Telecom (and its subsidiaries but excluding the Group), as may be applicable from time to time.

The Engineering Framework Agreement will expire on 31 December 2018, automatically renewable for further periods of no more than three years (subject to shareholders' approval, if applicable) unless it is terminated earlier by either party with three months' prior written notice.

The charges for engineering related services rendered under the Engineering Framework Agreement shall be determined at market price or prices obtained through 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 must be subject to a tender process (with a minimum of three parties tendering bids) in accordance with the Bidding Law of the PRC and Regulation on the Implementation of the Bidding Law of the PRC, except as otherwise provided by related laws and regulations. In determining the market price, the Company primarily considers the following factors: (1) cost of service ; (2) prices of the

same or similar type of services provided to China Telecom Group by other service providers in the market; (3) prices of the same or similar type of services provided to China Telecom Group and independent third parties previously by the Company.

The Company will be given 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 favorable than those offered by the Company for the same type of services, and in return, the Company has undertaken to China Telecom Group that the Company shall not provide services to it on terms which are less favorable than those offered by the Company to independent third parties. The payment for engineering related services provided by the Company under the Engineering Framework Agreement is normally made in accordance with the progress of practical work following the general market practice in the industry.

The Existing Annual Caps for the service charges receivable by the Company from China Telecom Group under the Original Engineering Framework Agreement for the two years of 2014 and 2015 are RMB17,000 million and RMB17,000 million, respectively. The actual amount for the service charges received by the Company from China Telecom Group under the Original Engineering Framework Agreement for the year ended 31 December 2014 was RMB15,582 million. Based on the Company's unaudited 2015 interim financial report, the actual amount for the service charges received by the Company from China Telecom Group under the Original Engineering Framework Agreement for the six months ended 30 June 2015 was RMB8,404 million.

Since the issuance of 4G (LTE FDD) licenses in 2015, China Telecom Group has put more efforts on network construction, and its demand for the Company's engineering services has been increasing. Therefore, the aggregate service charges receivable by the Company from China Telecom Group under the Original Engineering Framework Agreement are anticipated to be higher than the applicable Existing Annual Caps. The Directors proposed to increase the annual cap for the service charges receivable by the Company from China Telecom Group under the Original Engineering Framework Agreement for the year ending 31 December 2015 from RMB17,000 million to RMB24,000 million. In determining the Revised Annual Caps, the Directors have considered the actual transaction amounts under the Original Engineering Framework Agreement in the first half of 2015, the operation and growth conditions of the Company's businesses in this field, and the estimated increase of China Telecom Group's demand of the engineering services in the second half of 2015.

The Directors proposed the New Annual Caps for the Engineering Framework Agreement in respect of the three years ending 31 December 2016, 2017 and 2018 to be RMB24,000 million, RMB24,000 million and RMB24,000 million, respectively. The Directors expect that China Telecom Group's need for engineering service will become stable after the substantial increase of investment in network construction in 2015. In determining the

New Annual Caps, the Directors have considered the continuous development of the PRC telecommunications industry, the historical transaction amounts and the operation and growth conditions of the Company's businesses in this field.

As the highest applicable percentage ratio of the proposed Revised Annual Caps for the continuing connected transactions under the Original Engineering Framework Agreement and the proposed New Annual Caps for the continuing connected transactions under the Engineering Framework Agreement, calculated on an annual basis, exceeds 5%, the proposed Revised Annual Caps and the Engineering Framework Agreement together with the proposed New Annual Caps are subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

(b) *Ancillary Telecommunications Services Framework Agreement*

Pursuant to the Ancillary Telecommunications Services Framework Agreement, the Company agreed to provide to 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 comprehensive logistics services, including purchasing agent, warehousing, transportation, delivery, testing and inspection, logistics information management and distribution; 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 scope of the Ancillary Telecommunications Services Framework Agreement covers transactions between the Company (and its subsidiaries) and China Telecom (and its subsidiaries but excluding the Group), as may be applicable from time to time.

The Ancillary Telecommunications Services Framework Agreement will expire on 31 December 2018, automatically renewable for further periods of no more than three years (subject to shareholders' approval, if applicable) unless it is terminated earlier by either party with three months' prior written notice.

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

- (1) market price. In determining the market price, the Company primarily considers the following factors: (i) cost of service ; (ii) prices of the same or similar type of services provided to China Telecom Group by other service providers in the market; (iii) prices of the same or similar type of services provided to China Telecom Group and independent third parties previously by the Company.

- (2) in the absence of market price or where the market price cannot be determined, the price shall be agreed between both parties, which shall be the aggregate amount of reasonable costs, the relevant taxes in sales and reasonable profits. “Reasonable costs” means the costs confirmed by both parties after negotiations, and “reasonable profit” 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, labor cost, local commodity prices and economic development levels.

The Company will be given priority by China Telecom Group in the provision of the Ancillary Telecommunications Services, provided that the terms and conditions offered by independent third parties to China Telecom Group are no more favorable than those offered by the Company for the same services, and in return, the Company has undertaken to China Telecom Group that the Company and its subsidiaries shall not provide Ancillary Telecommunications Services to it on terms which are less favorable than those offered by the Company to independent third parties. Subject to the terms and conditions set out above, the payment for the Ancillary Telecommunications Services is made in the manner provided for in each specific contract entered into between the parties by reference to the market practices.

The Existing Annual Caps for the service charges receivable by the Company from China Telecom Group under the Original Ancillary Telecommunications Services Framework Agreement for the two years of 2014 and 2015 are RMB10,000 million and RMB11,000 million, respectively. The actual amount for the service charges received by the Company from China Telecom Group under the Original Ancillary Telecommunications Services Framework Agreement for the year ended 31 December 2014 was RMB7,548 million. Based on the Company’s unaudited 2015 interim financial report, the actual amount for the service charges received by the Company from China Telecom Group under the Original Ancillary Telecommunications Services Framework Agreement for the six months ended 30 June 2015 was RMB3,634 million.

The Directors proposed the New Annual Caps for the Ancillary Telecommunications Services Framework Agreement in respect of the three years ending 31 December 2016, 2017 and 2018 to be RMB12,100 million, RMB13,300 million and RMB15,600 million, respectively. In determining the New Annual Caps, the Directors have considered the historical transaction amounts, the expected increase of business cooperation with China Telecom Group due to the business expansion of Ancillary Telecommunications Services in major provinces and cities in Northern China and the expected increase of demand of the Ancillary Telecommunications Services required by China Telecom Group mainly attributable to the growth of its fibre optic broadband and mobile network, customer base and wireless business.

As the highest applicable percentage ratio of the proposed New Annual Caps under the Ancillary Telecommunications Services Framework Agreement, calculated on an annual basis, exceeds 5%, the Ancillary Telecommunications Services Framework Agreement together with the proposed New Annual Caps are subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

(c) *Operation Support Services Framework Agreement*

The Operation Support Services Framework Agreement governs the arrangements between the Group and China Telecom Group with respect to mutual provision of operation support services. Pursuant to this agreement, the Company agreed to provide to China Telecom Group operation support services, including but not limited to facilities management and renovation, network facilities management in relation to buildings used for telecommunications purposes, human resources management, equipment maintenance, advertisement, conferencing services, vehicles, and certain repair and leasing of equipment. China Telecom Group also agreed to provide operation support services such as logistics services, warehousing, medical care, food and beverages, education, hotel and travelling services, labor services and so on to the Company. The scope of the Operation Support Services Framework Agreement covers transactions between the Company (and its subsidiaries) and China Telecom (and its subsidiaries but excluding the Group), as may be applicable from time to time.

The Operation Support Services Framework Agreement will expire on 31 December 2018, automatically renewable for further periods of no more than three years (subject to shareholders' approval, if applicable) unless it is terminated earlier by either party with three months' prior written notice.

The Operation Support Services Framework Agreement shall adopt the same pricing policy as the Ancillary Telecommunications Services Framework Agreement. In addition, in determining the market price of the operation support services provided to the Company by the China Telecom Group, the Company primarily considered the following factors: (i) prices of the same or similar type of services provided to the Company by other service providers in the market; (ii) prices of the same or similar type of services provided to the Company by China Telecom Group and independent third parties previously. Subject to the terms and conditions set out above, the payment for the operation support services is made in the manner provided for in each specific contract entered into between the parties by reference to the market practices.

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 favorable 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 favorable than those offered to independent third parties.

The Existing Annual Caps for the service charges receivable by the Company from China Telecom Group under the Original Operation Support Services Framework Agreement for the two years of 2014 and 2015 are RMB2,900 million and RMB3,000 million, respectively. The actual amount for the service charges received by the Company from China Telecom Group under the Original Operation Support Services Framework Agreement for the year ended 31 December 2014 was RMB2,402 million. Based on the Company's unaudited 2015 interim financial report, the actual amount for the service charges received by the Company from China Telecom Group under the Original Operation Support Services Framework Agreement for the six months ended 30 June 2015 was RMB895 million.

The Existing Annual Caps for the service charges payable by the Company to China Telecom Group under the Original Operation Support Services Framework Agreement for the two years of 2014 and 2015 are RMB650 million and RMB650 million, respectively. The actual amount for the service charges paid by the Company to China Telecom Group under the Original Operation Support Services Framework Agreement for the year ended 31 December 2014 was RMB644 million. Based on the Company's unaudited 2015 interim financial report, the actual amount for the service charges paid by the Company to China Telecom Group under the Original Operation Support Services Framework Agreement for the six months ended 30 June 2015 was RMB254 million.

As the growth of the Company's engineering services and network maintenance business has led to an increase in demand for operation support services, the aggregate service charges payable by the Company to China Telecom Group under the Original Operation Support Services Framework Agreement for the year ending 31 December 2015 are anticipated to be higher than the Existing Annual Caps. The Directors proposed to increase the annual cap for the service charges payable by the Company to China Telecom Group under the Original Operation Support Services Framework Agreement for the year ending 31 December 2015 from RMB650 million to RMB800 million. In determining the Revised Annual Caps, the Directors have considered the actual transaction amounts under the Original Operation Support Services Framework Agreement in the first half of 2015, the operation and growth conditions of the Company's businesses in this field, and the estimated increase of the Company's demand of the operation support services in the second half of 2015.

The Directors proposed the New Annual Caps for the service charges receivable by the Company from China Telecom Group under the Operation Support Services Framework Agreement in respect of the three years ending 31 December 2016, 2017 and 2018 to be RMB3,200 million, RMB3,400 million and RMB3,600 million, respectively. The Directors proposed the New Annual Caps for the service charges payable by the

Company to China Telecom Group under the Operation Support Services Framework Agreement in respect of the three years ending 31 December 2016, 2017 and 2018 to be RMB900 million, RMB1,000 million and RMB1,100 million, respectively. In determining the New Annual Caps, the Directors have considered the historical transaction amounts, the operation and growth conditions of the Company's businesses in this field, and the estimated mutual demand of the operation support services.

As each of the highest applicable percentage ratios of the proposed Revised Annual Caps under the Original Operation Support Services Framework Agreement and the proposed New Annual Caps under the Operation Support Services Framework Agreement, calculated on an annual basis, exceeds 5%, the proposed Revised Annual Caps and the Operation Support Services Framework Agreement together with the proposed New Annual Caps are subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

(d) *IT Application Services Framework Agreement*

The IT Application Services Framework Agreement governs the arrangements between the Group and China Telecom Group with respect to mutual provision of IT application services. Pursuant to this agreement, 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 also agreed to provide to the Company certain IT application services including voice and data, value added services and information application services. The scope of the IT Application Services Framework Agreement covers transactions between the Company (and its subsidiaries) and China Telecom (and its subsidiaries but excluding the Group), as may be applicable from time to time.

The IT Application Services Framework Agreement will expire on 31 December 2018, automatically renewable for further periods of no more than three years (subject to shareholders' approval, if applicable) unless it is terminated earlier by either party with three months' prior written notice.

The IT Application Services Framework Agreement shall adopt the same pricing policy as the Engineering Framework Agreement. In addition, in determining the market price of the IT application services provided to the Company by the China Telecom Group, the Company primarily considers the following factors: (i) prices of the same or similar type of services provided to the Company by other service providers in the market; (ii) prices of the same or similar type of services provided to the Company by China Telecom Group and independent third parties previously. Subject to the terms and conditions set out above, the payment for the IT application service is made in the manner provided for in each specific contract entered into between the parties by reference to the market practices.

Each of the parties to the IT Application Services Framework Agreement will accord priority to the other party in the provision of the IT application services, provided that the terms and conditions offered by independent third parties to the relevant party are no more favorable 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 favorable than those offered to independent third parties.

The Existing Annual Caps for the service charges receivable by the Company from China Telecom Group under the Original IT Application Services Framework Agreement for the two years of 2014 and 2015 are RMB2,100 million and RMB2,300 million, respectively. The actual amount for the service charges received by the Company from China Telecom Group under the Original IT Application Services Framework Agreement for the year ended 31 December 2014 was RMB1,848 million. Based on the Company's unaudited 2015 interim financial report, the actual amount for the service charges received by the Company from China Telecom Group under the Original IT Application Services Framework Agreement for the six months ended 30 June 2015 was RMB605 million.

The Existing Annual Caps for the service charges payable by the Company to China Telecom Group under the Original IT Application Services Framework Agreement for the two years of 2014 and 2015 are RMB460 million and RMB490 million, respectively. The actual amount for the service charges paid by the Company to China Telecom Group under the Original IT Application Services Framework Agreement for the year ended 31 December 2014 was RMB239 million. Based on the Company's unaudited 2015 interim financial report, the actual amount for the service charges paid by the Company to China Telecom Group under the Original IT Application Services Framework Agreement for the six months ended 30 June 2015 was RMB119 million.

The Directors proposed the New Annual Caps for the service charges receivable by the Company from China Telecom Group under the IT Application Services Framework Agreement in respect of the three years ending 31 December 2016, 2017 and 2018 to be RMB2,500 million, RMB2,700 million and RMB2,900 million, respectively. The Directors proposed the New Annual Caps for the service charges payable by the Company to China Telecom Group under the IT Application Services Framework Agreement in respect of the three years ending 31 December 2016, 2017 and 2018 to be RMB490 million, RMB490 million and RMB490 million, respectively. The Directors expect that China Telecom Group will continue to promote the development of its information service business and therefore its demand for IT application services will increase. In determining the New Annual Caps, the Directors have also considered the historical transaction amounts, the operation and growth conditions of the Company's businesses in this field, and that the Company estimates its demand of the IT application services to be stable.

As the highest applicable percentage ratio of the proposed New Annual Caps under the IT Application Services Framework Agreement, calculated on an annual basis, exceeds 5%, the IT Application Services Framework Agreement together with the proposed New Annual Caps are subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

(e) *Centralized Services Agreement*

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

- (1) the corporate headquarters management function to manage assets of China Telecom's certain retained specialized telecommunications support businesses in the PRC other than the Group and any remaining assets, such as hotels, manufacturing plants, schools and hospitals which are not in association with the specialized telecommunications support businesses in the primary service areas of the Group; and
- (2) the provincial headquarters management function to manage remaining assets of China Telecom in the primary service areas of the Group.

The scope of the Centralized Services Agreement covers transactions between the Company (and its subsidiaries) and China Telecom (and its subsidiaries but excluding the Group), as may be applicable from time to time.

The Centralized Services Agreement will expire on 31 December 2018, automatically renewable for further periods of no more than three years (subject to shareholders' approval, if applicable) unless it is terminated earlier by either party with three months' prior written notice.

Except as otherwise agreed by the 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 headquarters management functions excluding remuneration for the Directors, share appreciation rights and provision of bad debts) will be apportioned pro rata between the Company and China Telecom Group according to the proportional net asset value of each of the relevant parties.

The Existing Annual Caps for the management fees (in the form of reimbursed apportioned cost received) of the Group for the centralized services provided to China Telecom Group under the Original Centralized Services Agreement for the two years of 2014 and 2015 are RMB410 million and RMB420 million, respectively. The actual amount of the management fees received by the Company from China Telecom Group under the Original Centralized Services Agreement for the year ended 31 December 2014 was RMB286 million. Based on the Company's unaudited 2015 interim financial report,

the actual amount of the management fees received by the Company from China Telecom Group under the Original Centralized Services Agreement for the six months ended 30 June 2015 was RMB111 million.

The Directors proposed the New Annual Caps for the management fees receivable by the Company from China Telecom Group under the Centralized Services Agreement in respect of the three years ending 31 December 2016, 2017 and 2018 to be RMB430 million, RMB440 million and RMB450 million, respectively. In determining the New Annual Caps, the Directors have considered the historical transaction amounts and the estimated demand of the centralized services required by China Telecom Group.

As the highest applicable percentage ratio of the proposed New Annual Caps under the Centralized Services Agreement, calculated on an annual basis, is expected to be more than 0.1% but less than 5%, the Centralized Services Agreement together with the proposed New Annual Caps are subject to the reporting and announcement requirements, but exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

(f) *Property Leasing Framework Agreement*

The Property Leasing Framework Agreement governs the arrangements with respect to the mutual leasing of properties between the Group and China Telecom Group. China Telecom Group currently lease from the Company and its subsidiaries certain properties for use as business premises, offices, equipment storage facilities and sites for network equipment. The Company and its subsidiaries also lease from China Telecom Group certain properties for use as business premises, offices and equipment storage facilities. These arrangements fall within the Property Leasing Framework Agreement. The scope of the Property Leasing Framework Agreement covers transactions between the Company (and its subsidiaries) and China Telecom (and its subsidiaries but excluding the Group), as may be applicable from time to time.

The Property Leasing Framework Agreement will expire on 31 December 2018, automatically renewable for further periods of no more than three years (subject to shareholders' approval, if applicable) unless it is terminated earlier by either party with three months' prior written notice.

The rental charges in respect of each property are determined at market price. In determining the market price, the Company primarily considers the following factors: (1) cost of property depreciation; (2) rental charges of the same or similar type of property provided to China Telecom Group and the Company by other service providers in the market; (3) rental charges of the same or similar type of property provided to China Telecom Group and independent third parties by the Company previously, or rental charges of the same or similar type of property provided to the Company by China Telecom Group and independent third parties previously. Rental charges are payable

monthly in arrears, except as otherwise agreed by the 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 Existing Annual Caps for the rents receivable by the Company from China Telecom Group under the Original Property Leasing Framework Agreement for the two years of 2014 and 2015 are RMB166 million and RMB166 million, respectively. The actual amount for the rents received by the Company from China Telecom Group under the Original Property Leasing Framework Agreement for the year ended 31 December 2014 was RMB97 million. Based on the Company's unaudited 2015 interim financial report, the actual amount for the rents received by the Company from China Telecom Group under the Original Property Leasing Framework Agreement for the six months ended 30 June 2015 was RMB78 million.

The Existing Annual Caps for the rents payable by the Company to China Telecom Group under the Original Property Leasing Framework Agreement for the two years of 2014 and 2015 are RMB170 million and RMB180 million, respectively. The actual amount for the rents paid by the Company to China Telecom Group under the Original Property Leasing Framework Agreement for the year ended 31 December 2014 was RMB153 million. Based on the Company's unaudited 2015 interim financial report, the actual amount for the rents paid by the Company to China Telecom Group under the Original Property Leasing Framework Agreement for the six months ended 30 June 2015 was RMB63 million.

The Directors proposed the New Annual Caps for the rents receivable by the Company from China Telecom Group under the Property Leasing Framework Agreement in respect of the three years ending 31 December 2016, 2017 and 2018 to be RMB200 million, RMB210 million and RMB220 million, respectively. The Directors proposed the New Annual Caps for the rents payable by the Company to China Telecom Group under the Property Leasing Framework Agreement in respect of the three years ending 31 December 2016, 2017 and 2018 to be RMB200 million, RMB220 million and RMB240 million, respectively. In determining the New Annual Caps, the Directors have considered the historical transaction amounts and the estimated mutual demand of the leased properties due to business expansion of the Company and China Telecom Group.

As the highest applicable percentage ratio of the proposed New Annual Caps under the Property Leasing Framework Agreement, calculated on an annual basis, is expected to be more than 0.1% but less than 5%, the Property Leasing Framework Agreement together with the proposed New Annual Caps are subject to the reporting and announcement requirements, but exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

(g) *Supplies Procurement Services Framework Agreement*

Pursuant to the Supplies Procurement Services Framework Agreement, the Company agreed to provide to China Telecom Group with comprehensive supplies procurement services, including, among others, (i) procurement of imported telecommunications supplies, domestic telecommunications supplies and domestic non-telecommunications supplies; (ii) agency services of supplies procurement; (iii) sales of telecommunications supplies manufactured by the Group; (iv) resale of supplies purchased from independent third parties; and (v) management of biddings, verification of technical specifications, warehousing, transportation and installation services.

According to the same agreement, China Telecom agreed to provide to the Group with comprehensive supplies procurement services, including, among others, (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 Telecom (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.

The Supplies Procurement Services Framework Agreement will expire on 31 December 2018, automatically renewable for further periods of no more than three years (subject to shareholders' approval, if applicable) unless it is terminated earlier by either party with three months' prior written notice.

The price for the provision of comprehensive supplies procurement services under the Supplies Procurement Services Framework Agreement is determined as follows:

- (1) 1% of the contract value at the maximum for procurement services relating to imported telecommunications supplies;
- (2) 3% of the contract value at the maximum for procurement services relating to domestic telecommunications supplies and other domestic non-telecommunications materials; and
- (3) for other services:
 - (I) market price. In determining the market price, the Company primarily considers the following factors: (i) cost of service; (ii) prices of the same or similar type of services provided to China Telecom Group or the Company by other service providers in the market; (iii) prices of the same or similar type of services

provided to China Telecom Group and independent third parties by the Company, or prices of the same or similar type of services provided to the Company by China Telecom Group and independent third parties.

- (II) in the absence of market price or where the market price cannot be determined, the price shall be agreed between both parties, which shall be the aggregate amount of reasonable costs, the taxes in sales and reasonable profits. “Reasonable costs” means the costs confirmed by both parties after negotiations, and “reasonable profit” 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, labor cost, local commodity prices and economic development levels.

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 favorable than those offered by the Company for the same services, and in return, the Company has undertaken to China Telecom that the Company and its subsidiaries shall not provide supplies procurement related comprehensive logistic services to it on terms which are less favorable 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 unless otherwise provided.

The Existing Annual Caps for the service charges receivable by the Company from China Telecom Group under the Original Supplies Procurement Services Framework Agreement for the two years of 2014 and 2015 are RMB5,100 million and RMB5,600 million, respectively. The actual amount for the service charges received by the Company from China Telecom Group under the Original Supplies Procurement Services Framework Agreement for the year ended 31 December 2014 was RMB4,470 million. Based on the Company’s unaudited 2015 interim financial report, the actual amount for the services charges received by the Company from China Telecom Group under the Original Supplies Procurement Services Framework Agreement for the six months ended 30 June 2015 was RMB2,226 million.

The Existing Annual Caps for the service charges payable by the Company to China Telecom Group under the Original Supplies Procurement Services Framework Agreement for the two years of 2014 and 2015 are RMB3,600 million and RMB4,100 million, respectively. The actual amount for the service charges paid by the Company to China

Telecom Group under the Original Supplies Procurement Services Framework Agreement for the year ended 31 December 2014 was RMB2,663 million. Based on the Company's unaudited 2015 interim financial report, the actual amount for the service charges paid by the Company to China Telecom Group under the Original Supplies Procurement Services Framework Agreement for the six months ended 30 June 2015 was RMB1,480 million.

The Directors proposed the New Annual Caps for the services charges receivable by the Company from China Telecom Group under the Supplies Procurement Services Framework Agreement in respect of three years ending 31 December 2016, 2017 and 2018 to be RMB6,700 million, RMB8,100 million and RMB10,000 million, respectively. The Directors proposed the New Annual Caps for the service charges payable by the Company to China Telecom Group under the Supplies Procurement Services Framework Agreement in respect of the three years ending 31 December 2016, 2017 and 2018 to be RMB4,900 million, RMB5,900 million and RMB7,000 million, respectively. The Directors expect that along with the development of mobile Internet and proliferation of mobile terminals including smart phones, the demand of supplies procurement services required by China Telecom Group will increase as a result of its increase of network size and customer base. In determining the New Annual Caps, the Directors have also considered the historical transaction amounts, the Company's estimated demand of supplies procurement services from China Telecom Group and the Company's development plan to actively expand professional logistics business.

As the highest applicable percentage ratio of the proposed New Annual Caps under the Supplies Procurement Services Framework Agreement, calculated on an annual basis, exceeds 5%, the Supplies Procurement Services Framework Agreement together with the proposed New Annual Caps are subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

(3) Reasons and Benefits for Continuing Connected Transactions Between the Company and China Telecom

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 the Original Engineering Framework Agreement, the Original Ancillary Telecommunications Services Framework Agreement, the Original Operation Support Services Framework Agreement, the Original IT Application Services Framework Agreement and the Original Supplies Procurement Services Framework Agreement.

In addition, as part of the pre-IPO reorganization process of the Group, China Telecom Group and the Group leased from each other certain properties essential to their operation under the Original Property Leasing Framework Agreement, and the Group has also been providing to China Telecom certain centralized management services and operation support services in

respect of the businesses and assets retained by China Telecom as governed by the Original Centralized Services Agreement and the Original Operation Support Services Framework Agreement, respectively.

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 enter into the 2015 Agreements and cooperate with China Telecom Group to 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. All the Continuing Connected Transactions have been 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) Information about the Company and China Telecom

The Company is principally engaged in the provision of specialized telecommunications support services to telecommunications operators in the PRC, including telecommunications infrastructure services, business process outsourcing services and applications, content and other services.

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

As at the date of this announcement, China Telecom holds approximately 51.39% of the issued share capital of the Company.

(5) Listing Rules Implications

As of the date of this announcement, China Telecom is a controlling shareholder of the Company, and thus a connected person of the Company as defined under Rule 14A.07 of the Listing Rules. Accordingly, the proposed Revised Annual Caps and the entering into the Continuing Connected Transactions under the 2015 Agreements (together with the proposed New Annual Caps) constitute continuing connected transactions of the Company.

The table below sets out the historical figures, the Existing Annual Caps, the proposed Revised Annual Caps relating to the Original Agreements and the proposed New Annual Caps relating to the 2015 Agreements.

Unit: RMB million

Transactions	Year ended 31 December		Year ending 31 December					
	2014		2015			2016	2017	2018
	Existing Annual Cap	Actual amounts*	Existing Annual Cap	Actual amounts up to 30 June 2015*	Revised Annual Cap	New Annual Cap	New Annual Cap	New Annual Cap
Engineering related services provided to China Telecom Group	17,000	15,582	17,000	8,404	24,000	24,000	24,000	24,000
Ancillary telecommunications services provided to China Telecom Group	10,000	7,548	11,000	3,634	—	12,100	13,300	15,600
Operation support services provided to/by China Telecom Group								
Revenue	2,900	2,402	3,000	895	—	3,200	3,400	3,600
Expenditure	650	644	650	254	800	900	1,000	1,100
IT application services provided to/by China Telecom Group								
Revenue	2,100	1,848	2,300	605	—	2,500	2,700	2,900
Expenditure	460	239	490	119	—	490	490	490
Centralized services provided to China Telecom Group	410	286	420	111	—	430	440	450
Property leasing provided to/by China Telecom Group								
Revenue	166	97	166	78	—	200	210	220
Expenditure	170	153	180	63	—	200	220	240
Supplies procurement services provided to/by China Telecom Group								
Revenue	5,100	4,470	5,600	2,226	—	6,700	8,100	10,000
Expenditure	3,600	2,663	4,100	1,480	—	4,900	5,900	7,000

Note: The actual amounts for the year ended 31 December 2014 are from 2014 annual report and the actual amounts for the six months ended 30 June 2015 are from the unaudited 2015 interim financial report.

As far as the Company is aware, none of the Existing Annual Caps has been exceeded as at the date of this announcement. The Board is of the view that the proposed Revised Annual Caps and the proposed New Annual Caps above would not hinder the ability of the Group to conduct its business in the ordinary and usual course and allow the Group to benefit from future growth.

As each of the highest applicable percentage ratios of the proposed Revised Annual Caps and the proposed New Annual Caps for each of the Non-exempt Continuing Connected Transactions, on an annual basis, exceeds 5%, the proposed Revised Annual Caps and the Non-exempt Continuing Connected Transactions (together with the proposed New Annual Caps thereof) are subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Board (excluding the members of the Independent Board Committee, the opinion of which is included in the circular to be dispatched to the Shareholders as soon as practicable after publication of this announcement) is of the opinion that the Non-exempt Continuing Connected Transactions have been entered into, and will be carried out, in the ordinary and usual course of business of the Group and on normal commercial terms which are fair and reasonable and in the interests of the Shareholders as a whole, and that the proposed Revised Annual Caps and the proposed New Annual Caps for the Non-exempt Continuing Connected Transactions are fair and reasonable.

As the highest applicable percentage ratios of the proposed New Annual Caps for each of the Centralized Services Agreement and the Property Leasing Framework Agreement, on an annual basis, is more than 0.1% but less than 5%, the Centralized Services Agreement, the Property Leasing Framework Agreement and the proposed New Annual Caps thereof are subject to the reporting and announcement requirements, but exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

The Directors (including the independent non-executive Directors) are of the opinion that the Centralized Services Agreement and the Property Leasing Framework Agreement have been entered into, and will be carried out, in the ordinary and usual course of business of the Group and on normal commercial terms which are fair and reasonable and in the interests of the Shareholders as a whole. The Directors (including the independent non-executive Directors) consider that the proposed New Annual Caps for the Centralized Services Agreement and the Property Leasing Framework Agreement are fair and reasonable.

Due to their positions in China Telecom, Mr. Sun Kangmin and Mr. Si Furong abstained from voting on the resolutions relating to the above matters. Save as mentioned above, the Company confirms that none of the other Directors has any material interests in the proposed Revised Annual Caps, the 2015 Agreements and the proposed New Annual Caps.

China Telecom and its associates, being connected persons to the Company, will abstain from voting at the EGM on the ordinary resolutions to approve the proposed Revised Annual Caps and the Non-exempt Continuing Connected Transactions (together with the proposed New Annual Caps thereof). Any voting by the Independent Shareholders at the EGM will be taken by poll.

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 to comply in full with all applicable requirements set out in Chapter 14A of the Listing Rules upon any further material variation or renewal of the 2015 Agreements.

(6) Other Information

The Independent Board Committee comprising all of the independent non-executive Directors has been formed to advise the Independent Shareholders on the proposed Revised Annual Caps and the Non-exempt Continuing Connected Transactions (together with the proposed New Annual Caps thereof). GF Capital (Hong Kong) Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on the same.

2. GENERAL

A circular containing, among other things, (i) a letter from the Board setting out details of the Continuing Connected Transactions, (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 on or before 22 October 2015.

3. DEFINITIONS

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

“2012 Announcement and Circular”	the announcement and the circular of the Company dated 20 September 2012 and 27 September 2012, in respect of, among other things, the revision of annual caps, the renewal of the Original Agreements and proposed new annual caps
“2012 Supplemental Agreement”	the supplemental agreement between the Company and China Telecom dated 20 September 2012 in respect of, among other things, the renewal of the terms of each of the Original Agreements to 31 December 2015
“2015 Agreements”	the Engineering Framework Agreement, the Ancillary Telecommunications Services Framework Agreement, the Operation Support Services Framework Agreement, the IT Application Services Framework Agreement, the Centralized Services Agreement, the Property Leasing Framework Agreement and the Supplies Procurement Services Framework Agreement entered into between the Company and China Telecom on 29 September 2015

“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 Telecom”	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
“Continuing Connected Transactions”	the connected transactions entered into between a member of the Group and China Telecom and its subsidiaries (excluding the Group) as governed by the 2015 Agreements, details of which are set out in section headed “Continuing Connected Transactions under the 2015 Agreements” in this announcement
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be held on 11 December 2015
“Existing Annual Caps”	the existing annual caps applicable to the continuing connected transactions under each of the Original Agreements for the applicable period ending 31 December 2015, which were approved by the Independent Shareholders (where applicable)
“Group”	the Company and its subsidiaries
“H Share(s)”	overseas listed foreign invested share(s) 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”	an independent board committee, consisting of Mr. Wang Jun, Mr. Zhao Chunjun, Mr. Siu Wai Keung, Francis, Mr. Lv Tingjie and Mr. Wu Taishi who are independent non-executive Directors, which has been formed to advise the Independent Shareholders on the proposed Revised Annual Caps and the Non-exempt Continuing Connected Transactions (together with the proposed New Annual Caps thereof)
“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 Telecom and its associates
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“New Annual Caps”	the new annual caps proposed for the Continuing Connected Transactions under each of the 2015 Agreements for the three years ending 31 December 2016, 2017 and 2018, where applicable, the Independent Shareholders’ approval of which will be sought at the EGM
“Non-exempt Continuing Connected Transactions”	the Continuing Connected Transactions under the 2015 Agreements other than those under the Centralized Services Agreement and the Property Leasing Framework Agreement
“Original Agreements”	the Original Engineering Framework Agreement, the Original Ancillary Telecommunications Services Framework Agreement, the Original Operation Support Services Framework Agreement, the Original IT Application Services Framework Agreement, the Original Centralized Services Agreement and the Original Property Leasing Framework Agreement first entered into between the Company and China Telecom on 16 November 2006 (as amended or supplemented from time to time), as well as the Original Supplies Procurement Services Framework Agreement entered into between the Company and China Telecom on 29 October 2009 (as amended or supplemented from time to time)

“Revised Annual Caps”	the revised annual caps proposed for the service charges receivable by the Company from China Telecom Group under the Original Engineering Framework Agreement and the service charges payable by the Company to China Telecom Group under the Original Operation Support Services Framework Agreement for the year ending 31 December 2015, the 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

By Order of the Board
China Communications Services Corporation Limited
Sun Kangmin
Chairman

Beijing, the PRC, 29 September 2015

As at the date of this announcement, our executive directors are Mr. Sun Kangmin, Mr. Si Furong, and Ms. Hou Rui, our non-executive directors are Mr. Li Zhengmao and Mr. Zhang Junan, and our independent non-executive directors are Mr. Wang Jun, Mr. Zhao Chunjun, Mr. Siu Wai Keung, Francis, Mr. Lv Tingjie and Mr. Wu Taishi.