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中國通信服務
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

Renewal and Amended Annual Caps of Continuing Connected Transactions

Reference is made to the Prospectus, the 2007 Announcement and the 2007 Circular, in which the Company disclosed, among others, information in relation to the Continuing Connected Transactions between the Group and China Telecommunications Corporation and/or its Associates which are governed by the Agreements.

Each of the Agreements has a current term due to expire on 31 December 2009. Accordingly, the Company now seeks to renew the terms of the Agreements for one year ending 31 December 2010 by way of the 2008 Supplemental Agreement entered into between the Company and China Telecommunications Corporation on 19 September 2008 after trading hours of the Stock Exchange.

The annual values of the Continuing Connected Transactions under the Agreements are subject to annual caps. The Existing Annual Caps of the Continuing Connected Transactions (other than the Property Leasing Framework Agreement) in respect of the three years ending 31 December 2009 were approved by the Independent Shareholders at an extraordinary general meeting of the Company held on 7 August 2007.

The Directors have been closely monitoring the Continuing Connected Transactions. Based on internal estimates, the Directors consider that the Existing Annual Caps for the year 2008 and 2009 for certain categories of the Continuing Connected Transactions 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

China Telecommunications Corporation is a substantial shareholder of, and currently holds approximately 65.47% of the issued share capital of the Company. Accordingly, the renewal of the Continuing Connected Transactions by way of the 2008 Supplemental Agreement constitutes a connected transaction of the Company under the Listing Rules.

Each of the applicable percentage ratios under Chapter 14A of the Listing Rules for the forecast annual values for the Continuing Connected Transactions (other than the transactions under the Centralized Services Agreement and the Property Leasing Framework Agreement) exceeds 2.5%. Accordingly, the renewal of the Agreements (other than the Centralized Services Agreement and Property Leasing Framework Agreement) by way of the 2008 Supplemental Agreement and the Proposed New Annual Caps of the Non-exempt Connected Transactions are subject to the reporting, announcement and independent shareholders' approval requirements as prescribed under Chapter 14A of the Listing Rules. Such approval by Independent Shareholders will be sought at the EGM at which China Telecommunications Corporation and its Associates will abstain from voting.

Each of the applicable percentage ratios under Chapter 14A of the Listing Rules for the forecast annual values of the transactions under the Centralized Services Agreement and the Property Leasing Framework Agreement is more than 0.1% but less than 2.5%. Accordingly, the renewal of the Centralized Services Agreement and the Property Leasing Framework Agreement and the Proposed New Annual Caps in respect of them will be subject to the reporting and announcement requirement, but exempt from the independent shareholders' approval requirements.

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 terms of the 2008 Supplemental Agreement and the Proposed New Annual Caps for the Non-exempt Connected Transactions. An independent financial adviser will be appointed 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 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 as soon as practicable.

1. BACKGROUND

Reference is made to the Prospectus, the 2007 Announcement and the 2007 Circular, in which the Company disclosed, among others, information in relation to the Continuing Connected Transactions between the Group and China Telecommunications Corporation and/or its Associates which are governed by the following Agreements:

- (1) Engineering Framework Agreement;
- (2) Ancillary Telecommunications Services Framework Agreement;
- (3) Operation Support Services Framework Agreement;
- (4) IT Application Services Framework Agreement;
- (5) Centralized Services Agreement; and
- (6) Property Leasing Framework Agreement.

Details of the transactions under the Agreements are set out in section 2 of this Announcement.

All of the Agreements were entered into between the Company and China Telecommunications Corporation on 16 November 2006 prior to the IPO, each with an initial term ending on 31 December 2008. In connection with the Retained Businesses Acquisition by the Company in 2007, the Agreements were amended by way of the 2007 Supplemental Agreement, pursuant to which the terms of the Agreements were renewed for one year to 31 December 2009. Both the 2007 Supplemental Agreement and the Existing Annual Caps for the Non-exempt Connected Transactions for the three years ending on 31 December 2009 were duly approved by the Independent Shareholders at an extraordinary general meeting of the Company held on 7 August 2007.

As the existing terms of the Agreements are due to expire on 31 December 2009, the Company entered into the 2008 Supplemental Agreement on 19 September 2008 after trading hours of the Stock Exchange to extend the term of each of the Agreements by one year to 31 December 2010. The terms of each Agreement remained unchanged.

Furthermore, with the continued development and expansion of the business of the Group, and based on our internal estimates of the demand by China Telecom Group for our relevant services under the Agreements following completion of its CDMA Acquisitions from China Unicom and the operating conditions of these Continuing Connected Transactions, the Directors note that the Existing Annual Caps in respect of certain categories of the Continuing Connected Transaction under the Agreements will not be sufficient for the Group's current requirements, and therefore propose that the relevant Existing Annual Caps be amended as set out in this Announcement.

2. CONTINUING CONNECTED TRANSACTIONS UNDER THE AGREEMENTS

Details of the transactions under the Agreements (as amended by the 2007 Supplemental Agreement) are set out below.

(a) Engineering Framework Agreement

Pursuant to the Engineering Framework Agreement, 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 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 current term of the Engineering Framework Agreement will expire on 31 December 2009, automatically renewable for further periods of no more than three years (subject to shareholders' approval, if applicable) unless terminated earlier by either party with three months' prior written notice. The Company has entered into the 2008 Supplemental Agreement to extend the current term of the Engineering Framework Agreement to 31 December 2010.

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 must be subject to a tender process (with a minimum of three parties tendering

bids). The Company is to 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 payment for engineering related services provided by us 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 Cap for the service charges receivable by the Company from China Telecom Group under the Engineering Framework Agreement for the three years ending 31 December 2009 is RMB8,000 million. The total service charges received by the Company from China Telecom Group under the Engineering Framework Agreement for the two years ended 31 December 2006 (as restated in respect of the Retained Businesses Acquisition by the Group) and 2007, amounted to RMB6,380 million and RMB6,180 million, respectively. Based on the Company's management accounts, the total service charges received by the Company from China Telecom Group for engineering related services for the six months ended 30 June 2008 amounted to RMB2,529 million.

Based on the nature of the engineering related services, the historical level of services required by China Telecom Group, the existing scale of China Telecom Listco's capital expenditure on fixed-line telecommunications networks, and the estimated extent of engineering related services required by China Telecom Group in connection with the CDMA network to be acquired by it, the total amount receivable by the Company from China Telecom Group for the provision of engineering related services under the Engineering Framework Agreement for the year ending 31 December 2008 is estimated to be no more than approximately RMB9,500 million, and for the two years ending 31 December 2010 is estimated to be no more than approximately RMB12,500 million. Accordingly, the proposed amended annual caps for this connected transaction for the two years ending 31 December 2009 have been set at RMB9,500 million and RMB12,500 million, respectively, and the proposed annual cap for the year ending 31 December 2010 has been set at RMB12,500 million.

The increased transaction amount for the engineering related services is a result of (i) the increased demand for our services subsequent to the expected completion of the CDMA network acquisition by China Telecommunications Corporation in the second half of the year 2008; and (ii) the increased amount of engineering related services provided by us following our acquisition of CITCC in April 2008 (details of such acquisition are set out in the announcement of the Company dated 3 April 2008). The above factors are expected to lead to an annual transaction amount which would exceed the Existing Annual Cap and hence the proposed amended annual cap for the year ending 31 December 2008 has been increased. The Company has been closely monitoring this connected transaction and, based on an estimation of the progress of contract performance and the materialization of the above factors, we expect that the Existing Annual Cap (of RMB8,000 million) for the transaction amount under the Engineering Framework Agreement for the year ending 31 December 2008 will not be exceeded before approval has been obtained from the Independent Shareholders for the proposed amended annual cap at the proposed EGM.

The proposed amended annual cap for the year ending 31 December 2009 and the proposed annual cap for the year ending 31 December 2010 have been substantially increased further as a result of the expected substantial increase in the demand for our engineering services by China Telecommunications Corporation in connection with the construction, re-configuration, and upgrade of the CDMA network following completion of the CDMA Acquisitions.

In view of the forecast annual values, 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. Accordingly, Independent Shareholders' approval for the renewal of this agreement and the Proposed New Annual Caps for this connected transaction is sought.

(b) Ancillary Telecommunications Services Framework Agreement

Pursuant to the Ancillary Telecommunications Services Framework Agreement, the Company has 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 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 2007 Supplemental Agreement amended the Ancillary Telecommunications Services Framework Agreement to include the provision of comprehensive logistics services to China Telecom Group, which include purchase agency, warehousing, transportation, delivery, testing and inspection, logistics information management and distribution. 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 current term of the Ancillary Telecommunications Services Framework Agreement will expire on 31 December 2009, automatically renewable for further periods of no more than three years (subject to shareholders' approval, if applicable) unless terminated earlier by either party with three months' prior written notice. The Company has entered into the 2008 Supplemental Agreement to extend the current term of the Ancillary Telecommunications Services Framework Agreement to 31 December 2010.

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 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 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. 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 Cap for the service charges receivable by the Company from China Telecom Group under the Ancillary Telecommunications Services Framework Agreement for the three years ending 31 December 2009 is RMB3,660 million. The total service charges received by the Company from China Telecom Group under the Ancillary Telecommunications Services Framework Agreement for the two years ended 31 December 2006 (as restated in respect of the Retained Businesses Acquisition by the Group) and 2007 amounted to RMB2,466 million and RMB3,125 million, respectively. Based on the Company’s management accounts, the total service charges received by the Company from China Telecom Group for the Ancillary Telecommunications Services for the six months ended 30 June 2008 amounted to RMB2,256 million, accounting for more than 60% of the Existing Annual Cap for the year 2008.

Based on the historical service charges received, the operation and growth conditions of this connected transaction, and the estimated extent of the Ancillary Telecommunications Services required by China Telecom Group in connection with the provision of mobile telecommunications services following completion of its CDMA Acquisitions, the total annual amount receivable by the Company from China Telecom Group for our provision of the Ancillary Telecommunications Services under the Ancillary Telecommunications Services Framework Agreement for the year ending 31 December 2008 and for the two years ending 31 December 2010 are estimated to be no more than approximately RMB4,700 million and RMB6,700 million, respectively. Accordingly, the proposed amended annual caps for this connected transaction for the two years ending 31 December 2009 have been set at RMB4,700 million and RMB6,700 million, respectively, and the proposed annual cap for the year ending 31 December 2010 has been set at RMB6,700 million.

The increased transaction amount for the Ancillary Telecommunications Services is a result of (i) the rapid growth of our revenue from provision of the Ancillary Telecommunications Services to China Telecom Group; (ii) the increased demand for the Ancillary Telecommunications Services by China Telecom Group subsequent to the expected completion of the CDMA Acquisitions; (iii) China Telecom Group's implementation of its strategy to further outsource the telecommunications related repair and maintenance service requirements; and (iv) the additional repair works required by China Telecom Group's for ancillary telecommunications facilities damaged in the snowstorm and earthquake which occurred in the PRC in February and May 2008, respectively. The above factors are expected to lead to an annual transaction amount which will exceed the Existing Annual Cap for the year 2008 and hence the proposed amended annual cap for the year ending 31 December 2008 has been increased. The Company has been closely monitoring this connected transaction and, based on an estimation of the progress of contract performance and the materialization of the above factors, we expect that the Existing Annual Cap (of RMB3,660 million) for the service charges receivable by the Group under the Ancillary Telecommunications Services Framework Agreement for the year ending 31 December 2008 will not be exceeded before approval from the Independent Shareholders for the proposed amended annual cap has been obtained at the proposed EGM.

The proposed amended annual cap for the year ending 31 December 2009 and the proposed annual cap for the year ending 31 December 2010 have been substantially increased further as a result of the expected substantial increase in China Telecom Group's demand for our Ancillary Telecommunications Services in connection with enhancing China Telecom Group's market competitiveness in the mobile communications sector following completion of the CDMA Acquisitions and the further expansion of China Telecom Group's outsourcing strategy.

In view of the forecast annual values, 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. Accordingly, Independent Shareholders' approval for the renewal of this agreement and the Proposed New Annual Caps for this connected transaction is sought.

(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 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 to China Telecom Group. Under the same agreement, China Telecom Group agreed to provide operation support services such as logistics services, warehousing, medical care, food and beverages, educational, hotel and travelling services, labor services and so on to us. 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.

The current term of the Operation Support Services Framework Agreement will expire on 31 December 2009, automatically renewable for further periods of no more than three years (subject to shareholders' approval, if applicable) unless terminated earlier by either party with three months' prior written notice. The Company has entered into the 2008 Supplemental Agreement to extend the current term of the Operation Support Services Framework Agreement to 31 December 2010.

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. 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.

The Existing Annual Cap for the service charges receivable by the Company from China Telecom Group under the Operation Support Services Framework Agreement for the three years ending 31 December 2009 is RMB1,750 million. The total service charges received by the Company from China Telecom Group under the Operation Support Services Framework Agreement for the two years ended 31 December 2006 (as restated in respect of the Retained Businesses Acquisition by the Group) and 2007 amounted to RMB1,301 million and RMB1,528 million, respectively. Based on the Company's management accounts, the total service charges received by the Company from China Telecom Group under the Operation Support Services Framework Agreement for the six months ended 30 June 2008 amounted to RMB735 million.

Based on the historical service charges received by the Group and the estimated extent of operation support services required by China Telecom Group in connection with the provision of mobile telecommunications services following completion of the CDMA Acquisitions, the total annual amount of service charges receivable by the Company from China Telecom Group under the Operation Support Services Framework Agreement for the three years ending 31 December 2010 is estimated to be no more than approximately RMB1,910 million, respectively. Accordingly, the proposed amended annual caps for this connected transaction for the two years ending 31 December 2009 and the proposed annual cap for the year ending 31 December 2010 have been set at RMB1,910 million, respectively.

The increased demand for our services under the Operation Support Services Framework Agreement is a result of (i) the increased demand for relevant operation support services by China Telecom Group following completion of the CDMA Acquisitions; and, to a lesser extent, (ii) China Telecom Group's implementation of its strategy to further outsource operation support services required in order to further enhance operation efficiency. The above factors are expected to lead to an annual amount of service charges receivable by the Group which will exceed the Existing Annual Cap and hence the proposed amended annual cap for the year ending 31 December 2008 has been increased. The Company has been closely monitoring this connected transaction and, based on an estimation of the progress of contract performance and the materialization of the above factors, expects that the Existing Annual Cap (of RMB1,750 million) for the service charges receivable under the Operation Support Services Framework Agreement for the year ending 31 December 2008 will not be exceeded before approval from the Independent Shareholders for the proposed amended annual cap has been obtained.

The Existing Annual Cap for the service charges payable by the Company to China Telecom Group under the Operation Support Services Framework Agreement for the three years ending 31 December 2009 is RMB260 million. The total service charges paid by the Company to China Telecom Group under the Operation Support Services Framework Agreement for the two years ended 31 December 2006 (as restated in respect of the Retained Businesses Acquisition by the Group) and 2007 amounted to RMB190 million and RMB246 million, respectively. Based on the Company's management accounts, the total service charges paid by the Company to China Telecom Group for the operation support services received under the Operation Support Services Framework Agreement for the six months ended 30 June 2008 amounted to RMB188 million, accounting for more than 70% of the Existing Annual Cap.

Based on the nature of the operation support services received, the historical service charges paid and the estimated increase of market rate for such services, the Company proposes to increase the Existing Annual Caps for the two years ending 31 December 2009 to RMB470 million, and set the same amount as the proposed annual cap for the year ending 31 December 2010.

The increase in the amount of service charges payable was mainly attributable to the increase of market rates for the services provided to us under this agreement such as the logistics services, warehousing, medical care, food and beverages, educational, hotel and travelling services, and labour services. The Company expects that the annual amount of service charges payable by us under the Operation Support Services Framework Agreement will exceed the existing annual cap.

The Company has been closely monitoring this connected transaction and, based on an estimation of the progress of contract performance and the materialization of the above factors, and we expect that the Existing Annual Cap (of RMB260 million) for the service charges payable under the Operation Support Services Framework Agreement for the year ending 31 December 2008 will not be exceeded before approval from the Independent Shareholders for the proposed amended annual cap has been obtained at the proposed EGM.

In view of the forecast annual values, 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. Accordingly, Independent Shareholders' approval for the renewal of this agreement and the Proposed New Annual Caps for this connected transaction is sought.

(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 the IT Application Services Framework 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 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 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 current term of the IT Application Services Framework Agreement will expire on 31 December 2009, automatically renewable for further periods of no more than three years (subject to shareholders' approval, if applicable) unless terminated earlier by either party with three months' prior written notice. The Company has entered into the 2008 Supplemental Agreement to extend the current term of the IT Application Services Framework Agreement to 31 December 2010.

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. Subject to the terms and conditions set out above, the payment for the IT applications 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 Cap for the service charges receivable by the Company from China Telecom Group under the IT Application Services Framework Agreement for the three years ending 31 December 2009 is RMB700 million. The total service charges received by the Company from China Telecom Group under the IT Applications Services Framework Agreement for the two years ended 31 December 2006 (as restated in respect of the Retained Businesses Acquisition by the Group) and 2007 amounted to RMB252 million and RMB649 million, respectively. Based on the Company's management accounts, the total service charges received by the Company from China Telecom Group for the IT application services under the IT Application Services Framework Agreement for the six months ended 30 June 2008 amounted to RMB160 million.

Based on the historical service charges received, the current growth and operation conditions of this connected transaction and the estimated level of IT application services required by China Telecom Group under the IT Application Services Framework Agreement, the total amount of service charges receivable by the Company from China Telecom Group for our provision of IT application services for the three years ending 31 December 2010 is estimated to be no more than approximately RMB1,000 million, RMB1,300 million and RMB1,600 million, respectively. Accordingly, the proposed amended annual caps for the service charges receivable under the IT Applications Services Framework Agreement for the two years ending 31 December 2009 have been set at RMB1,000 million and RMB1,300 million, respectively, and the proposed annual cap for the year ending 31 December 2010 has been set at RMB1,600 million.

The increased demand for our IT application services is a result of (i) China Telecom Group subcontracting its contracts obtained from clients for IT application services such as software and hardware development, system integration services and other related IT services; (ii) IT application services required by China Telecom Group to develop its own operation software and hardware platforms (such as MSS, BSS and OSS); and (iii) the Group's focus on further developing our applications, contents and technology services business in general. The Company expects that the above factors will lead to an annual amount of service charges receivable which will exceed the Existing Annual Cap and hence the proposed amended annual cap for the year ending 31 December 2008 has been increased. The Company has been closely monitoring this connected transaction and, based on an estimation of the progress of contract performance and the materialization of the above factors, we expect that the Existing Annual Cap (of RMB700 million) for the service charges receivable under the IT Application Services Framework Agreement for the year ending 31 December 2008 will not be exceeded before approval from the Independent Shareholders for the proposed amended annual cap has been obtained at the proposed EGM.

The Existing Annual Cap for the service charges payable by the Company to China Telecom Group under the IT Application Services Framework Agreement for the three years ending 31 December 2009 is RMB210 million. The total service charges paid by the Company to China Telecom Group under the IT Application Services Framework Agreement for the two years ended 31 December 2006 (as restated in respect of the Retained Businesses Acquisition by the Group) and 2007 amounted to RMB183 million and RMB182 million, respectively. Based on the Company's management accounts, the total service charges paid by the Company to China Telecom Group for the IT application services received under the IT Application Services Framework Agreement for the six months ended 30 June 2008 amounted to RMB85 million.

Based on the historical amount of service charges payable to China Telecom Group for IT application services received by the Group, the increase in the Group's demand for IT application services following the Company's acquisition of CITCC, and the Group's increased demand for telecommunications services such as voice and data value added services and broadband internet access in order to improve our overall information technology system to achieve operation efficiency, the Company expects that the annual amount of expenditure under the IT Application Services Framework Agreement will exceed the Existing Annual Cap and hence proposes to increase the Existing Annual Cap for the two years ending 31 December 2009 to RMB230 million and set the same amount as the proposed annual cap for the year ending 31 December 2010.

The Company has been closely monitoring this connected transaction and, based on an estimation of the progress of contract performance and the materialization of the above factors, we expect that the Existing Annual Cap (of RMB210 million) for service charges payable under the IT Application Services Framework Agreement for the year ending 31 December 2008 will not be exceeded before approval from the Independent Shareholders for the proposed amended annual cap has been obtained at the proposed EGM.

In view of the forecast annual values, 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. Accordingly, Independent Shareholders' approval for the renewal of this agreement and the Proposed New Annual Caps for this connected transaction is sought.

(e) Centralized Services Agreement

The current terms of the Centralized Services Agreement will expire on 31 December 2009, automatically renewable for further periods of no more than three years (subject to shareholders' approval, if applicable) unless terminated earlier by either party with three months' prior written notice. The Company has entered into the 2008 Supplemental Agreement to extend the current term of the Centralized Services Agreement to 31 December 2010. 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 headquarters management function to manage assets of China Telecommunications Corporation'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 Original Service Areas of the Group; and
2. the provincial headquarters management function to manage remaining assets of China Telecommunications Corporation in the Original Service Areas of the Group.

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 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. Settlement of such reimbursement between us and China Telecom Group has been made every three months unless the parties agree otherwise.

The Existing Annual Cap for the management fee income (in the form of reimbursed apportioned cost received) of the Group for the centralized services provided to China Telecom Group under the Centralized Services Agreement for the three years ending 31 December 2009 is RMB350 million. The total management fee income received by the Company from China Telecom Group for the two years ended 31 December 2006 and 2007 amounted to RMB45 million and RMB139 million, respectively. Based on the Company's management accounts, the management fee received by the Company under the Centralized Services Agreement for the six months ended 30 June 2008 amounted to RMB90 million. The Company expects that the future management fee income under the Centralized Services Agreement will remain stable and hence proposes to set the proposed annual cap for the year ending 31 December 2010 at the same level of the Existing Annual Cap, being RMB350 million.

In view of the forecast annual values, the transactions under the Centralized Services Agreement are continuing connected transactions on normal commercial terms subject to the reporting, announcement requirements, but exempt from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules as the applicable percentage ratios under the Listing Rules are expected on an annual basis to be more than 0.1% but less than 2.5%. As such, the renewal of the term of this agreement and the Proposed New Annual Cap for the transactions thereunder are not subject to Independent Shareholders' approval.

(f) Property Leasing Framework Agreement

The Property Leasing Framework Agreement governs the arrangements with respect to mutual leasing of properties between the Group and China Telecom Group. China Telecom Group currently lease from the Company and its subsidiaries certain properties use as business premises, offices, equipment storage facilities and sites for network equipment. The Company and its subsidiaries also lease from the 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 current terms of the Property Leasing Framework Agreement will expire on 31 December 2009, automatically renewable for further periods of no more than three years (subject to shareholders' approval, if applicable) unless terminated earlier by either party with three months' prior written notice. The Company has entered into a 2008 Supplemental Agreement to extend the current term of the Property Leasing Framework Agreement to 31 December 2010. 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 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 Cap for the Group's revenue from property leasing to China Telecom Group for the three years ending 31 December 2009 is RMB76 million. The revenue for transactions under the Property Leasing Framework Agreement for the two years ended 31 December 2006 (as restated in respect of the Retained Businesses Acquisition by the Group) and 2007 amounted to RMB50 million and RMB52 million, respectively. Based on the Company's management accounts, the revenue under the Property Leasing Framework Agreement received by the Group for the six months ended 30 June 2008 amounted to RMB32 million. The Company expects that the future revenue from property leasing under the Property Leasing Framework Agreement will remain stable in the next three years and hence proposes to set the proposed annual cap for the year ending 31 December 2010 at the same level of the Existing Annual Cap, being RMB76 million.

The Existing Annual Cap for the Group's expenditure on property leasing under the Property Leasing Framework Agreement for the three years ending 31 December 2009 is RMB106.5 million. The Group's annual expenditure for property leasing under the Property Leasing Framework Agreement for the two years ended 31 December 2006 (as restated in respect of the Retained Businesses Acquisition by the Group) and 2007 amounted to RMB56 million and RMB94 million, respectively. Based on the Company's management accounts, the expenditure of the Group under the Property Leasing Framework Agreement for the six months ended 30 June 2008 amounted to RMB45 million. The Company expects that the Group's expenditure for property leasing under the Property Leasing Framework Agreement will grow as a result of our need for more properties for uses such as offices, distribution premises and warehouses to provide comprehensive logistics services in connection with the procurement, warehousing and distribution of CDMA mobile telecommunications related equipment and end-user products following completion of the CDMA Acquisitions by China Telecom Group, and the Company expects that the Group's expenditure for property leasing under the Property Leasing Framework Agreement for the year ending 31 December 2008 will exceed the Existing Annual Cap and hence proposes to increase the Existing Annual Caps for the two years ending 31 December 2009 to, and set the proposed annual cap for the year ending 31 December 2010 at, RMB120 million, respectively.

In view of the forecast annual values, the transactions under the Property Leasing Framework Agreement are continuing connected transactions on normal commercial terms subject to the reporting and announcement requirements but exempt from the independent shareholders' approval under Chapter 14A of the Listing Rules as the applicable percentage ratios under 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 current term of this agreement and the Proposed New Annual Caps for this connected transaction are not subject to the approval of the Independent Shareholders.

3. REASONS AND BENEFITS FOR TRANSACTIONS UNDER THE AGREEMENTS

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

In addition, as part of the pre-IPO reorganisation process of the Group, China Telecom Group and the Group leased from each other certain properties essential to their operation under the Property Leasing Framework Agreement, and the Group has also been providing to China Telecommunications Corporation certain centralized management services and operation support services in respect of the businesses and assets retained by China Telecommunications Corporation as governed by Centralized Services Agreement and the Operation Support Services Framework Agreement respectively.

The Board considers that it is in the interest of the Company to continue with the Continuing Connected Transactions under the Agreements in order to benefit the Company's future growth and development, as they would provide a stable revenue source from one of the largest telecommunications operators in the PRC, and all the Continuing Connected Transactions were 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 its Shareholders as a whole.

4. INFORMATION ABOUT THE COMPANY AND CHINA TELECOMMUNICATIONS CORPORATION

The Company is engaged in the investment holding of companies primarily involved 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 of the Latest Practicable Date, China Telecommunications Corporation directly and indirectly owned 65.47% of the Company's issued share capital.

5. HONG KONG LISTING RULE APPLICATIONS

As of the Latest Practicable Date, China Telecommunications Corporation directly and indirectly owns and is entitled to exercise control of 65.47% 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. Accordingly, the proposed renewal of the terms of the Agreements by way of the 2008 Supplemental Agreement and the Proposed New Annual Caps constitute continuing connected transactions of the Company.

Under Rule 14A.35(2) of the Listing Rules, in respect of a continuing connected transaction which is not fully exempted from the reporting, announcement and independent shareholders' approval requirements, an annual cap must be set and disclosed. As far as the Company is aware, none of the Existing Annual Caps has been exceeded as at the date of this Announcement.

The table below summarized the Existing Annual Caps for the Continuing Connected Transactions for the year 2008 and 2009 and the Proposed New Annual Caps for the year 2008 to 2010.

Transactions	Existing Annual Caps		Proposed New Annual Caps		
	2008	2009	2008	2009	2010
			<i>(RMB in million)</i>		
1. Engineering Framework Agreement	Revenue	8,000	8,000	9,500	12,500
2. Ancillary Telecommunications Services Framework Agreement	Revenue	3,660	3,660	4,700	6,700
3. Operation Support Services Framework Agreement	Revenue	1,750	1,750	1,910	1,910
	Expenditure	260	260	470	470
4. IT Application Services Framework Agreement	Revenue	700	700	1,000	1,300
	Expenditure	210	210	230	230
5. Centralized Services Agreement	Reimbursed apportioned cost	350	350	350 ⁽¹⁾	350 ⁽¹⁾
6. Property Leasing Framework Agreement	Revenue	76	76	76 ⁽¹⁾	76 ⁽¹⁾
	Expenditure	106.5	106.5	120	120

⁽¹⁾ Existing Annual Caps in respect of the relevant Continuing Connected Transactions.

The Board is of the view that the Proposed New Annual Caps above are set so as to 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.

Each of the percentage ratios (other than the profits ratio) under Chapter 14A of the Listing Rules for the Continuing Connected Transactions under each of the Agreements (other than the Centralized Services Agreement and the Property Leasing Agreement) is on an annual basis higher than 2.5%. As such, the 2008 Supplemental Agreement as well as the Proposed New Annual Caps for the Non-exempt Connected Transactions are subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. The Centralized Services Agreement and the Property Leasing Framework Agreement are subject to the reporting and announcement requirements but exempt from the Independent Shareholders' approval requirement.

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 after publication of this Announcement) are of the opinion that the 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 so far as the interests of the Shareholders are concerned. The Directors consider that the Proposed New Annual Caps for the Continuing Connected Transactions are fair and reasonable. There are no prior transactions of the Group with China Telecommunications Corporation and/or its Associates which require aggregation under Rule 14A.25 of the Listing Rules.

China Telecommunications Corporation and its Associates being connected persons to the Company, will abstain from voting at the EGM on the ordinary resolutions to approve the terms of 2008 Supplement Agreement and the Proposed New Annual Caps for the Non-exempt Connected Transactions. 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 2008 Supplemental Agreement and the Proposed New 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 agreements, the Company will comply in full with all applicable requirements set out in Chapter 14A of the Listing Rules.

6. FURTHER INFORMATION

An Independent Board Committee has been established to advise the Independent Shareholders in respect of the terms of the Non-exempt Connected Transactions. An independent financial adviser will be retained to advise the Independent Board Committee and Independent Shareholders in respect of the terms of the 2008 Supplemental Agreement and the Proposed New Annual Caps for the Non-exempt Connected Transactions.

A circular containing, amongst other things, details of the Continuing Connected Transactions, letters from the Independent Board Committee and from the independent financial adviser, and a notice to Shareholders convening the EGM to approve, amongst other things, the renewal of the terms of the Agreements (other than the renewal of the Centralized Services Agreement and the Property Leasing Framework Agreement) pursuant to the 2008 Supplemental Agreement and the Proposed New Annual Caps for the Non-exempt Connected Transactions will be dispatched to the Shareholders as soon as practicable after the publication of this Announcement.

7. DEFINITIONS

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

“2007 Announcement” the announcement of the Company dated 15 June 2007 in respect of, among others, the Retained Businesses Acquisition and certain continuing connected transactions with China Telecommunications Corporation and/or its Associates

“2007 Circular”	the circular of the Company dated 20 June 2007 in respect of, among others, the Retained Businesses Acquisition and certain continuing connected transactions with China Telecommunications Corporation and/or its Associates
“2007 Supplemental Agreement”	the supplemental agreement between the Company and China Telecommunications Corporation dated 15 June 2007 to, among others, renew the terms of each of the Agreements to 31 December 2009
“2008 Supplemental Agreement”	the supplemental agreement between the Company and China Telecommunications Corporation dated 19 September 2008 to renew the terms of each of the Agreements to 31 December 2010
“Agreements”	means 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 entered into between the Company and China Telecommunications Corporation on 16 November 2006 prior to the IPO, as amended or supplemented from time to time. Details of the Agreements are set out in section 2 of this Announcement headed “Continuing Connected Transaction under the Agreements”
“Associate(s)”	has the meaning given to it by the Listing Rules
“Board”	the board of directors of the Company
“CDMA”	Code Division Multiple Access Technology, which is a digital transmission technology that accommodates higher throughput by using various coding sequences to mix and separate voice and data signals for wireless communication, including all upgrades to such technology from time to time
“CDMA Acquisitions”	China Telecom Listco’s acquisition of the CDMA business from China Unicom Limited and China Telecommunications Corporation’s acquisition of the CDMA network from China Unicom. Details of the acquisitions are set out in the announcements of China Telecom Listco dated 2 June 2008 and 28 July 2008
“CDMA business”	the business of providing, operating or marketing the provision of CDMA telecommunications business operated by China Unicom which is proposed to be acquired by China Telecom Listco Group
“CDMA network”	the CDMA cellular telecommunications network constructed by China Unicom which is proposed to be acquired by China Telecommunications Corporation

“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, including China Telecom Listco Group but excluding the 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)
“China Unicom Limited”	a subsidiary of China Unicom, a company whose shares are listed on the Stock Exchange
“CITCC”	China International Telecommunications Construction Corporation (中國通信建設集團有限公司), the entire entity of which was acquired by the Company by way of an equity transfer agreement dated 3 April 2008
“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
“Continuing Connected Transactions”	the connected transactions entered into between a member of the Group and China Telecommunications Corporation and its subsidiaries (excluding the Group) as governed by the Agreements, details of which are set out in section 2 of this Announcement headed “Continuing Connected Transactions under the Agreements”
“Directors”	the directors of the Company
“Existing Annual Cap(s)”	the existing annual caps applicable to the Continuing Connected Transactions under each of the Agreements for the three years ending on 31 December 2009, which were announced in the 2007 Announcement and (in respect of the Non-exempt Connected Transactions and the Centralized Services Agreement) approved by the Independent Shareholders on 7 August 2007
“Extraordinary General Meeting” or “EGM”	the extraordinary general meeting of the Company to be convened on 14 November 2008

“Group” or “we”	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 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 2008 Supplemental Agreement and the Proposed New Annual Caps for the Non-exempt Connected Transactions
“Independent Shareholders”	Shareholders other than China Telecommunications Corporation and its Associates
“IPO”	the initial public offering of the Company in 2006 which comprises an international offering and a Hong Kong public offering
“Latest Practicable Date”	16 September 2008, being the latest practicable date prior to the printing of this Announcement for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Non-exempt Connected Transactions”	the Continuing Connected Transactions, excluding transactions under the Centralized Services Agreement and the Property Leasing Framework Agreement
“Original Service Areas”	the principal service regions of the Company within the PRC before completion of Company’s acquisition of CITCC in May 2008, comprising Shanghai municipality and Zhejiang, Fujian, Hubei, Guangdong, Hainan, Jiangsu, Anhui, Jiangxi, Hunan, Sichuan, Guizhou, Yunnan, Shaanxi, Gansu and Qinghai provinces, and Guangxi Zhuang Autonomous Region, Chongqing municipality, and Xinjiang Uygur Autonomous Region
“Proposed New Annual Cap(s)”	in respect of transactions under the Engineering Framework Agreement, the proposed amended annual cap for the two years ending 31 December 2009 and the proposed annual cap for the year ending 31 December 2010; in respect of transactions under the Ancillary Telecommunications Services Framework Agreement, the proposed amended annual cap for the two years ending 31 December 2009 and the proposed annual cap for the year ending 31 December 2010;

in respect of transactions under the Operation Support Services Framework Agreement, the proposed amended annual caps for the two years ending 31 December 2009 and the proposed annual cap for the year ending 31 December 2010;

in respect of transactions under the IT Application Services Framework Agreement, the proposed amended annual cap for the two years ending 31 December 2009 and the proposed annual cap for the year ending 31 December 2010;

in respect of transactions under the Centralized Services Agreement, the proposed annual cap for the year ending 31 December 2010; and

in respect of transactions under the Property Leasing Framework Agreement, the proposed amended annual cap for expenditures under the agreement for the two years ending 31 December 2009; and the proposed annual cap for the year ending 31 December 2010.

Details of the Proposed New Annual Caps are described in section 2, “Continuing Connected Transactions under the Agreements” and summarized in section 5 “Hong Kong Listing Rules Applications” of this Announcement

“Prospectus”	the prospectus dated 27 November 2006 issued by the Company in connection with its Hong Kong public offering
“Retained Businesses Acquisition”	the Company’s acquisition of certain retained specialized telecommunications support businesses from China Telecommunications Corporation. Details of the acquisition were set out in the 2007 Announcement
“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
Li Ping
Chairman

Beijing, PRC, 19 September 2008

As at the date of this announcement, our Chairman and executive director is Mr. Li Ping, our President and executive director is Mr. Zhang Zhiyong, our Executive Vice President, Chief Financial Officer and executive director is Mr. Yuan Jianxing, 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.