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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**

### **Renewal of Continuing Connected Transactions and Proposed New Annual Caps**

Reference is made to the Prospectus, the 2007 Announcement and Circular, the 2008 Announcement and Circular and the 2009 Announcement and Circular, in which the Company set out detailed information in relation to certain continuing connected transactions between the Group and China Telecommunications Corporation and/or its associates which are governed by the Agreements, including 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 and the Property Leasing Framework Agreement (each as amended by the 2007 Supplemental Agreement and the 2008 Supplemental Agreement) as well as the Supplies Procurement Services Framework Agreement.

Each of the Agreements has a current term due to expire on 31 December 2010. Accordingly, the Company now seeks to extend the terms of the Agreements to 31 December 2012 by entering into the 2010 Supplemental Agreement with China Telecommunications Corporation on 9 November 2010 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 for the Engineering Framework Agreement, the Ancillary Telecommunications Services Framework Agreement, the Operation Support Services Framework Agreement and the IT Application Services Framework Agreement in respect of the three years ending 31 December 2010 were approved by the Independent Shareholders at the extraordinary general meeting of the Company convened on 14 November 2008. The Existing Annual Caps for the Supplies Procurement Services Framework Agreement in respect of the two years ending 31 December 2010 were approved by the Independent Shareholders at the extraordinary general meeting of the Company convened on 29 December 2009.

The Directors have been closely monitoring the Continuing Connected Transactions. Based on internal estimates and historical transaction amounts, the Directors propose the New Annual Caps, details of which are set out in this announcement.

### **Listing Rules implications**

As at the Latest Practicable Date, China Telecommunications Corporation holds approximately 52.60% of the issued share capital of the Company. Accordingly, China Telecommunications Corporation is a substantial shareholder of the Company, being a connected person of the Company as defined under Rule 14A.11 of the Listing Rules. As a result, the proposed renewal of the Agreements and the proposed New Annual Caps constitute continuing connected transactions of the Company.

Each of the applicable percentage ratios of the proposed New Annual Caps for the Non-Exempt Connected Transactions, on an annual basis, exceeds 5%. Accordingly, the renewal of the Agreements (other than the Centralized Services Agreement and the Property Leasing Framework Agreement) by way of the 2010 Supplemental Agreement and the proposed New Annual Caps for 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.

Each of the applicable percentage ratios of the proposed New Annual Caps for the Centralized Services Agreement and the Property Leasing Framework Agreement, on an annual basis, is more than 0.1% but less than 5%. Accordingly, the renewal of the Centralized Services Agreement and the Property Leasing Framework Agreement by way of the 2010 Supplemental Agreement and the proposed New Annual Caps therefor will be subject to the reporting and announcement requirements, but exempt from the independent shareholders' approval requirements as prescribed under Chapter 14A of the Listing Rules.

An Independent Board Committee comprising all of the independent non-executive Directors of the Company has been formed to advise the Independent Shareholders on the renewal of the Non-Exempt Connected Transactions together with the proposed New Annual Caps. An independent financial adviser will be appointed to advise the Independent Board Committee and the 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 within 15 business days after the publication of this announcement.

## 1. BACKGROUND

Reference is made to the Prospectus, the 2007 Announcement and Circular, the 2008 Announcement and Circular and the 2009 Announcement and Circular, in which the Company set out detailed information in relation to certain continuing connected transactions between the Group and China Telecommunications Corporation and/or its associates which are governed by the following Agreements:

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

All the Agreements (other than the Supplies Procurement Services Framework Agreement) were entered into between the Company and China Telecommunications Corporation on 16 November 2006 prior to the IPO, and were then amended by way of the 2007 Supplemental Agreement and the 2008 Supplemental Agreement, pursuant to which the Agreements (other than the Supplies Procurement Services Framework Agreement) will expire on 31 December 2010. The Existing Annual Caps for the Agreements (other than the Supplies Procurement Services Framework Agreement) in respect of the three years ending 31 December 2010 were approved by the Independent Shareholders at the extraordinary general meeting of the Company convened on 14 November 2008.

The Supplies Procurement Services Framework Agreement was entered into between the Company and China Telecommunications Corporation on 29 October 2009, which will expire on 31 December 2010. The Existing Annual Caps for the Supplies Procurement Services Framework Agreement in respect of the two years ending 31 December 2010 were approved by the Independent Shareholders at the extraordinary general meeting of the Company convened on 29 December 2009.

As each of the Agreements has a current term due to expire on 31 December 2010, the Company entered into the 2010 Supplemental Agreement with China Telecommunications Corporation on 9 November 2010 after trading hours of the Stock Exchange to extend the terms of the Agreements to 31 December 2012. Other terms of each of the Agreements remain unchanged. Based on internal estimates and historical transaction amounts, the Directors also propose the New Annual Caps, details of which are set out below.

## **2. CONTINUING CONNECTED TRANSACTIONS UNDER THE AGREEMENTS**

Details of the transactions under the Agreements 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 but excluding the Group), as may be applicable from time to time.

The current term of the Engineering Framework Agreement will expire on 31 December 2010, 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 Company has entered into the 2010 Supplemental Agreement to extend the current term of the Engineering Framework Agreement to 31 December 2012.

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 the Company for the same 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 favourable 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 Engineering Framework Agreement for the three years of 2008, 2009 and 2010 are RMB9,500 million, RMB12,500 million and RMB12,500 million, respectively. The actual amounts for the service charges received by the Company from China Telecom Group under the Engineering Framework Agreement for the two years ended 31 December 2008 and 2009 were RMB8,701.85 million and RMB10,996.44 million, respectively. Based on the Company's management accounts, the actual amounts for the service charges received by the Company from China Telecom Group under the Engineering Framework Agreement for the nine months ended 30 September 2010 were RMB6,438.22 million.

The Directors propose the New Annual Caps for the Engineering Framework Agreement in respect of the two years ending 31 December 2011 and 2012 to be RMB13,125 million and RMB14,000 million, respectively. The Directors expect that China Telecom Group will continue to construct and optimize its mobile network, especially to upgrade its broadband network in the future. Therefore, in determining the New Annual Caps, the Directors have considered the possible increase in the demand of telecommunications engineering services, including design, construction and supervision, required by China Telecom Group. The Directors also take into account the historical transaction amounts and the operation and growth conditions of our businesses in this area.

In terms of the New Annual Caps, 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, the Independent Shareholders' approval for the renewal of this agreement and the proposed New Annual Caps for this continuing connected transaction will be 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 Ancillary Telecommunications Services Framework Agreement was amended by the 2007 Supplemental 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 but excluding the Group), as may be applicable from time to time.

The current term of the Ancillary Telecommunications Services Framework Agreement will expire on 31 December 2010, 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 Company has entered into the 2010 Supplemental Agreement to extend the current term of the Ancillary Telecommunications Services Framework Agreement to 31 December 2012.

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 costs 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 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, 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 Caps for the service charges receivable by the Company from China Telecom Group under the Ancillary Telecommunications Services Framework Agreement for the three years of 2008, 2009 and 2010 are RMB4,700 million, RMB6,700 million and RMB6,700 million, respectively. The actual amounts for the service charges received by the Company from China Telecom Group under the Ancillary Telecommunications Services Framework Agreement for the two years ended 31 December 2008 and 2009 were RMB4,648.47 million and RMB4,468.91 million, respectively. Based on the Company's management accounts, the actual amounts for the service charges received by the Company from China Telecom Group under the Ancillary Telecommunications Services Framework Agreement for the nine months ended 30 September 2010 were RMB3,836.93 million.

The Directors propose the New Annual Caps for the Ancillary Telecommunications Services Framework Agreement in respect of the two years ending 31 December 2011 and 2012 to be RMB7,035 million and RMB7,550 million, respectively. In determining the New Annual Caps, the Directors have considered the historical transaction amounts, the operation and growth conditions of our businesses in this area, and the expected increase of demand of the Ancillary Telecommunications Services required by China Telecom Group mainly attributable to its expansion of network, customer base and mobile phone business.

In terms of the New Annual Caps, 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, the Independent Shareholders' approval for the renewal of this agreement and the proposed New Annual Caps for this continuing connected transaction will be 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. Pursuant to the same agreement, China Telecom Group 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 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 but excluding the Group), as may be applicable from time to time.

The current term of the Operation Support Services Framework Agreement will expire on 31 December 2010, 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 Company has entered into the 2010 Supplemental Agreement to extend the current term of the Operation Support Services Framework Agreement to 31 December 2012.

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 Caps for the service charges receivable by the Company from China Telecom Group under the Operation Support Services Framework Agreement for the three years of 2008, 2009 and 2010 are RMB1,910 million, RMB1,910 million and RMB1,910 million, respectively. The actual amounts for the service charges received by the Company from China Telecom Group under the Operation Support Services Framework Agreement for the two years ended 31 December 2008 and 2009 were RMB1,562.28 million and RMB1,694.09 million, respectively. Based on the Company's management accounts, the actual amounts for the service charges received by the Company from China Telecom Group under the Operation Support Services Framework Agreement for the nine months ended 30 September 2010 were RMB1,311.19 million.

The Existing Annual Caps for the service charges payable by the Company to China Telecom Group under the Operation Support Services Framework Agreement for the three years of 2008, 2009 and 2010 are RMB470 million, RMB470 million and RMB470 million, respectively. The actual amounts for the service charges paid by the Company to China Telecom Group under the Operation Support Services Framework Agreement for the two years ended 31 December 2008 and 2009 were RMB400.69 million and RMB215.26 million, respectively. Based on the Company's management accounts, the actual amounts for the service charges paid by the Company to China Telecom Group under the Operation Support Services Framework Agreement for the nine months ended 30 September 2010 were RMB187.07 million.



The Directors propose 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 two years ending 31 December 2011 and 2012 to be RMB1,910 million and RMB1,910 million, respectively. The Directors propose 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 two years ending 31 December 2011 and 2012 to be RMB470 million and RMB470 million, respectively. In determining the New Annual Caps, the Directors have considered the historical transaction amounts, the operation and growth conditions of our businesses in this area, and the estimated mutual demand of the operation support services.

In terms of the New Annual Caps, the transactions under the Operation Support 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, the Independent Shareholders' approval for the renewal of this agreement and the proposed New Annual Caps for this continuing connected transaction will be 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 also agreed to provide to the Company 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 but excluding the Group), as may be applicable from time to time.

The current term of the IT Application Services Framework Agreement will expire on 31 December 2010, 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 Company has entered into the 2010 Supplemental Agreement to extend the current term of the IT Application Services Framework Agreement to 31 December 2012.

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 Caps for the service charges receivable by the Company from China Telecom Group under the IT Application Services Framework Agreement for the three years of 2008, 2009 and 2010 are RMB1,000 million, RMB1,300 million and RMB1,600 million, respectively. The actual amounts for the service charges received by the Company from China Telecom Group under the IT Application Services Framework Agreement for the two years ended 31 December 2008 and 2009 were RMB946.69 million and RMB1,093.00 million, respectively. Based on the Company's management accounts, the actual amounts for the service charges received by the Company from China Telecom Group under the IT Application Services Framework Agreement for the nine months ended 30 September 2010 were RMB715.46 million.

The Existing Annual Caps for the service charges payable by the Company to China Telecom Group under the IT Application Services Framework Agreement for the three years of 2008, 2009 and 2010 are RMB230 million, RMB230 million and RMB230 million, respectively. The actual amounts for the service charges paid by the Company to China Telecom Group under the IT Application Services Framework Agreement for the two years ended 31 December 2008 and 2009 were RMB131.55 million and RMB186.10 million, respectively. Based on the Company's management accounts, the actual amounts for the service charges paid by the Company to China Telecom Group under the IT Application Services Framework Agreement for the nine months ended 30 September 2010 were RMB120.27 million.

The Directors propose 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 two years ending 31 December 2011 and 2012 to be RMB1,750 million and RMB1,900 million, respectively. The Directors propose 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 two years ending 31 December 2011 and 2012 to be RMB430 million and RMB430 million, respectively. The Directors expect that the China Telecom Group will continue to enhance the restructuring of its businesses and promote its information service business, therefore, there will be an increase in its IT application services demand. In determining the New Annual Caps, the Directors also have considered the historical transaction amounts, the operation and growth conditions of our businesses in this area, and our estimated demand of the IT application services.

In terms of the New Annual Caps, the transactions under the IT Application 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, the Independent Shareholders' approval for the renewal of this agreement and the proposed New Annual Caps for this continuing connected transaction will be sought.

**(e) Centralized Services Agreement**

The centralized services agreed 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.

The scope of the Centralized Services Agreement covers transactions between the Company (and its subsidiaries) and China Telecommunications Corporation (and its subsidiaries but excluding the Group), as may be applicable from time to time. 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 Telecommunications Corporation according to a ratio based on the net asset value of each of the relevant parties. Settlement of such reimbursement between the Company and China Telecom Group has been made every three months unless the parties agree otherwise.

The current term of the Centralized Services Agreement will expire on 31 December 2010, 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 Company has entered into the 2010 Supplemental Agreement to extend the current term of the Centralized Services Agreement to 31 December 2012.

The Existing Annual Caps 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 of 2008, 2009 and 2010 are RMB350 million, RMB350 million and RMB350 million, respectively. The actual amounts of the management fee income received by the Company from China Telecom Group under the Centralized Services Agreement for the two years ended 31 December 2008

and 2009 were RMB245.88 million and RMB259.85 million, respectively. Based on the Company's management accounts, the actual amounts of the management fee income received by the Company from China Telecom Group under the Centralized Services Agreement for the nine months ended 30 September 2010 were RMB183.78 million.

The Directors propose the New Annual Caps for the management fee income receivable by the Company from China Telecom Group under the Centralized Services Agreement in respect of the two years ending 31 December 2011 and 2012 to be RMB350 million and RMB350 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.

In terms of the New Annual Caps, the transactions under the Centralized Services Agreement are continuing connected transactions on normal commercial terms subject to the reporting and announcement requirements, but exempt from independent shareholders' approval requirements under Chapter 14A of the Listing Rules as each of the applicable percentage ratios, on an annual basis, is expected to be more than 0.1% but less than 5%. As a result, the renewal of this agreement and the proposed New Annual Caps for this continuing connected transaction are not subject to the Independent Shareholders' approval.

**(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 Telecommunications Corporation (and its subsidiaries but excluding the Group), 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 current term of the Property Leasing Framework Agreement will expire on 31 December 2010, 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 Company has entered into the 2010 Supplemental Agreement to extend the current term of the Property Leasing Framework Agreement to 31 December 2012.

The Existing Annual Caps for the rents receivable by the Company from China Telecom Group under the Property Leasing Framework Agreement for the three years of 2008, 2009 and 2010 are RMB76 million, RMB76 million and RMB76 million, respectively. The actual amounts for the rents received by the Company from China Telecom Group under the Property Leasing Framework Agreement for the two years ended 31 December 2008 and 2009 were RMB53.99 million and RMB41.36 million, respectively. Based on the Company's management accounts, the actual amounts for the rents received by the Company from China Telecom Group under the Property Leasing Framework Agreement for the nine months ended 30 September 2010 were RMB39.64 million.

The Existing Annual Caps for the rents payable by the Company to China Telecom Group under the Property Leasing Framework Agreement for the three years of 2008, 2009 and 2010 are RMB120 million, RMB120 million and RMB120 million, respectively. The actual amounts for the rents paid by the Company to China Telecom Group under the Property Leasing Framework Agreement for the two years ended 31 December 2008 and 2009 were RMB111.36 million and RMB119.05 million, respectively. Based on the Company's management accounts, the actual amounts for the rents paid by the Company to China Telecom Group under the Property Leasing Framework Agreement for the nine months ended 30 September 2010 were RMB77.75 million.

The Directors propose 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 two years ending 31 December 2011 and 2012 to be RMB166 million and RMB166 million, respectively. The Directors propose 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 two years ending 31 December 2011 and 2012 to be RMB150 million and RMB150 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 the expansion of business by the Company and China Telecom Group.

In terms of the New Annual Caps, 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 requirements under Chapter 14A of the Listing Rules as each of the applicable percentage ratios, on an annual basis, is expected to be more than 0.1% but less than 5%. As a result, the renewal of this agreement and the proposed New Annual Caps for this continuing connected transaction are not subject to the Independent Shareholders' approval.

**(g) Supplies Procurement Services Framework Agreement**

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

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

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



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

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

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

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

The current term of the Supplies Procurement Services Framework Agreement will expire on 31 December 2010, 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 Company has entered into the 2010 Supplemental Agreement to extend the current term of the Supplies Procurement Services Framework Agreement to 31 December 2012.

The Existing Annual Caps for the service charges receivable by the Company from China Telecom Group under the Supplies Procurement Services Framework Agreement for the two years of 2009 and 2010 are RMB2,000 million and RMB2,800 million, respectively. The actual amounts for the service charges received by the Company from China Telecom Group under the Supplies Procurement Services Framework Agreement for the year ended 31 December 2009 were RMB1,949.40 million. Based on the Company’s management accounts, the actual amounts for the services charge received by the Company from China Telecom Group under the Supplies Procurement Services Framework Agreement for the nine months ended 30 September 2010 were RMB2,105.69 million.

The Existing Annual Caps for the service charges payable by the Company to China Telecom Group under the Supplies Procurement Services Framework Agreement for the two years of 2009 and 2010 are RMB800 million and RMB900 million, respectively. The actual amounts for the service charges paid by the Company to China Telecom Group under the Supplies

Procurement Services Framework Agreement for the year ended 31 December 2009 were RMB634.60 million. Based on the Company's management accounts, the actual amounts for the service charges paid by the Company to China Telecom Group under the Supplies Procurement Services Framework Agreement for the nine months ended 30 September 2010 were RMB332.79 million.

The Directors propose 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 the two years ending 31 December 2011 and 2012 to be RMB3,500 million and RMB4,000 million, respectively. The Directors propose 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 two years ending 31 December 2011 and 2012 to be RMB900 million and RMB900 million, respectively. The Directors expect that the demand of supplies procurement services required by China Telecom Group will increase as a result of its expansion of network size and customer base. In determining the New Annual Caps, the Directors also have considered the historical transaction amounts and our estimated demand of supplies procurement services provided by China Telecom Group.

In terms of the New Annual Caps, the transactions under the Supplies Procurement 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, the Independent Shareholders' approval for the renewal of this agreement and the proposed New Annual Caps for this continuing connected transaction will be sought.

### **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, the Ancillary Telecommunications Services Framework Agreement, the Operation Support Services Framework Agreement, the IT Application Services Framework Agreement and the Supplies Procurement 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 the Centralized Services Agreement and the 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 cooperate with China Telecom Group and ensure a stable revenue source from one of the largest telecommunications operators in the PRC so as to benefit the Company's future growth and development. 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 the Shareholders as a whole.

#### **4. INFORMATION ABOUT THE COMPANY AND CHINA TELECOMMUNICATIONS CORPORATION**

The Company is principally engaged in the provision of specialized telecommunications support services to telecommunications operators in the PRC, offering telecommunications infrastructure services (including design, construction and project supervision and management), business process outsourcing services and applications, content and other services.

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

As at the Latest Practicable Date, China Telecommunications Corporation holds approximately 52.60% of the issued share capital of the Company.

#### **5. LISTING RULES IMPLICATIONS**

As at the Latest Practicable Date, China Telecommunications Corporation holds approximately 52.60% of the issued share capital of the Company. Accordingly, China Telecommunications Corporation is a substantial shareholder of the Company, being a connected person of the Company as defined under Rule 14A.11 of the Listing Rules. As a result, the proposed renewal of the Agreements and the proposed New Annual Caps constitute continuing connected transactions of the Company.

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

*Unit: RMB million*

Transactions	Year ended 31 December 2008		Year ended 31 December 2009		Year ending 31 December 2010		Year ending 31 December 2011	Year ending 31 December 2012
	Existing Annual Caps	Actual amounts <sup>1</sup>	Existing Annual Caps	Actual amounts	Existing Annual Caps	Actual amounts (up to 30 September 2010)	New Annual Caps	New Annual Caps
Engineering related services provided to China Telecom Group	9,500	8,701.85	12,500	10,996.44	12,500	6,438.22	13,125	14,000
Ancillary telecommunications services provided to China Telecom Group	4,700	4,648.47	6,700	4,468.91	6,700	3,836.93	7,035	7,550
Operation support services provided to/by China Telecom Group								
Revenue	1,910	1,562.28	1,910	1,694.09	1,910	1,311.19	1,910	1,910
Expenditure	470	400.69	470	215.26	470	187.07	470	470
IT application services provided to/by China Telecom Group								
Revenue	1,000	946.69	1,300	1,093.00	1,600	715.46	1,750	1,900
Expenditure	230	131.55	230	186.10	230	120.27	430	430
Centralized services provided to China Telecom Group	350	245.88	350	259.85	350	183.78	350	350
Property leasing provided to/by China Telecom Group								
Revenue	76	53.99	76	41.36	76	39.64	166	166
Expenditure	120	111.36	120	119.05	120	77.75	150	150
Supplies procurement services provided to/by China Telecom Group								
Revenue	N/A	N/A	2,000	1,949.40	2,800	2,105.69	3,500	4,000
Expenditure	N/A	N/A	800	634.60	900	332.79	900	900

<sup>1</sup> The figures in this column were restated in the 2009 annual report of the Company due to the entering into the Supplies Procurement Services Framework Agreement to split off the provision of comprehensive logistics services from the Ancillary Telecommunications Services Framework Agreement and the Operation Support Services Framework Agreement and the acquisition of certain subsidiaries from the China Telecom Group in 2009. The restated actual amounts do not exceed the applicable Existing Annual Caps for the year of 2008.

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 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 applicable percentage ratios of the proposed New Annual Caps for the Non-Exempt Connected Transactions, on an annual basis, exceeds 5%. Accordingly, the renewal of the Agreements (other than the Centralized Services Agreement and Property Leasing Framework Agreement) by way of the 2010 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.

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 within 15 business days after publication of this announcement) are of the opinion that the Non-Exempt 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, and that the proposed New Annual Caps for the Non-Exempt Connected Transactions are fair and reasonable.

Each of the applicable percentage ratios of the proposed New Annual Caps for the Centralized Services Agreement and the Property Leasing Framework Agreement, on an annual basis, is more than 0.1% but less than 5%. Accordingly, the renewal of the Centralized Services Agreement and the Property Leasing Framework Agreement by way of the 2010 Supplemental Agreement and the proposed New Annual Caps therefor will be subject to the reporting and announcement requirements, but exempt from the independent shareholders' approval requirements as prescribed 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 so far as the interests of the Shareholders are concerned. 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.

The Board has approved the renewal of the Continuing Connected Transactions and the proposed New Annual Caps. Mr. Li Ping, chairman of the Board and an executive Director, and Mr. Zheng Qibao, an executive Director, both of whom hold positions at China Telecommunications Corporation, have abstained from voting on the above subject matters.

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 the 2010 Supplemental 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 2010 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 comprising all of the independent non-executive Directors of the Company has been formed to advise the Independent Shareholders on the renewal of the Non-Exempt Connected Transactions and together with the proposed New Annual Caps. An independent financial adviser will be appointed to advise the Independent Board Committee and the 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 within 15 business days after the publication of this announcement.

## **7. DEFINITIONS**

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

“2007 Announcement and Circular”	the announcement and the circular of the Company dated 15 June 2007 and 20 June 2007, respectively, in respect of, among other things, the acquisition of the specialized telecommunications support businesses from 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 other things, renew the terms of each of the Agreements (other than the Supplies Procurement Services Framework Agreement) to 31 December 2009



“2008 Announcement and Circular”	the announcement and the circular of the Company dated 19 September 2008 and 26 September 2008, respectively, in respect of, among other things, the proposed renewal of the Agreements (other than the Supplies Procurement Services Framework Agreement) and proposed amendments to annual caps for transactions contemplated thereunder
“2008 Supplemental Agreement”	the supplemental agreement between the Company and China Telecommunications, Corporation dated 19 September 2008 to, among other things, renew the terms of each of the Agreements (other than the Supplies Procurement Services Framework Agreement) to 31 December 2010
“2009 Announcement and Circular”	the announcement and the circular of the Company dated 29 October 2009 and 12 November 2009, respectively, in respect of, among other things, the entering into the Supplies Procurement Services Framework Agreement and the proposed annual caps for transactions contemplated thereunder
“2010 Supplemental Agreement”	the supplemental agreement between the Company and China Telecommunications Corporation dated 9 November 2010 to, among other things, renew the terms of each of the Agreements to 31 December 2012
“Agreements”	mean 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 and the Property Leasing Framework Agreement first entered into between the Company and China Telecommunications Corporation on 16 November 2006 prior to the IPO, as amended or supplemented by the 2007 Supplemental Agreement and the 2008 Supplemental Agreement, as well as the Supplies Procurement Services Framework Agreement entered into between the Company and China Telecommunications Corporation on 29 October 2009
“associate”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of directors of the Company

“China” or “PRC”	the People’s Republic of China (excluding, for the purposes of this announcement, Hong Kong, Macau and Taiwan)
“China Telecom Group”	China Telecommunications Corporation and its subsidiaries but excluding the Group
“China Telecommunications Corporation”	China Telecommunications Corporation (中國電信集團公司), a state-owned enterprise established under the laws of the PRC on 17 May 2000 and the controlling shareholder of the Company
“Company”	China Communications Services Corporation Limited (中國通信服務股份有限公司), a joint stock limited company incorporated in the PRC with limited liability on 30 August 2006, whose H Shares are listed on the Stock Exchange
“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”
“Director(s)”	the directors of the Company
“Existing Annual Caps”	the existing annual caps applicable to the Continuing Connected Transactions under each of the Agreements for the applicable period ending on 31 December 2010, which were approved by the Independent Shareholders (where applicable)
“Extraordinary General Meeting” or “EGM”	the extraordinary general meeting of the Company to be convened on 30 December 2010
“Group”	the Company together with its subsidiaries
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“H Share(s)”	overseas listed foreign invested shares in the Company’s issued share capital with a par value of RMB1.00 per share which are listed on the Stock Exchange

“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 on the renewal of the Non-Exempt Connected Transactions together with the proposed New Annual Caps
“Independent Shareholders”	Shareholders other than China Telecommunications Corporation and its associates
“IPO”	the initial public offering of the Company in 2006 and which comprises an international offering and a Hong Kong public offering
“Latest Practicable Date”	5 November 2010, 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
“New Annual Caps”	the new annual caps proposed for the Continuing Connected Transactions under each of the Agreements for the two years ending 31 December 2012, where applicable, the Independent Shareholders’ approval of which will be sought at the EGM
“Non-Exempt Connected Transaction ”	the Continuing Connected Transactions under the Agreements other than those 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 China International Telecommunications Construction Corporation in May 2008, comprising Shanghai municipality, Zhejiang, Fujian, Hubei, Guangdong, Hainan, Jiangsu, Anhui, Jiangxi, Hunan, Sichuan, Guizhou, Yunnan, Shaanxi, Gansu, Qinghai provinces, Guangxi Zhuang Autonomous Region, Chongqing municipality, and Xinjiang Uygur Autonomous Region
“Prospectus”	the prospectus dated 27 November 2006 issued by the Company in connection with its Hong Kong public offering

“RMB”	Renminbi, the lawful currency of the PRC
“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, 9 November 2010

*As at the date of this announcement, our Chairman and executive Director is Mr. Li Ping, our President and executive Director is Mr. Zheng Qibao, 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.*