THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in China Communications Services Corporation Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee or to the bank, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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)

REVISION OF ANNUAL CAPS, RENEWAL OF CONTINUING CONNECTED TRANSACTIONS, PROPOSED NEW ANNUAL CAPS AND PROPOSED APPOINTMENT OF NON-EXECUTIVE DIRECTOR

Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders

廣發融資(香港)有限公司
GF CAPITAL (HONG KONG) LIMITED

A letter from the Board is set out on pages 5 to 24 of this circular. A letter from the Independent Board Committee is set out on pages 25 to 26 of this circular. A letter from the Independent Financial Adviser is set out on pages 27 to 50 of this circular.

A notice convening an extraordinary general meeting ("EGM") of the Company to be held at 10:00 a.m. on 27 November 2012, at No. 19, Chaoyangmen Beidajie, Dongcheng District, Beijing, the PRC, is set out on pages 54 to 56 of this circular. A form of proxy for use at the EGM is enclosed with this circular. Whether or not you are able to attend the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's share registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, as soon as possible and in any event not less than 24 hours before the time designated for holding the EGM or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the EGM or any adjourned meeting should you so wish.

27 September 2012

CONTENTS

In this circular, 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 Telecom and/or its associates
"2007 Supplemental Agreement"	the supplemental agreement between the Company and China Telecom dated 15 June 2007 to 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 renewal of the Agreements (other than the Supplies Procurement Services Framework Agreement) and amendments to annual caps for the continuing connected transactions contemplated thereunder
"2008 Supplemental Agreement"	the supplemental agreement between the Company and China Telecom dated 19 September 2008 to 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 Supplies Procurement Services Framework Agreement and the proposed annual caps for the continuing connected transactions contemplated thereunder
"2010 Announcement and Circular"	the announcement and the circular of the Company dated 9 November 2010 and 12 November 2010, respectively, in respect of, among other things, the renewal of the Agreements and the proposed annual caps
"2010 Supplemental Agreement"	the supplemental agreement between the Company and China Telecom dated 9 November 2010 to renew the terms of each of the Agreements to 31 December 2012
"2011 Announcement and Circular"	the announcement and the circular of the Company dated 14 November 2011 and 15 November 2011, respectively, to revise the annual caps for the continuing connected transactions contemplated under the Supplies Procurement Services Framework Agreement

"2012 Supplemental Agreement"	the supplemental agreement between the Company and China Telecom dated 20 September 2012 in respect of, among other things, the renewal of the terms of each of the Agreements to 31 December 2015
"Agreements"	the Engineering Framework Agreement, the Ancillary Telecommunications Services Framework Agreement, the Operation Support Services Framework Agreement, the IT Application Services Framework Agreement, the Centralized Services Agreement and the Property Leasing Framework Agreement first entered into between the Company and China Telecom on 16 November 2006 as amended or supplemented from time to time, as well as the Supplies Procurement Services Framework Agreement entered into between the Company and China Telecom on 29 October 2009, as amended or supplemented from time to time
"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 circular, Hong Kong, Macau and Taiwan)
"China Telecom Group"	China Telecommunications Corporation and its subsidiaries but excluding the Group
"China Telecom"	China Telecommunications Corporation (中國電信集團公司), a state-owned enterprise established under the laws of the PRC on 17 May 2000 and the controlling shareholder of the Company
"Company"	China Communications Services Corporation Limited (中國通信服務股份有限公司), a joint stock limited company incorporated in the PRC with limited liability on 30 August 2006, whose H Shares are listed on the Stock Exchange
"Continuing Connected Transactions"	the connected transactions entered into between a member of the Group and China Telecom and its subsidiaries (excluding the Group) as governed by the Agreements, details of which are set out in section 3 of the Letter from the Board headed "Continuing Connected Transactions under the Agreements" in this circular
"Director(s)"	the director(s) of the Company
"EGM"	the extraordinary general meeting of the Company to be held on 27 November 2012

"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 2012, which were approved by the Independent Shareholders (where applicable)
"Group"	the Company and its subsidiaries
"H Share(s)"	overseas listed foreign invested share(s) in the Company's issued share capital with a par value of RMB1.00 per share which are listed on the Stock Exchange
"Hong Kong"	Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	an independent board committee, consisting of Mr. Wang Jun, Mr. Zhao Chunjun, Mr. Wei Leping and Mr. Siu Wai Keung, Francis, who are independent non-executive Directors, formed to advise the Independent Shareholders on the proposed Revised Annual Caps and the renewal of the Non-Exempt Continuing Connected Transactions (together with the proposed New Annual Caps)
"Independent Financial Adviser"	GF Capital (Hong Kong) Limited, a corporation licensed to carry out Type 6 (advising on corporate finance) of the regulated activities under the SFO
"Independent Shareholders"	Shareholders other than China Telecom and its associates
"Latest Practicable Date"	24 September 2012, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"New Annual Caps"	the new annual caps proposed for the Continuing Connected Transactions under each of the Agreements for the three years ending 31 December 2013, 2014 and 2015, where applicable, the Independent Shareholders' approval of which will be sought at the EGM
"Non-Exempt Continuing Connected Transactions "	the Continuing Connected Transactions under the Agreements other than those under the Centralized Services Agreement and the Property Leasing Framework Agreement
"Prospectus"	the prospectus dated 27 November 2006 issued by the Company in connection with its Hong Kong public offering

"Revised Annual Caps"	the revised annual caps proposed for the Operation Support Services Framework Agreement and the service charges receivable by the Company from China Telecom Group under the Supplies Procurement Services Framework Agreement for the year ending 31 December 2012, the Independent Shareholders' approval of which will be sought at the EGM
"RMB"	Renminbi, the lawful currency of the PRC
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Shareholders"	shareholders of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Supervisors"	the supervisors of the Company

The Company would like to caution readers about the forward-looking nature of certain statements herein. These forward-looking statements are subject to uncertainties and assumptions, some of which are beyond its control. Potential risks and uncertainties include those concerning the continued growth of the telecommunications industry in China, the development of the regulatory environment, China Telecom Group's plan for its telecommunications operation and other strategies and the Company's ability to successfully execute its business strategies. In addition, these forward-looking statements reflect the Company's current views with respect to future events but are not a guarantee of future performance. The Company does not intend to update these forward-looking statements. Actual result may differ materially from the information contained in the forward-looking statements as a result of a number of factors.

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)

Executive Directors
Li Ping *(Chairman)*
Zheng Qibao
Yuan Jianxing
Hou Rui

Non-executive Director
Zhang Junan

Independent Non-executive Directors
Wang Jun
Zhao Chunjun
Wei Leping
Siu Wai Keung, Francis

Registered office
Level 5
No. 2 and B
Fuxingmen South Avenue
Xicheng District
Beijing
PRC

Place of business in Hong Kong
Room 3203–3205
Great Eagle Centre
23 Harbour Road
Wanchai
Hong Kong

27 September 2012

To the Shareholders

Dear Sir or Madam,

REVISION OF ANNUAL CAPS, RENEWAL OF CONTINUING CONNECTED TRANSACTIONS, PROPOSED NEW ANNUAL CAPS AND PROPOSED APPOINTMENT OF NON-EXECUTIVE DIRECTOR

1. INTRODUCTION

Reference is made to the announcement of the Company dated 20 September 2012 in relation to (i) the proposed Revised Annual Caps, (ii) the renewal of the Continuing Connected Transactions (together with the proposed New Annual Caps), and (iii) the proposed appointment of Mr. Li Zhengmao as a non-executive Director.

The Board announced on 20 September 2012 that the Company entered into the 2012 Supplemental Agreement with China Telecom to, among others, extend the terms of the Agreements to 31 December 2015.

As at the Latest Practicable Date, China Telecom holds approximately 51.39% of the issued share capital of the Company. Accordingly, China Telecom is a substantial shareholder of the Company, and thus a connected person of the Company as defined under Rule 14A.11 of the Listing Rules. As a result, the proposed Revised Annual Caps and the proposed renewal of the Agreements (together with the proposed New Annual Caps) constitute continuing connected transactions of the Company.

Each of the highest applicable percentage ratios of the proposed Revised Annual Caps and the proposed New Annual Caps for the Non-Exempt Continuing Connected Transactions, on an annual basis, exceeds 5%. Accordingly, the proposed Revised Annual Caps and the renewal of the Agreements (other than the Centralized Services Agreement and the Property Leasing Framework Agreement) by way of the 2012 Supplemental Agreement (together with the proposed New Annual Caps for the Non-Exempt Continuing 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 highest applicable percentage ratios of the proposed New Annual Caps for the Centralized Services Agreement and the Property Leasing Framework Agreement 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 2012 Supplemental Agreement and the proposed New Annual Caps are subject to the reporting and announcement requirements, but exempt from the independent shareholders' approval requirement 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 proposed Revised Annual Caps and the renewal of the Non-Exempt Continuing Connected Transactions (together with the proposed New Annual Caps). GF Capital (Hong Kong) Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on the same.

The purpose of this circular is to provide, among other things, further information about the Continuing Connected Transactions and the proposed appointment of non-executive Director, letters from the Independent Board Committee and from the Independent Financial Adviser, and a notice to Shareholders convening the EGM to approve (i) the proposed Revised Annual Caps, (ii) the Non-Exempt Continuing Connected Transactions (together with the proposed New Annual Caps) and (iii) the proposed appointment of Mr. Li Zhengmao as a non-executive Director.

2. BACKGROUND

Reference is made to the Prospectus, the 2007 Announcement and Circular, the 2008 Announcement and Circular, the 2009 Announcement and Circular, the 2010 Announcement and Circular and the 2011 Announcement and Circular in relation to certain continuing connected transactions between the Group and China Telecom and/or its associates which are governed by the following seven continuing connected transactions 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 above (other than the Supplies Procurement Services Framework Agreement) were entered into between the Company and China Telecom on 16 November 2006, and were then amended and/or renewed by way of the 2007 Supplemental Agreement, the 2008 Supplemental Agreement and the 2010 Supplemental Agreement, pursuant to which the Agreements (other than the Supplies Procurement Services Framework Agreement) will expire on 31 December 2012. The Existing Annual Caps for the Agreements (other than the Supplies Procurement Services Framework Agreement, as well as the Property Leasing Framework Agreement and the Centralized Services Agreement which are not subject to Independent Shareholders' approval under the Listing Rules) in respect of the two years ending 31 December 2012 were approved by the Independent Shareholders at the extraordinary general meeting of the Company held on 30 December 2010.

The Supplies Procurement Services Framework Agreement was entered into between the Company and China Telecom on 29 October 2009, and was then amended by way of the 2010 Supplemental Agreement, pursuant to which the Supplies Procurement Services Framework Agreement will expire on 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 in respect of the two years ending 31 December 2012 were approved by the Independent Shareholders at the extraordinary general meeting of the Company held on 30 December 2010. The Existing Annual Caps (as revised) for the service charges payables by the Company to China Telecom Group under the Supplies Procurement Services Framework Agreement in respect of the two years ending 31 December 2012 were approved by the Independent Shareholders at the extraordinary general meeting of the Company held on 30 December 2011.

In 2012, due to the rapid business development of both our Group and China Telecom Group as well as the increasing demand of our services required from China Telecom Group along with the development of mobile Internet and proliferation of mobile terminals including smart phones, the aggregate service charges receivable and payable by the Company under the Operation Support Services Framework Agreement and the aggregate service charges receivable by the Company under the Supplies Procurement Services Framework Agreement for the year 2012 are projected to be higher than the applicable Existing Annual Caps. The Directors proposed to increase the relevant annual caps for the Operation Support Services Framework Agreement and the service charges receivable by the Company from China Telecom Group under the Supplies Procurement Services Framework Agreement for the year ending 31 December 2012.

As each of the Agreements has a current term due to expire on 31 December 2012, the Company entered into the 2012 Supplemental Agreement with China Telecom on 20 September 2012 to extend the terms of the Agreements to 31 December 2015 and change of contact information of either party for serving notice. Other terms of each of the Agreements remain unchanged. Based on internal estimates and historical transaction amounts, the Directors also proposed the New Annual Caps, details of which are set out below.

3. CONTINUING CONNECTED TRANSACTIONS UNDER THE AGREEMENTS

Details of the continuing connected transactions under the Agreements are set out below.

(a) Engineering Framework Agreement

Pursuant to the Engineering Framework Agreement, the Company agreed to provide certain engineering related services, such as design, construction, project supervision and management for telecommunications infrastructure projects undertaken by China Telecom Group. The scope of the Engineering Framework Agreement covers transactions between the Company (and its subsidiaries) and China Telecom (and its subsidiaries but excluding the Group), as may be applicable from time to time.

The current term of the Engineering Framework Agreement will expire on 31 December 2012, 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 2012 Supplemental Agreement to extend the current term of the Engineering Framework Agreement to 31 December 2015.

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 will be given priority by China Telecom Group in the provision of the engineering related services except in the tender process, provided that the terms and conditions offered by independent third parties to China Telecom Group are no more 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 two years of 2011 and 2012 are RMB13,125 million and RMB14,000 million, respectively. The actual amount for the service charges received by the Company from China Telecom Group under the Engineering Framework Agreement for the year ended 31 December 2011 was RMB10,968 million. Based on the

Company's unaudited 2012 interim financial report, the actual amount for the service charges received by the Company from China Telecom Group under the Engineering Framework Agreement for the six months ended 30 June 2012 was RMB5,867 million.

The Directors proposed the New Annual Caps for the Engineering Framework Agreement in respect of the three years ending 31 December 2013, 2014 and 2015 to be RMB17,000 million, RMB17,000 million and RMB17,000 million, respectively. The Directors expect that China Telecom Group will continue to construct and upgrade its fibre optic broadband network and optimize its mobile network. Therefore, in determining the New Annual Caps, the Directors have considered the continuous development of the PRC telecommunications industry and 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.

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

(b) Ancillary Telecommunications Services Framework Agreement

Pursuant to the Ancillary Telecommunications Services Framework Agreement, the Company agreed to provide to China Telecom Group certain ancillary telecommunications services such as maintenance of network facilities including equipment, ducts and cables, equipment rooms and base stations; distribution of telecommunications products and services; provision of 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 Telecom (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 2012, 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 2012 Supplemental Agreement to extend the current term of the Ancillary Telecommunications Services Framework Agreement to 31 December 2015.

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 Telecom Group 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 two years of 2011 and 2012 are RMB7,035 million and RMB7,550 million, respectively. The actual amount for the service charges received by the Company from China Telecom Group under the Ancillary Telecommunications Services Framework Agreement for the year ended 31 December 2011 was RMB5,390 million. Based on the Company's unaudited 2012 interim financial report, the actual amount for the service charges received by the Company from China Telecom Group under the Ancillary Telecommunications Services Framework Agreement for the six months ended 30 June 2012 were RMB2,807 million.

The Directors proposed the New Annual Caps for the Ancillary Telecommunications Services Framework Agreement in respect of the three years ending 31 December 2013, 2014 and 2015 to be RMB9,000 million, RMB10,000 million and RMB11,000 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 fibre optic broadband and mobile network, customer base and mobile phone business.

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

(c) Operation Support Services Framework Agreement

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

The current term of the Operation Support Services Framework Agreement will expire on 31 December 2012, 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 2012 Supplemental Agreement to extend the current term of the Operation Support Services Framework Agreement to 31 December 2015.

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 two years of 2011 and 2012 are RMB1,910 million and RMB1,910 million, respectively. The actual amount for the service charges received by the Company from China Telecom Group under the Operation Support Services Framework Agreement for the year ended 31 December 2011 was RMB1,903 million. Based on the Company's unaudited 2012 interim financial report, the actual amount for the service charges received by the Company from China Telecom Group under the Operation Support Services Framework Agreement for the six months ended 30 June 2012 was RMB922 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 two years of 2011 and 2012 are RMB470 million and RMB470 million respectively. The actual amount for the service charges paid by the Company to China Telecom Group under the Operation Support Services Framework Agreement for the year ended 31 December 2011 was RMB464 million. Based on the Company's unaudited 2012 interim financial report, the actual amount for the service charges paid by the Company to China Telecom Group under the Operation Support Services Framework Agreement for the six months ended 30 June 2012 was RMB236 million.

Due to the rapid business development of both our Group and China Telecom Group, the aggregate service charges receivable by the Company from China Telecom Group as well as the aggregate service charges payable by the Company to China Telecom Group under Operation Support Services Framework Agreement for the year ending 31 December 2012 are projected to be higher than the Existing Annual Caps. The Directors proposed to increase the annual caps for the service charges receivable by the Company from China Telecom Group and the service charges payable by the Company to China Telecom Group under Operation Support Services Framework Agreement for the year ending 31 December 2012 from RMB1,910 million to RMB2,300 million and from RMB470 million to RMB600 million, respectively. In determining the Revised Annual Caps, the Directors have considered the actual transaction amounts under the Operation Support Services Framework Agreement in the first half of 2012, the operation and growth conditions of our businesses in this area, and the estimated increase of mutual demand of the operation support services in the second half of 2012.

The Directors proposed the New Annual Caps for the service charges receivable by the Company from China Telecom Group under the Operation Support Services Framework Agreement in respect of the three years ending 31 December 2013, 2014 and 2015 to be RMB2,800 million, RMB2,900 million and RMB3,000 million, respectively. The Directors proposed the New Annual Caps for the service charges payable by the Company to China Telecom Group under the Operation Support Services Framework Agreement in respect of the three years ending 31 December 2013, 2014 and 2015 to be RMB650 million, RMB650 million and RMB650 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.

As each of the highest applicable percentage ratios of the proposed Revised Annual Caps and the proposed New Annual Caps for the continuing connected transactions under the Operation Support Services Framework Agreement, calculated on an annual basis, exceeds 5%, the proposed

Revised Annual Caps and the renewal of the Operation Support Services Framework Agreement (together with the proposed New Annual Caps) are subject to reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

(d) IT Application Services Framework Agreement

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

The current term of the IT Application Services Framework Agreement will expire on 31 December 2012, 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 2012 Supplemental Agreement to extend the current term of the IT Application Services Framework Agreement to 31 December 2015.

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 two years of 2011 and 2012 are RMB1,750 million and RMB1,900 million, respectively. The actual amount for the service charges received by the Company from China Telecom Group under the IT Application Services Framework Agreement for the year ended 31 December 2011 was RMB1,355 million. Based on the Company's unaudited 2012 interim financial report, the actual amount for the service charges received by the Company from China Telecom Group under the IT Application Services Framework Agreement for the six months ended 30 June 2012 was RMB478 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 two years of 2011 and 2012 are RMB430 million and RMB430 million, respectively. The actual amount for the service charges paid by the Company to China Telecom Group under the IT Application Services

Framework Agreement for the year ended 31 December 2011 was RMB165 million. Based on the Company's unaudited 2012 interim financial report, the actual amount for the service charges paid by the Company to China Telecom Group under the IT Application Services Framework Agreement for the six months ended 30 June 2012 was RMB77 million.

The Directors proposed the New Annual Caps for the service charges receivable by the Company from China Telecom Group under the IT Application Services Framework Agreement in respect of the three years ending 31 December 2013, 2014 and 2015 to be RMB2,000 million, RMB2,100 million and RMB2,300 million, respectively. The Directors proposed the New Annual Caps for the service charges payable by the Company to China Telecom Group under the IT Application Services Framework Agreement in respect of the three years ending 31 December 2013, 2014 and 2015 to be RMB430 million, RMB460 million and RMB490 million, respectively. The Directors expect that along with the continuous development of mobile Internet, China Telecom Group will continue to accelerate its strategic transformation 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.

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

(e) Centralized Services Agreement

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

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

(2) the provincial headquarters management function to manage remaining assets of China Telecom in the primary service areas of the Group.

The scope of the Centralized Services Agreement covers transactions between the Company (and its subsidiaries) and China Telecom (and its subsidiaries but excluding the Group), as may be applicable from time to time. Except as otherwise agreed by the parties, the aggregate administrative expenses incurred by the Company for the provision of the centralized services referred to above (all expenses incurred in connection with the above-mentioned headquarters management functions excluding remuneration for the Directors, share appreciation rights and provision of bad debts) will be apportioned pro rata between the Company and China Telecom Group according to the proportional net asset value of each of the relevant parties. 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 2012, 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 2012 Supplemental Agreement to extend the current term of the Centralized Services Agreement to 31 December 2015.

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 two years of 2011 and 2012 are RMB350 million and RMB350 million, respectively. The actual amount of the management fee income received by the Company from China Telecom Group under the Centralized Services Agreement for the year ended 31 December 2011 was RMB309 million. Based on the Company's unaudited 2012 interim financial report, the actual amount of the management fee income received by the Company from China Telecom Group under the Centralized Services Agreement for the six months ended 30 June 2012 was RMB115 million.

The Directors proposed 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 three years ending 31 December 2013, 2014 and 2015 to be RMB400 million, RMB410 million and RMB420 million, respectively. In determining the New Annual Caps, the Directors have considered the historical transaction amounts and the estimated demand of the centralized services required by China Telecom Group.

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

(f) Property Leasing Framework Agreement

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

The 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 2012, 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 2012 Supplemental Agreement to extend the current term of the Property Leasing Framework Agreement to 31 December 2015.

The Existing Annual Caps for the rents receivable by the Company from China Telecom Group under the Property Leasing Framework Agreement for the two years of 2011 and 2012 are RMB166 million and RMB166 million, respectively. The actual amount for the rents received by the Company from China Telecom Group under the Property Leasing Framework Agreement for the year ended 31 December 2011 was RMB59 million. Based on the Company's unaudited 2012 interim financial report, the actual amounts for the rents received by the Company from China Telecom Group under the Property Leasing Framework Agreement for the six months ended 30 June 2012 were RMB24 million.

The Existing Annual Caps for the rents payable by the Company to China Telecom Group under the Property Leasing Framework Agreement for the two years of 2011 and 2012 are RMB150 million and RMB150 million, respectively. The actual amount for the rents paid by the Company to China Telecom Group under the Property Leasing Framework Agreement for the year ended 31 December 2011 was RMB140 million. Based on the Company's unaudited 2012 interim financial report, the actual amounts for the rents paid by the Company to China Telecom Group under the Property Leasing Framework Agreement for the six months ended 30 June 2012 was RMB53 million.

The Directors proposed the New Annual Caps for the rents receivable by the Company from China Telecom Group under the Property Leasing Framework Agreement in respect of the three years ending 31 December 2013, 2014 and 2015 to be RMB166 million, RMB166 million and RMB166 million, respectively. The Directors proposed the New Annual Caps for the rents payable by the Company to China Telecom Group under the Property Leasing Framework Agreement in respect of the three years ending 31 December 2013, 2014 and 2015 to be RMB160 million, RMB170 million and RMB180 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.

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

(g) Supplies Procurement Services Framework Agreement

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

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

The 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 Telecom 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 2012, 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 2012 Supplemental Agreement to extend the current term of the Supplies Procurement Services Framework Agreement to 31 December 2015.

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 2011 and 2012 are RMB3,500 million and RMB4,000 million, respectively. The actual amount 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 2011 was RMB3,281 million. Based on the Company's unaudited 2012 interim financial report, the actual amount for the services charge received by the Company from China Telecom Group under the Supplies Procurement Services Framework Agreement for the six months ended 30 June 2012 was RMB2,156 million.

In 2012, the development of mobile Internet promoted the proliferation of mobile terminals including smart phones. To promote the sales of mobile terminals of China Telecom across the whole country, China Telecom Group increased the procurement of telecommunications supplies especially the mobile terminals from the Group. As such, the aggregate service charges receivable by the Company from China Telecom Group under the Supplies Procurement Services Framework Agreement for the year ending 31 December 2012 are projected to be higher than the applicable Existing Annual Caps. The Directors proposed to increase the annual cap for the service charges receivable by the Company from China Telecom Group under the Supplies Procurement Services Framework Agreement for the year ending 31 December 2012 from RMB4,000 million to RMB4,400 million. In determining the Revised Annual Caps, the Directors have considered the actual transaction amounts received by the Company from China Telecom Group under the

Supplies Procurement Services Framework Agreement in the first half of 2012, the operation and growth conditions of businesses of China Telecom Group in this area, and the estimated increase of demand of our telecommunications supplies in the second half of 2012.

The Existing Annual Caps (as revised) for the service charges payable by the Company to China Telecom Group under the Supplies Procurement Services Framework Agreement for the two years of 2011 and 2012 are RMB2,100 million and RMB2,600 million, respectively. The actual amount 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 2011 was RMB1,639 million. Based on the Company's unaudited 2012 interim financial report, the actual amount for the service charges paid by the Company to China Telecom Group under the Supplies Procurement Services Framework Agreement for the six months ended 30 June 2012 was RMB1,206 million.

The Directors proposed the New Annual Caps for the services charges receivable by the Company from China Telecom Group under the Supplies Procurement Services Framework Agreement in respect of three years ending 31 December 2013, 2014 and 2015 to be RMB4,600 million, RMB5,100 million and RMB5,600 million, respectively. The Directors proposed the New Annual Caps for the service charges payable by the Company to China Telecom Group under the Supplies Procurement Services Framework Agreement in respect of the three years ending 31 December 2013, 2014 and 2015 to be RMB3,100 million, RMB3,600 million and RMB4,100 million, respectively. The Directors expect that along with the development of mobile Internet and proliferation of mobile terminals including smart phones, the demand of supplies procurement services required by China Telecom Group will increase as a result of its 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.

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

4. REASONS AND BENEFITS FOR CONTINUING CONNECTED TRANSACTIONS BETWEEN THE COMPANY AND CHINA TELECOM

China Telecom Group is one of the largest telecommunications operators in the PRC. The Group is the leading specialized telecommunications support services provider in the PRC and has been providing such services to China Telecom Group on a long-term basis which are currently governed by the 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 Telecom certain centralized management services and operation support services in respect of the businesses and assets retained by China Telecom 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.

5. INFORMATION ABOUT THE COMPANY AND CHINA TELECOM

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

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

As at the Latest Practicable Date, China Telecom holds approximately 51.39% of the issued share capital of the Company.

6. LISTING RULES IMPLICATIONS

As of the Latest Practicable Date, China Telecom is a controlling shareholder of the Company, and thus a connected person of the Company as defined under Rule 14A.11 of the Listing Rules. Accordingly, the proposed Revised Annual Caps and the renewal of the Agreements between the Group and China Telecom Group by way of the 2012 Supplemental Agreement (together with the proposed New Annual Caps for the three years ending 31 December 2015) constitute continuing connected transactions of the Company.

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

Unit: RMB million

Transactions	Year ended 31 December 2011 Existing Annual Cap	2011 Actual amounts*	Year ending 31 December 2012 Existing Annual Cap	2012 Actual amounts up to 30 June 2012*	2012 Revised Annual Caps	2013 New Annual Cap	2014 New Annual Cap	2015 New Annual Cap
Engineering related services provided to China Telecom Group	13,125	10,968	14,000	5,867	N/A	17,000	17,000	17,000
Ancillary telecommunications services provided to China Telecom Group	7,035	5,390	7,550	2,807	N/A	9,000	10,000	11,000
Operation support services provided to/by China Telecom Group								
Revenue	1,910	1,903	1,910	922	2,300	2,800	2,900	3,000
Expenditure	470	464	470	236	600	650	650	650
IT application services provided to/by China Telecom Group								
Revenue	1,750	1,355	1,900	478	N/A	2,000	2,100	2,300
Expenditure	430	165	430	77	N/A	430	460	490
Centralized services provided to China Telecom Group	350	309	350	115	N/A	400	410	420
Property leasing provided to/by China Telecom Group								
Revenue	166	59	166	24	N/A	166	166	166
Expenditure	150	140	150	53	N/A	160	170	180
Supplies procurement services provided to/by China Telecom Group								
Revenue	3,500	3,281	4,000	2,156	4,400	4,600	5,100	5,600
Expenditure	2,100	1,639	2,600	1,206	N/A	3,100	3,600	4,100

Note: The actual amounts for the year ended 31 December 2011 are from 2011 annual report and the actual amounts for the six months ended 30 June 2012 are from the unaudited 2012 interim financial report. The Company entered into several acquisitions on 20 June 2012, details of which are set out in the announcement of the Company dated 20 June 2012 and the 2012 interim report of the Company despatched on 14 September 2012.

As far as the Company is aware, none of the Existing Annual Caps has been exceeded as at the date of this circular. The Board is of the view that the proposed Revised Annual Caps and 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.

As each of the highest applicable percentage ratios of the proposed Revised Annual Caps and the proposed New Annual Caps for each of the Non-Exempt Continuing Connected Transactions, on an annual basis, exceeds 5%, the proposed Revised Annual Caps and the renewal of the Agreements (other than the Centralized Services Agreement and the Property Leasing Framework Agreement) by way of the 2012 Supplemental Agreement (together with the proposed New Annual Caps for the Non-Exempt Continuing Connected Transactions) are subject to the reporting, announcement and independent shareholders' approval requirements as prescribed under Chapter 14A of the Listing Rules.

The Board (excluding the members of the Independent Board Committee, the opinion of which is included in "Letter from the Independent Board Committee" in this circular) is of the opinion that the non-exempt Continuing Connected Transactions have been entered into, and will be carried out, in the ordinary and usual course of business of the Group and on normal commercial terms which are fair and reasonable so far as the interests of the Shareholders are concerned, and that the proposed Revised Annual Caps and the proposed New Annual Caps for the non-exempt Continuing Connected Transactions are fair and reasonable.

As the highest applicable percentage ratios of the proposed New Annual Caps for each of the Centralized Services Agreement and the Property Leasing Framework Agreement, on an annual basis, is more than 0.1% but less than 5%, the renewal of the Centralized Services Agreement and the Property Leasing Framework Agreement by way of the 2012 Supplemental Agreement and the proposed New Annual Caps thereof are 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 proposed Revised Annual Caps and the renewal of the Continuing Connected Transactions (together with the proposed New Annual Caps). Due to their positions in China Telecom, Mr. Li Ping, Mr. Zheng Qibao and Mr. Yuan Jianxing, have abstained from voting on the resolutions relating to the above subject matters.

China Telecom and its associates, being connected persons to the Company, will abstain from voting at the EGM on the ordinary resolutions to approve the proposed Revised Annual Caps and the terms of the 2012 Supplemental Agreement (together with the proposed New Annual Caps for the Non-Exempt Continuing Connected Transactions). The Company confirms that none of the independent non-executive Directors has any interests in the proposed Revised Annual Caps, the 2012 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 to comply in full with all applicable requirements set out in Chapter 14A of the Listing Rules upon any further material variation or renewal of the above relevant agreements.

7. CONCLUSIONS AND RECOMMENDATIONS

GF Capital (Hong Kong) Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders with regard to the proposed Revised Annual Caps and the renewal of the Non-Exempt Continuing Connected Transactions (together with the proposed New Annual Caps).

The Independent Financial Adviser considers that the entering into of the 2012 Supplemental Agreement to renew the Non-Exempt Continuing Connected Transactions is in ordinary and usual course of business of the Company on normal commercial terms and that the proposed Revised Annual Caps, the terms of the 2012 Supplemental Agreement and the proposed New Annual Caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Financial Adviser would advise the Independent Shareholders, as well as recommend the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the ordinary resolutions as set out in the notice of the EGM at the end of the circular.

The Independent Board Committee, after taking into account, among other things, the advice of the Independent Financial Adviser, concurs with the views of the Independent Financial Adviser and considers that the entering into of the 2012 Supplemental Agreement to renew the Non-Exempt Continuing Connected Transactions is in the ordinary and usual course of business of the Company on normal commercial terms and that the proposed Revised Annual Caps, the terms of the 2012 Supplemental Agreement and the proposed New Annual Caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the proposed Revised Annual Caps, the 2012 Supplemental Agreement (in respect of, among others, the renewal of the Non-Exempt Continuing Connected Transactions) and the proposed New Annual Caps. The text of the letter from the Independent Board Committee is set out on pages 25 to 26 of this circular. No member of the Independent Board Committee has any material interest in the proposed Revised Annual Caps, the 2012 Supplemental Agreement and the proposed New Annual Caps.

8. PROPOSED APPOINTMENT OF NON-EXECUTIVE DIRECTOR

Reference is made to the announcement of the Company dated 11 September 2012 in relation to Mr. Liu Aili's resignation as a non-executive Director. On 20 September 2012, the Board approved the nomination of Mr. Li Zhengmao as a non-executive Director, the proposal of which was submitted by China Mobile Communications Corporation, a Shareholder holding 8.78% of the total issued share capital of the Company as at the Latest Practicable Date. The Board proposed that the appointment of Mr. Li as a non-executive Director be considered and approved by the Shareholders at the EGM and that any Director be authorised, on behalf of the Company, to enter into a service agreement with Mr. Li.

Mr. Li Zhengmao, aged 50, is the Vice President of China Mobile Communications Corporation, and the Director and Deputy General Manager of China Mobile Communication Company Limited. Mr. Li received a doctor's degree in communications and electronic system of radio engineering from the Southeast University. Mr. Li previously served as a lecturer of radio engineering, the Deputy Director of the Mobile Communications Research Institute and the Deputy Director of the Science and Technology Institute for the University of Electronic Science and Technology of China. Mr. Li has held various positions in the China United Telecommunications Corporation, including the Deputy Head of the Network Technology Department, the Head of the Wireless Communication Department, the Head of the Technology Department and the Deputy Chief Engineer. He was also the Executive Director and Vice President of China Unicom Limited, the General Manager of the Yunnan branch of China United Telecommunications Corporation, and the Director and Deputy General Manager of China United Telecommunications Corporation. Mr. Li has extensive experience in engineering technology and business operations.

Saved as disclosed herein, Mr. Li did not hold any directorship in public companies the securities of which are listed on any securities market in Hong Kong or overseas in the last three years. Saved as disclosed herein, Mr. Li does not have any relationship with any other directors, senior management or substantial or controlling shareholder of the Company. Mr. Li does not have any equity interest in the Company within the meaning of Part XV of the SFO.

Mr. Li's appointment will be subject to Shareholders' approval at the EGM, and his term of office will be effective from the date when the resolution in relation to his appointment is passed at the EGM until the annual general meeting of the Company for the year 2014 to be held in 2015. Mr. Li will not receive any salary or director's fee from the Company during his term as a non-executive Director.

Saved as disclosed herein, the Company considers that there is no other information relating to the Mr. Li to be disclosed pursuant to Rule 13.51(2) of the Listing Rules nor any matter which needs to be brought to the attention of the Shareholders.

9. EXTRAORDINARY GENERAL MEETING

A notice convening the EGM to be held at 10:00 a.m. on 27 November 2012 at No. 19, Chaoyangmen Beidajie, Dongcheng District, Beijing, the PRC, is set out on pages 54 to 56 of this circular at which ordinary resolutions will be proposed to approve (i) the proposed Revised Annual Caps, (ii) the renewal of the Non-Exempt Continuing Connected Transactions (together with the proposed New Annual Caps) and (iii) the proposed appointment of Mr. Li Zhengmao as a non-executive Director. The vote of the Shareholders at the EGM on the ordinary resolutions shall be taken by a poll. In accordance with the Listing Rules, China Telecom, the ultimate controlling shareholder of the Company holding 51.39% of the total issued share capital of the Company as at the Latest Practicable Date, and its associates, will abstain from voting on the ordinary resolutions to approve the proposed Revised Annual Caps and the renewal of the Non-Exempt Continuing Connected Transactions (together with the proposed New Annual Caps) at the EGM.

A form of proxy for use at the EGM is enclosed with this circular. Whether or not Shareholders are able to attend the EGM, they are requested to complete and return the enclosed form of proxy to (i) for domestic Shareholders, the Office of the Board of the Company, at No. 19, Chaoyangmen Beidajie, Dongcheng District, Beijing, PRC; and (ii) for holders of H Shares, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as practicable and in any event by no later than 24 hours before the time designated for holding the EGM. Completion and return of the form of proxy will not preclude Shareholders from attending and voting in person at the EGM should they so wish.

10. OTHER INFORMATION

Your attention is drawn to the letter from the Independent Financial Adviser which contains its advice to the Independent Board Committee and the Independent Shareholders, the letter from the Independent Board Committee which sets out its recommendation to the Independent Shareholders, the additional information set out in the appendices to this circular and the EGM notice.

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

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)

27 September 2012

To the Independent Shareholders

Dear Sir or Madam,

REVISION OF ANNUAL CAPS
RENEWAL OF NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS
AND
PROPOSED NEW ANNUAL CAPS

We refer to the circular issued by the Company to the Shareholders dated 27 September 2012 (the "Circular") of which this letter forms part. The terms defined in the Circular shall have the same meanings in this letter unless the context otherwise requires.

On 20 September 2012, the Board announced that the Company has proposed to revise the relevant annual caps for the Operation Support Services Framework Agreement and the services charges receivable by the Company from China Telecom Group under the Supplies Procurement Services Framework Agreement and has entered into the 2012 Supplemental Agreement with China Telecom to extend the terms of the Agreements to 31 December 2015. Further details are contained in the letter from the Board set out on pages 5 to 24 of the Circular.

The Independent Board Committee was formed to make a recommendation to the Independent Shareholders as to whether, in its view, the proposed Revised Annual Caps and the renewal of the Non-Exempt Continuing Connected Transactions (together with the proposed New Annual Caps) are fair and reasonable in so far as the Independent Shareholders are concerned.

GF Capital (Hong Kong) Limited has been appointed to act as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders with regard to the proposed Revised Annual Caps and the renewal of the Non-Exempt Continuing Connected Transactions (together with the proposed New Annual Caps) as described in the Circular. The text of the letter of advice from the Independent Financial Adviser containing their recommendation and the principal factors they have taken into account in arriving at their recommendation are set out on pages 27 to 50 of the Circular.

The Independent Shareholders are recommended to read the letter from the Independent Financial Adviser, the letter from the Board contained in the Circular as well as the additional information set out in the appendices to the Circular.

As your Independent Board Committee, we have discussed with the management of the Company the reasons for the renewal of the Non-Exempt Continuing Connected Transactions and the basis for proposing the proposed Revised Annual Caps and the New Annual Caps. We have also considered the key factors taken into account by the Independent Financial Adviser in arriving at its opinion regarding the proposed Revised Annual Caps and the renewal of the Non-Exempt Continuing Connected Transactions (together with the proposed New Annual Caps).

The Independent Board Committee concurs with the view of the Independent Financial Adviser and considers that the proposed Revised Annual Caps and the renewal of the Non-Exempt Continuing Connected Transactions (together with the proposed New Annual Caps) are fair and reasonable, on normal commercial terms and are in the interests of the Company and the Shareholders (including the Independent Shareholders) as a whole. Our view related to fairness and reasonableness is necessarily based on the information, facts and circumstances currently prevailing. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the ordinary resolutions set out in the notice of the EGM at the end of the Circular.

Yours faithfully

For and on behalf of
Independent Board Committee
Wang Jun
Zhao Chunjun
Wei Leping
Siu Wai Keung, Francis

The following is the full text of the letter of advice from GF Capital (Hong Kong) Limited to the Independent Board Committee and the Independent Shareholders which has been prepared for the purpose of inclusion in this circular.

廣發融資(香港)有限公司
GF CAPITAL (HONG KONG) LIMITED

Suites 2301–5 & 2313, COSCO Tower
183 Queen's Road Central
Hong Kong

27 September 2012

To the Independent Board Committee
and the Independent Shareholders of
China Communications Services Corporation Limited

Dear Sirs,

REVISION OF ANNUAL CAPS, RENEWAL OF NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS AND PROPOSED NEW ANNUAL CAPS

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on (1) the proposed Revised Annual Caps and (2) the renewal of (i) the Engineering Framework Agreement, (ii) the Ancillary Telecommunications Services Framework Agreement, (iii) the Operation Support Services Framework Agreement, (iv) the IT Application Services Framework Agreement and (v) the Supplies Procurement Services Framework Agreement (collectively known as the "**Non-Exempt Agreements**") and the proposed New Annual Caps for the Non-Exempt Continuing Connected Transactions, details of which are set out in the letter from the Board (the "**Letter from the Board**") contained in the circular dated 27 September 2012 (the "**Circular**"), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise defined.

As at the Latest Practicable Date, China Telecom held approximately 51.39% of the issued share capital of the Company. Accordingly, China Telecom is a substantial shareholder of the Company, and thus a connected person of the Company as defined under Rule 14A.11 of the Listing Rules as mentioned in the Letter from the Board. As a result, the proposed Revised Annual Caps and the proposed renewal of the Non-Exempt Agreements (together with the proposed New Annual Caps) constitute continuing connected transactions of the Company.

Each of the highest applicable percentage ratios of the proposed Revised Annual Caps and the proposed New Annual Caps for the Non-Exempt Continuing Connected Transactions, on an annual basis, exceeds 5%. Accordingly, the proposed Revised Annual Caps and the renewal of the Non-Exempt Agreements by way of the 2012 Supplemental Agreement (together with the proposed New Annual Caps for the Non-Exempt Continuing Connected Transactions) are subject to the reporting, announcement and independent shareholders' approval requirements as prescribed under Chapter 14A of the Listing Rules.

China Telecom and its associates, being connected persons to the Company, will abstain from voting on the ordinary resolutions to approve the proposed Revised Annual Caps and the terms of the 2012 Supplemental Agreement (together with the proposed New Annual Caps for the Non-Exempt Continuing Connected Transactions) at the EGM. 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 proposed Revised Annual Caps, the 2012 Supplemental Agreement and the proposed New Annual Caps.

INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising all of the independent non-executive Directors, namely Mr. Wang Jun, Mr. Zhao Chunjun, Mr. Wei Leping and Mr. Siu Wai Keung, Francis, has been established to advise the Independent Shareholders on the proposed Revised Annual Caps and the renewal of the Non-Exempt Agreements (together with the proposed New Annual Caps).

We have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders as to whether the entering into of the 2012 Supplemental Agreement to renew the Non-Exempt Agreements is in the ordinary and usual course of business of the Company and on normal commercial terms; and whether the proposed Revised Annual Caps, the terms of the 2012 Supplemental Agreement and the proposed New Annual Caps of the Non-Exempt Continuing Connected Transactions are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

BASIS OF OUR OPINION

In formulating our opinion, we have relied on the information, statements, opinions and representations provided to us by the Company, its representatives, its management and the Directors for which they are solely and wholly responsible and we have assumed that all such information, statements, opinions and representations contained or referred to in the Circular were true, accurate and complete at the time they were made and continue to be true, accurate and complete as at the date of the Circular.

We have assumed that all statements of belief, opinion and intention made by the Company, its representatives, its management and the Directors as set out in the Circular were reasonably made after due and careful enquiry. We have also sought and obtained confirmation from the Company that no material facts have been omitted from the information provided and referred to in the Circular. The Directors confirmed that they have provided us with all information and documents which are available under present circumstances to enable us to reach an informed view and we have relied on the accuracy of such information and the information contained in the Circular to provide a reasonable basis of our opinions.

Our review and analyses were based upon the information and facts contained or referred to in the Circular, the information provided by the Company and our review of relevant public information. We consider that we have reviewed sufficient information to reach a reasonably informed view to justify our reliance on the accuracy of the information contained in the Circular as aforesaid and to provide reasonable grounds for our advice. In addition, we have no reason to doubt the truth, accuracy and/or completeness of the information and representations as provided to us by the Directors, its management and/or representatives of the Company. We, however, have not conducted any independent in-depth investigation into the business, affairs, financial position or prospects of the Group nor we have carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation in respect of the proposed Revised Annual Caps and the renewal of the Non-Exempt Agreements (together with the proposed New Annual Caps), we have considered the following principal factors and reasons:

Information on the Group

As stated in the Letter from the Board, the Group 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 others services.

Information on China Telecom

As stated in the Letter from the Board, China Telecom is a state-owned enterprise engaged in the investment holding of companies primarily involved in the provision of telecommunication services, the provision of specialized telecommunications support services and other business. As at the Latest Practicable Date, China Telecom held approximately 51.39% of the issued share capital of the Company.

Background of the proposed Revised Annual Caps and the Non-Exempt Continuing Connected Transactions

All the Non-Exempt Agreements (other than the Supplies Procurement Services Framework Agreement) were first entered into between the Company and China Telecom on 16 November 2006, and were then amended and/or renewed by way of the 2007 Supplemental Agreement, the 2008 Supplemental Agreement and the 2010 Supplemental Agreement, pursuant to which the Non-Exempt Agreements (other than the Supplies Procurement Services Framework Agreement) will expire on 31 December 2012. The Existing Annual Caps for the Non-Exempt Agreements (other than the Supplies Procurement Services Framework Agreement) in respect of the two years ending 31 December 2012 were approved by the Independent Shareholders at the extraordinary general meeting of the Company held on 30 December 2010.

The Supplies Procurement Services Framework Agreement was first entered into between the Company and China Telecom on 29 October 2009, and was then amended by way of the 2010 Supplemental Agreement, pursuant to which the Supplies Procurement Services Framework Agreement will expire on 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 in respect of the two years ending 31 December 2012 were approved by the Independent Shareholders at the extraordinary general meeting of the Company held on 30 December 2010. The Existing Annual Caps (as revised) 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 2012 were approved by the Independent Shareholders at the extraordinary general meeting of the Company held on 30 December 2011.

In 2012, due to the rapid business development of both our Group and China Telecom Group as well as the increasing demand of our services required from China Telecom Group along with the development of mobile Internet and proliferation of mobile terminals including smart phones, the aggregate service charges receivable and payable by the Company under the Operation Support Services Framework Agreement and the aggregate service charges receivable by the Company under the Supplies Procurement Services Framework Agreement for the year 2012 are projected to be higher than the applicable Existing Annual Caps. The Directors proposed to increase the relevant annual caps for the Operation Support Services Framework Agreement and the Supplies Procurement Services Framework Agreement for the year ending 31 December 2012.

Reasons for and benefits of Non-Exempt Continuing Connected Transactions

As stated in the Letter from the Board, 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 is currently governed by the Non-Exempt Agreements.

As stated in the Letter from the Board, 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 Non-Exempt Continuing Connected Transactions were entered into in the ordinary and usual course of business of the Group and on normal commercial terms which are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

As each of the Non-Exempt Agreements has a current term due to expire on 31 December 2012, the Company entered into the 2012 Supplemental Agreement with China Telecom on 20 September 2012 to extend the terms of the Non-Exempt Agreements to 31 December 2015 and change of contact information of either party for serving notice. Other terms of each of the Non-Exempt Agreements remain unchanged.

Having considered that the Non-Exempt Agreements allow the Group to capture the business opportunity and strengthen its strategic relationship with China Telecom Group, we are of the view that the entering into of the 2012 Supplemental Agreement to renew the Non-Exempt Agreements is in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

Based on internal estimates and historical transaction amounts of the Company, the Directors also proposed the New Annual Caps, details of which are set out below.

1. *The Engineering Framework Agreement*

(a) *Subject matter and term of the Engineering Framework Agreement*

Pursuant to the Engineering Framework Agreement, the Company agreed to provide certain engineering related services, such as design, construction, project supervision and management for telecommunications infrastructure projects undertaken by China Telecom Group. The scope of the Engineering Framework Agreement covers transactions between the Group and China Telecom Group, as may be applicable from time to time.

The current term of the Engineering Framework Agreement will expire on 31 December 2012, 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 2012 Supplemental Agreement to extend the current term of the Engineering Framework Agreement to 31 December 2015.

(b) *Pricing basis of the Engineering Framework Agreement*

Pursuant to the Engineering Framework Agreement, the pricing basis is 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 will be given priority by China Telecom Group in the provision of the engineering related services except in the tender process, provided that the terms and conditions offered by independent third parties to China Telecom Group are no more 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.

Based on the above, we consider that the pricing basis under the Engineering Framework Agreement is on normal commercial terms and is fair and reasonable so far as the Independent Shareholders are concerned.

(c) *Historical amounts and the proposed New Annual Caps*

The table below shows the historical transaction amounts, the Existing Annual Caps and the proposed New Annual Caps in relation to the Engineering Framework Agreement:

Unit: RMB million

	Year ended 31 December		**Year ending 31 December**				
Transactions	**2011**		**2012**		**2013**	**2014**	**2015**
Engineering Framework Agreement	**Existing Annual Cap**	**Actual amounts**	**Existing Annual Cap**	**Actual amounts (up to 30 June 2012)**	**New Annual Cap**	**New Annual Cap**	**New Annual Cap**
Revenue	13,125	10,968	14,000	5,867	17,000	17,000	17,000
% of utilization		83.6%		41.9%			
% of increase			6.7%[1]		21.4%[2]	0.0%[3]	0.0%[4]

Notes:

1. The percentage increase in the 2012 Existing Annual Cap is with reference to the 2011 Existing Annual Cap

2. The percentage increase in the 2013 New Annual Cap is with reference to the 2012 Existing Annual Cap

3. The percentage increase in the 2014 New Annual Cap is with reference to the 2013 New Annual Cap

4. The percentage increase in the 2015 New Annual Cap is with reference to the 2014 New Annual Cap

As calculated from the table above, we note that the actual amounts for the service charges received by the Company from China Telecom Group under the Engineering Framework Agreement for the year ended 31 December 2011 was approximately RMB10,968 million, representing a utilization rate of approximately 83.6%. Based on the unaudited interim financial report of the Company for the six months ended 30 June 2012 ("**2012 Interim Report**"), the actual amounts for the service charges received by the Company from China Telecom Group under the Engineering Framework Agreement for the six months ended 30 June 2012 was approximately RMB5,867 million, representing a utilization rate of approximately 41.9% or an annualized utilization rate of approximately 83.8%. We also note that there is an approximately 21.4% increase in the 2013 New Annual Cap as compared to the 2012 Existing Annual Cap, and no further increase in the 2014 New Annual Cap and the 2015 New Annual Cap.

As stated in the Letter from the Board, the Directors expect that China Telecom Group will continue to construct and upgrade its fibre optic broadband network and optimize its mobile network. Therefore, in determining the New Annual Caps, the Directors have considered the continuous development of the PRC telecommunications industry and 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 the Group's businesses in this area.

In assessing the reasonableness of the proposed New Annual Caps for the Engineering Framework Agreement, we have taken into consideration of the followings:

(i) the increase in the demand for telecommunications infrastructure services by China Telecom Group due to the upgrade and expansion of its mobile network and fibre optic broadband network. We note from the website of China Telecom that the bandwidth would be further upgraded for its broadband subscribers during the "Twelfth Five-Year Plan" period;

(ii) the historical growing trends for the telecommunications industry in the PRC. According to the website of Ministry of Industry and Information Technology of the People's Republic of China (中華人民共和國工業和信息化部), the revenue of the telecommunication industry in the PRC increased from approximately RMB712.1 billion in 2006 to approximately RMB1,153.9 billion in 2011, representing a compound annual growth rate of approximately 10.1%. For the five months ended 31 May 2012, the telecommunication industry in the PRC recorded revenue of approximately RMB528.3 billion, representing an approximately 13.8% increase as compared to the corresponding period last year; and

(iii) as stated in the annual report of the Company for the year ended 31 December 2011 ("**2011 Annual Report**"), based on the experiences in serving customers over the past years, the Directors believes that the capital expenditure by the domestic telecommunications operators will remain relatively stable in the coming years given the continuing growth of their customer base, network scale as well as the continued introduction of new technologies and new services.

Based on the above, we are of the view that the proposed New Annual Caps for the Engineering Framework Agreement are determined by the Directors after due and careful consideration and are fair and reasonable so far as the Independent Shareholders are concerned.

2. ***The Ancillary Telecommunications Services Framework Agreement***

(a) *Subject matter and term of the Ancillary Telecommunications Services Framework Agreement*

Pursuant to the Ancillary Telecommunications Services Framework Agreement (as amended by the 2007 Supplemental Agreement), the Company agreed to provide to China Telecom Group certain ancillary telecommunications services such as maintenance of network facilities including equipment, ducts and cables, equipment rooms and base stations, distribution of telecommunications products and services, provision of 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**") and 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 Group and China Telecom Group, as may be applicable from time to time.

The current term of the Ancillary Telecommunications Services Framework Agreement will expire on 31 December 2012, 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 2012 Supplemental Agreement to extend the current term of the Ancillary Telecommunications Services Framework Agreement to 31 December 2015.

(b) *Pricing basis of the Ancillary Telecommunications Services Framework Agreement*

Pursuant to the Ancillary Telecommunications Services Framework Agreement, the pricing basis is determined by reference to (i) government-prescribed price; (ii) when there is no government-prescribed price but where there is a government-guidance price, the government-guidance price applies; (iii) when there is neither a government-prescribed price nor a government-guidance price, the market price applies; and (iv) when there are no applicable prices as mentioned in (i), (ii) and (iii) available, then the reasonable costs plus reasonable profits. 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. 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.

In addition, 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 Telecom Group 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.

Based on the above, we consider that the pricing basis under the Ancillary Telecommunications Framework Agreement is on normal commercial terms and is fair and reasonable so far as the Independent Shareholders are concerned.

(c) *Historical amounts and the proposed New Annual Caps*

The table below shows the historical transaction amounts, the Existing Annual Caps and the proposed New Annual Caps relating to the Ancillary Telecommunications Framework Agreement:

Unit: RMB million

	Year ended 31 December		**Year ending 31 December**				
Transactions	**2011**		**2012**		**2013**	**2014**	**2015**
Ancillary Telecommunications Framework Agreement	**Existing Annual Cap**	**Actual amounts**	**Existing Annual Cap**	**Actual amounts (up to 30 June 2012)**	**New Annual Cap**	**New Annual Cap**	**New Annual Cap**
Revenue	7,035	5,390	7,550	2,807	9,000	10,000	11,000
% of utilization		76.6%		37.2%			
% of increase			7.3%[1]		19.2%[2]	11.1%[3]	10.0%[4]

Notes:

1. The percentage increase in the 2012 Existing Annual Cap is with reference to the 2011 Existing Annual Cap

2. The percentage increase in the 2013 New Annual Cap is with reference to the 2012 Existing Annual Cap

3. The percentage increase in the 2014 New Annual Cap is with reference to the 2013 New Annual Cap

4. The percentage increase in the 2015 New Annual Cap is with reference to the 2014 New Annual Cap

As calculated from the table above, we note that the actual amounts for the service charges received by the Company from China Telecom Group under the Ancillary Telecommunications Services Framework Agreement for the year ended 31 December 2011 was approximately RMB5,390 million, representing a utilization rate of approximately 76.6%. Based on the 2012 Interim Report, the actual amounts for the service charges received by the Company from China Telecom Group under the Ancillary Telecommunications Services Framework Agreement for the six months ended 30 June 2012 was approximately RMB2,807 million, representing a utilization rate of approximately 37.2% or an annualized utilization rate of approximately 74.4%. We also note that there is an approximately 19.2% increase in the 2013 New Annual Cap as compared to the 2012 Existing Annual Cap, an approximately 11.1% increase in the 2014 New Annual Cap as compared to the 2013 New Annual Cap and an approximately 10.0% increase in the 2015 New Annual Cap as compared to the 2014 New Annual Cap.

As stated in the Letter from the Board, in determining the New Annual Caps, the Directors have considered the historical transaction amounts, the operation and growth conditions of the Group's 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 fibre optic broadband and mobile network, customer base and mobile phone business.

In assessing the reasonableness of the proposed New Annual Caps for the Ancillary Telecommunications Services Framework Agreement, we have taken into consideration of the followings:

(i) the estimated increase in the provision of maintenance services to China Telecom Group. As stated in the 2011 Annual Report, capitalizing on the increasing demand for higher network quality and the outsourcing of non-core businesses, the business scales of the Group's network maintenance business have been continuously expanded;

(ii) the launch of "寬帶中國•光網城市"工程 (Broadband China Project) of China Telecom in 2011 to drive the demand for Ancillary Telecommunications Services and comprehensive logistics services. The project aims to realize fibre optic communication in urban areas and improve the availability of broadband services in rural areas of the PRC; and

(iii) based on the revenue growth target of over RMB1.5 trillion in 2015, representing an approximately 6.8% increase as compared to that in 2011, for the telecommunications industry set out in the 《通訊業"十二五"發展規劃》(Twelfth Five-Year Plan of the Telecommunications Industry) issued by the Ministry of Industry and Information Technology of the People's Republic of China (中華人民共和國工業和信息化部) in May 2012, the Directors expected that the demand for ancillary services provided by the Group would increase along with the expansion of network, customer base and mobile phone business of China Telecom Group.

Based on the above, we are of the view that the proposed New Annual Caps for the Ancillary Telecommunications Services Framework Agreement are determined by the Directors after due and careful consideration and are fair and reasonable so far as the Independent Shareholders are concerned.

3. *The Operation Support Services Framework Agreement*

(a) *Subject matter and term of the Operation Support Services Framework Agreement*

As stated in the Letter from the Board, 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 the Operation Support Services Framework Agreement, the Company agreed to provide operation support services, including but not limited to facilitates 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. China Telecom Group also agreed to provide operation support services such as logistics services, warehousing, medical care, food and beverages, educational, hotel and travelling services, labour services and so on to the Company. The scope of the Operation Support Services Framework Agreement covers transactions between the Group and China Telecom Group, as may be applicable from time to time.

The current term of the Operation Support Services Framework Agreement will expire on 31 December 2012, 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 2012 Supplemental Agreement to extend the current term of the Operation Support Services Framework Agreement to 31 December 2015.

(b) *Pricing basis of the Operation Support Services Framework Agreement*

Pursuant to the Operation Support Services Framework Agreement, each of the parties to the 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.

Based on the above, we consider that the pricing basis under the Operation Support Services Framework Agreement is on normal commercial terms and is fair and reasonable so far as the Independent Shareholders are concerned.

(c) *Reasons for the revision of the annual caps for the Operation Support Services Framework Agreement for the year ending 31 December 2012*

As stated in the Letter from the Board, due to the rapid business development of both the Group and China Telecom Group, the aggregate service charges receivable by the Company from China Telecom Group as well as the aggregate service charges payable by the Company to China Telecom Group under the Operation Support Services Framework Agreement for the year ending 31 December 2012 are projected to be higher than the Existing Annual Caps. The Directors proposed to increase the annual caps for the service charges receivable by the Company from China Telecom Group and the service charges payable by the Company to China Telecom Group under Operation Support Services Framework Agreement for the year ending 31 December 2012.

(d) *Historical amounts, the proposed Revised Annual Caps and the proposed New Annual Caps*

The table below shows the historical transaction amounts, the Existing Annual Caps, the proposed Revised Annual Caps and the proposed New Annual Caps relating to the Operation Support Services Framework Agreement:

Unit: RMB million

Transactions	Year ended 31 December 2011		Year ending 31 December 2012			2013	2014	2015
Operation Support Services Framework Agreement	**Existing Annual Caps**	**Actual amounts**	**Existing Annual Caps**	**Revised Annual Caps**	**Actual amounts (up to 30 June 2012)**	**New Annual Caps**	**New Annual Caps**	**New Annual Caps**
Revenue	1,910	1,903	1,910	2,300[1]	922	2,800	2,900	3,000
% of utilization		99.6%			48.3% (40.1%[1])			
% of increase			0.0%[2]			46.6% (21.7%)[4]	3.6%[5]	3.4%[6]
Expenditure	470	464	470	600[3]	236	650	650	650
% of utilization		98.7%			50.2% (39.3%[3])			
% of increase			0.0%[2]			38.3% (8.3%)[4]	0.0%[5]	0.0%[6]

Notes:

1. The 2012 Existing Annual Cap in respect of the service charges receivable by the Company from China Telecom Group is proposed to revise to RMB2,300 million

2. The percentage increase in the 2012 Existing Annual Cap is with reference to the 2011 Existing Annual Cap

3. The 2012 Existing Annual Cap in respect of the service charges payable by the Company to China Telecom Group is proposed to revise to RMB600 million

4. The percentage increase in the 2013 New Annual Cap is with reference to the 2012 Existing Annual Cap and the 2012 Revised Annual Cap

5. The percentage increase in the 2014 New Annual Cap is with reference to the 2013 New Annual Cap

6. The percentage increase in the 2015 New Annual Cap is with reference to the 2014 New Annual Cap

As calculated from the table above, we note that the actual amounts for the service charges received by the Company from China Telecom Group under the Operation Support Services Framework Agreement for the year ended 31 December 2011 was approximately RMB1,903 million, representing a utilization rate of approximately 99.6%. Based on the 2012 Interim Report, the actual amounts for the service charges received by the Company from China Telecom Group under the Operation Support Services Framework Agreement for the six months ended 30 June 2012 was approximately RMB922 million, representing a utilization rate of approximately 48.3% or an annualized utilization rate of approximately 96.6%. Besides, the actual amounts for the service charges paid by the Company to China Telecom Group under the Operation Support Services Framework Agreement for year ended 31 December 2011 was approximately RMB464 million, representing a utilization rate of approximately 98.7%. Based on the 2012 Interim Report, the actual amounts for the service charges paid by the Company to China Telecom Group under the Operation Support Services Framework Agreement for the six months ended 30 June 2012 was approximately RMB236 million, representing a utilization rate of approximately 50.2% or an annualized utilization rate of approximately 100.4%.

We also note that there is an approximately 46.6% increase in the 2013 New Annual Cap for the service charges receivable by the Company from China Telecom Group as compared to the 2012 Existing Annual Cap (or an approximately 21.7% increase as compared to the 2012 Revised Annual Cap), an approximately 3.6% increase in the 2014 New Annual Cap for the service charges receivable by the Company from China Telecom Group as compared to the 2013 New Annual Cap and an approximately 3.4% increase in the 2015 New Annual Cap for the service charges receivable by the Company from China Telecom Group as compared to the 2014 New Annual Cap. Besides, there is an approximately 38.3% increase in the 2013 New Annual Cap for the service charges payable by the Company to China Telecom Group as compared to the 2012 Existing Annual Cap (or an approximately 8.3% increase as compared to the 2012 Revised Annual Cap), and no further increase in the 2014 New Annual Cap and the 2015 New Annual Cap for the service charges payable by the Company to China Telecom Group.

As stated in the Letter from the Board, in determining the Revised Annual Caps, the Directors have considered the actual transaction amounts under the Operation Support Services Framework Agreement in the first half of 2012, the operation and growth conditions of our businesses in this area, and the estimated increase of mutual demand of the operation support services in the second half of 2012.

In assessing the reasonableness of the proposed Revised Annual Caps for the Operation Support Services Framework Agreement, we have reviewed the historical transaction amounts and the utilization rate as previously mentioned and we have also discussed with the management of the Company the relevant historical trends. We were given to understand that due to the steady growth of the PRC's economy as well as the rapid development of the telecommunications industry, the historical transaction amounts of the operation support services under the Operation Support Services Framework Agreement for the year ended 31 December 2011 and the six months ended 30 June 2012 were higher than expected. We are advised by the management of the Company that possible future growth in the business between the Group and China Telecom Group may likely to happen in the second half of 2012 as a result of the continuing strong mutual demand for the operation support services. Accordingly, we consider that it is reasonable for the Company to reserve sufficient buffer to cater for the expected increase in mutual demand for the operation support services in the second half of 2012.

As stated in the Letter from the Board, in determining the New Annual Caps, the Directors have considered the historical transaction amounts, the operation and growth conditions of the Group's businesses in the area, and the estimated mutual demand of the operation support services.

In assessing the reasonableness of the proposed New Annual Caps for the Operation Support Services Framework Agreement, we have taken into consideration of the followings:

(i) the launch of "寬帶中國•光網城市"工程 (Broadband China Project) of China Telecom in 2011 to drive the mutual demand for operation support services by the Group and China Telecom Group. The project aims to realize fibre optic communication in urban areas and improve the availability of broadband services in rural areas of the PRC; and

(ii) as stated in the 2011 Annual Report, the Directors believes that the capital expenditure by the domestic telecommunications operators will remain relatively stable in the coming years given the continuing growth of their customer base, network scale as well as the continued introduction of new technologies and new services.

Based on the above, we are of the view that the proposed New Annual Caps for the Operation Support Services Framework Agreement are determined by the Directors after due and careful consideration and are fair and reasonable so far as the Independent Shareholders are concerned.

4. *The IT Application Services Framework Agreement*

(a) *Subject matter and term of the IT Application Services Framework Agreement*

As stated in the Letter from the Board, the IT Application Services Framework Agreement governs the arrangements between the Group and China Telecom Group with respect to mutual provision of IT application services. Pursuant to this agreement, the Company agreed to provide China Telecom Group with telecommunications network support services, software and hardware development and other related IT services. China Telecom Group also agreed to provide to the Group certain IT application services including voice and data, value added services and information application services. The scope of the IT Application Services Framework Agreement covers transactions between the Group and China Telecom Group, as may be applicable from time to time.

The current term of the IT Application Services Framework Agreement will expire on 31 December 2012, 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 2012 Supplemental Agreement to extend the current term of the IT Application Services Framework Agreement to 31 December 2015.

(b) *Pricing basis of the IT Application Services Framework Agreement*

Pursuant to the IT Application Services Framework Agreement, the pricing basis is 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.

Based on the above, we consider that the pricing basis under the IT Application Services Framework Agreement is on normal commercial terms and is fair and reasonable so far as the Independent Shareholders are concerned.

(c) *Historical amounts and the proposed New Annual Caps*

The table below shows the historical transaction amounts, the Existing Annual Caps and the proposed New Annual Caps relating to the IT Application Services Framework Agreement:

Unit: RMB million

Transactions	**Year ended 31 December 2011**		**Year ending 31 December 2012**		**2013**	**2014**	**2015**
IT Application Services Framework Agreement	**Existing Annual Caps**	**Actual amounts**	**Existing Annual Caps**	**Actual amounts (up to 30 June 2012)**	**New Annual Caps**	**New Annual Caps**	**New Annual Caps**
Revenue	1,750	1,355	1,900	478	2,000	2,100	2,300
% of utilization		77.4%		25.2%			
% of increase			8.6%[1]		5.3%[2]	5.0%[3]	9.5%[4]
Expenditure	430	165	430	77	430	460	490
% of utilization		38.4%		17.9%			
% of increase			0.0%[1]		0.0%[2]	7.0%[3]	6.5%[4]

Notes:

1. The percentage increase in the 2012 Existing Annual Cap is with reference to the 2011 Existing Annual Cap

2. The percentage increase in the 2013 New Annual Cap is with reference to the 2012 Existing Annual Cap

3. The percentage increase in the 2014 New Annual Cap is with reference to the 2013 New Annual Cap

4. The percentage increase in the 2015 New Annual Cap is with reference to the 2014 New Annual Cap

As calculated from the table above, we note that the actual amounts for the service charges received by the Company from China Telecom Group under the IT Application Services Framework Agreement for the year ended 31 December 2011 was approximately RMB1,355 million, representing a utilization rate of approximately 77.4%. Based on the 2012 Interim Report, the actual amounts for the service charges received by the Company from China Telecom Group under the IT Application Services Framework Agreement for the six months ended 30 June 2012 was approximately RMB478 million, representing a utilization rate of approximately 25.2% or an annualized utilization rate of approximately 50.4%. Besides, the actual amounts for the service charges paid by the Company to China Telecom Group under the IT Application Services Framework Agreement for the year ended 31 December 2011 was approximately RMB165 million, representing a utilization rate of approximately 38.4%. Based on the 2012 Interim Report, the actual amounts for the service charges paid by the Company to China Telecom Group under the IT Application Services Framework

Agreement for the six months ended 30 June 2012 was approximately RMB77 million, representing a utilization rate of approximately 17.9% or an annualized utilization rate of approximately 35.8%. We notice that the utilization rate of historical annual caps for the service charges paid by the Company to China Telecom Group is relatively low. As advised by the management of the Company, the demand for the IT application services provided by China Telecom Group fluctuated in the previous years and thus is lower than the prior estimates of the Company.

We also note that there is an approximately 5.3% increase in the 2013 New Annual Cap for the service charges receivable by the Company from China Telecom Group as compared to the 2012 Existing Annual Cap, an approximately 5.0% increase in the 2014 New Annual Cap for the service charges receivable by the Company from China Telecom Group as compared to the 2013 New Annual Cap and an approximately 9.5% increase in the 2015 New Annual Cap for the service charges receivable by the Company from China Telecom Group as compared to the 2014 New Annual Cap. Besides, the 2013 New Annual Cap for the service charges payable by the Company to China Telecom Group is the same as compared to the 2012 Existing Annual Cap, and there is an approximately 7.0% increase in the 2014 New Annual Cap for the service charges payable by the Company to China Telecom Group as compared to the 2013 New Annual Cap and an approximately 6.5% increase in the 2015 New Annual Cap for the service charges payable by the Company to China Telecom Group as compared to the 2014 New Annual Cap.

As stated in the Letter from the Board, the Directors expect that along with the continuous development of mobile Internet, China Telecom Group will continue to accelerate its strategic transformation 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 the Group's businesses in the area, and the Group's estimated demand of the IT application services.

In assessing the reasonableness of the proposed New Annual Caps for the IT Application Services Framework Agreement, we have taken into consideration of the followings:

(i) the expected increase in the provision of IT system integration services to China Telecom Group by the Group after its formation of joint ventures with global strategic partners. As stated in the 2011 Annual Report, capitalizing on the implementation of the national "Broadband China" strategy and the proliferation of the mobile Internet industry, the Group formed joint ventures with global strategic partners such as Sybase, Inc, a global leading software enterprise and Bytemobile, Inc, an industry leading wireless data optimization company in 2011 for collaboration in areas such as mobile Internet and wireless network optimization. By leveraging their advanced technologies and well-developed customer solutions and combing with the advantages in customer relationship, distribution channels and localized services of the Group, the Directors anticipated that more telecommunications network support services, software and hardware development and other related IT services would be provided to China Telecom Group; and

(ii) the expected growing demand for IT application services due to the expanding Internet user base in the PRC. We note from the statistic report issued by 中國互聯網網絡信息中心 (China Internet Network Information Center) in July 2012 that, as at 30 June 2012, China had 537.6 million Internet users, representing a 4.8% increase as compared with that as at 31 December 2011, 8.7 million domain names, representing a 12.7% increase as compared with that as at 31 December 2011; and 2.5 million websites, representing a 9.1% increase as compared with that as at 31 December 2011.

Based on the above, we are of the view that the proposed New Annual Caps for the IT Application Services Framework Agreement are determined by the Directors after due and careful consideration and are fair and reasonable so far as the Independent Shareholders are concerned.

5. *The Supplies Procurement Services Framework Agreement*

(a) *Subject matter and term of the Supplies Procurement Services Framework Agreement*

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

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

The current term of the Supplies Procurement Services Framework Agreement will expire on 31 December 2012, 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 2012 Supplemental Agreement to extend the current term of the Supplies Procurement Services Framework Agreement to 31 December 2015.

(b) *Pricing basis of the Supplies Procurement Services Framework Agreement*

Pursuant to the Supplies Procurement Services Framework Agreements, the pricing basis is determined as below: (i) 1% of the contract value at the maximum for procurement services relating to imported telecommunications supplies; (ii) 3% of the contract value at the maximum for procurement services relating to domestic telecommunications supplies and other domestic non-telecommunications materials; and (iii) for other procurement services under the Supplies Procurement Services Framework Agreement, pricing basis is determined by reference to (a) government-prescribed prices; (b) if there are no government-prescribed prices, the government-guidance prices apply; (c) when there are no government-prescribed price nor government-guidance prices, the market prices apply; or (d) when there are no applicable prices as mentioned in (a), (b) and (c), then the reasonable costs plus reasonable profit margin as negotiated and agreed between the relevant parties for the provision of the above services on the basis of fairness.

We also noted that the pricing basis and other applicable terms for each type of services under the Supplies Procurement Services Framework Agreement is subject to review and amendments, if necessary, by way of a supplemental agreement by the parties on 31 December each year. In addition, we further noted that the payment for the related 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 should be made at least once every 60 days.

In addition, 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 Telecom 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 to independent third parties.

Based on the above, we consider that pricing basis under the Supplies Procurements Services Framework Agreement is on normal commercial terms and is fair and reasonable so far as the Independent Shareholders are concerned.

(c) *Reasons for the revision of the annual cap for the service charges receivable by the Company from China Telecom Group under the Supplies Procurement Services Framework Agreement for the year ending 31 December 2012*

As stated in the Letter from the Board, in 2012, the development of mobile Internet promoted the proliferation of mobile terminals including smart phones. To promote the sales of mobile terminals of China Telecom across the whole country, China Telecom Group increased the procurement of telecommunications supplies especially the mobile terminals from the Group. As such, the aggregate service charges receivable by the Company from China Telecom Group under the Supplies Procurement Services Framework Agreement for the year ending 31 December 2012 are projected to be higher than the applicable Existing Annual Cap. The Directors proposed to increase the annual cap for the service charges receivable by the Company from China Telecom Group under the Supplies Procurement Services Framework Agreement for the year ending 31 December 2012.

(d) *Historical amounts, the proposed Revised Annual Cap and the proposed New Annual Caps*

The table below shows the historical transaction amounts, the Existing Annual Caps, the proposed Revised Annual Cap and the proposed New Annual Caps relating to the Supplies Procurements Services Framework Agreement:

Unit: RMB million

	Year ended 31 December		Year ending 31 December					
Transactions	**2011**		**2012**			**2013**	**2014**	**2015**
Supplies Procurement Services Framework Agreement	**Existing Annual Caps**	**Actual amounts**	**Existing Annual Caps**	**Revised Annual Cap**	**Actual amounts (up to 30 June 2012)**	**New Annual Caps**	**New Annual Caps**	**New Annual Caps**
Revenue	3,500	3,281	4,000	4,400[1]	2,156	4,600	5,100	5,600
% of utilization		93.7%			53.9% (49.0%[1])			
% of increase			14.3%[2]			15.0% (4.6%)[3]	10.9%[4]	9.8%[5]
Expenditure	2,100	1,639	2,600		1,206	3,100	3,600	4,100
% of utilization		78.0%			46.4%			
% of increase			23.8%[2]			19.2%[3]	16.1%[4]	13.9%[5]

Notes:

1. The 2012 Existing Annual Cap in respect of the service charges receivable by the Company from China Telecom Group is proposed to revise to RMB4,400 million

2. The percentage increase in the 2012 Existing Annual Cap is with reference to the 2011 Existing Annual Cap

3. The percentage increase in the 2013 New Annual Cap is with reference to the 2012 Existing Annual Cap and the 2012 Revised Annual Cap

4. The percentage increase in the 2014 New Annual Cap is with reference to the 2013 New Annual Cap

5. The percentage increase in the 2015 New Annual Cap is with reference to the 2014 New Annual Cap

As calculated from the table above, we note that the actual amount 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 2011 was approximately RMB3,281 million, representing a utilization rate of approximately 93.7%. Based on the 2012 Interim Report, the actual amounts for the services charge received by the Company from China Telecom Group under the Supplies Procurement

Services Framework Agreement for the six months ended 30 June 2012 was approximately RMB2,156 million, representing a utilization rate of approximately 53.9% or an annualized utilization rate of approximately 107.8%. Besides, the actual amount 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 2011 was approximately RMB1,639 million. representing a utilization rate of approximately 78.0%. Based on the 2012 Interim Report, the actual amounts for the service charges paid by the Company to China Telecom Group under the Supplies Procurement Services Framework Agreement for the six months ended 30 June 2012 was approximately RMB1,206 million, representing a utilization rate of approximately 46.4% or a annualized utilization rate of approximately 92.8%.

We also note that there is an approximately 15.0% increase in the 2013 New Annual Cap for the service charges receivable by the Company from China Telecom Group as compared to the 2012 Existing Annual Cap (or an approximately 4.6% increase as compared to the 2012 Revised Annual Cap), an approximately 10.9% increase in the 2014 New Annual Cap for the service charges receivable by the Company from China Telecom Group as compared to the 2013 New Annual Cap and an approximately 9.8% increase in the 2015 New Annual Cap for the service charges receivable by the Company from China Telecom Group as compared to the 2014 New Annual Cap. Besides, there is an approximately 19.2% increase in the 2013 New Annual Cap for the service charges payable by the Company to China Telecom Group as compared to the 2012 Existing Annual Cap, an approximately 16.1% increase in the 2014 New Annual Cap for the service charges payable as compared to the 2013 New Annual Cap and an approximately 13.9% increase in the 2015 New Annual Cap for the service charges payable as compared to the 2014 New Annual Cap.

As stated in the Letter from the Board, in determining the Revised Annual Cap, the Directors have considered the actual transaction amounts received by the Company from China Telecom Group under the Supplies Procurement Services Framework Agreement in the first half of 2012, the operation and growth conditions of businesses of China Telecom Group in this area, and the estimated increase of demand of the Group's telecommunications supplies in the second half of 2012.

In assessing the reasonableness of the proposed Revised Annual Cap for service charges receivable under the Supplies Procurement Services Framework Agreement, we have reviewed the historical transaction amounts and the utilization rate for the service charges receivable by the Company from China Telecom Group as previously mentioned and we have also discussed with the management of the Company the proliferation of mobile Internet. We were given to understand that China Telecom Group has implemented a large-scale marketing promotional campaign for mobile terminals, especially 3G smartphones in 2012. The procurement of telecommunications supplies especially the mobile terminals by China Telecom Group from the Group has greatly increased in the first half of 2012. We are advised by the management of the Company that possible future growth in the business with China Telecom Group is expected to continue in the second half of 2012 as a result of the continuing strong demand for supplies procurement services provided by the Group. Accordingly, we consider that it is reasonable for the Company to reserve sufficient buffer to cater for the expected increase in the provision of supplies procurement services in the second half of 2012.

As stated in the Letter from the Board, the Directors expect that along with the development of mobile Internet and proliferation of mobile terminals including smart phones, the demand of supplies procurement services required by China Telecom Group will increase as a result of its expansion of network size and customer base. In determining the New Annual Caps, the Directors have also considered the historical transaction amounts and their estimated demand of supplies procurement services provided by China Telecom Group.

In assessing the reasonableness of the proposed New Annual Caps for the Supplies Procurement Services Framework Agreement, we have taken into consideration of the followings:

(i) the increasing use of mobile services, especially the 3G services in the PRC will drive the mutual demand for by the Group and China Telecom Group. According to the website of Ministry of Industry and Information Technology of the People's Republic of China (中華人民共和國工業和信息化部) that for the five months ended 31 May 2012, the mobile services recorded sales of approximately RMB311.4 million, representing a approximately 12.3% increase as compared to the corresponding period last year. Users of 3G services reached 166.7 million, representing an increase of approximately 29.8% as compared with that as 31 December 2011; and

(ii) the expected increase in the demand for mobile terminals due to the popular use of the Internet in the PRC. According to the statistic report issued by 中國互聯網網絡信息中心 (China Internet Network Information Center) in July 2012 that, for the six months ended 30 June 2012, the penetration rate of the Internet reached 39.9% and expected to reach over 45% in 2015 as set by the PRC government under the "Twelfth Five-Year Plan".

Based on the above, we are of the view that the proposed New Annual Caps for the Supplies Procurement Services Framework Agreement are determined by the Directors after due and careful consideration and are fair and reasonable so far as the Independent Shareholders are concerned.

LISTING RULES' IMPLICATIONS

The Non-Exempt Agreements, the proposed Revised Annual Caps, the proposed New Annual Caps and any continuing connected transactions contemplated thereunder are subject to the annual review requirements of Rule 14A.37 to 14A.40 of the Listing Rules. According to the 2011 Annual Report, the independent non-executive Directors have confirmed that the Non-Exempt Continuing Connected Transactions for the year ended 31 December 2011 have been entered into:

- in the ordinary and usual course of business of the Company;
- either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Company than the terms available to or from (as appropriate) independent third parties; and
- in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Furthermore, according to the 2011 Annual Report, the Company's auditors have provided a letter to the Board confirming that the Non-Exempt Continuing Connected Transactions for the year ended 31 December 2011:

- have received the approval of the Board;
- are in accordance with the pricing policies of the Company if the transactions involve provision of goods or services by the Group;
- have been entered into in accordance with the relevant agreement governing the transactions; and
- have not exceeded the caps disclosed in the previous announcement(s).

Given the above, we consider that the annual review requirements can provide appropriate measures to govern the Company in carrying out the Non-Exempt Agreements and safeguard the interests of the Shareholders thereunder.

RECOMMENDATION

Having considered the principal reasons and factors discussed above, we are of the view that the Non-Exempt Continuing Connected Transactions are in the ordinary and usual course of business of the Company and on normal commercial terms; and that the proposed Revised Annual Caps, the terms of the Non-Exempt Agreements and the proposed New Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend that the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the proposed Revised Annual Caps, the Non-Exempt Continuing Connected Transactions and the proposed New Annual Caps contemplated thereunder.

For and on behalf of
GF Capital (Hong Kong) Limited

Danny Wan
Managing Director and
Head of Corporate Finance

Brian Lee
Deputy Managing Director

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DIRECTORS' AND SUPERVISORS' INTERESTS

As at the Latest Practicable Date, none of the Directors, Supervisors and chief executive of the Company had any interest or short position in any shares, underlying shares of equity derivatives or debentures of the Company or its associated corporations (within the meaning of the SFO) (1) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were deemed or taken to have under the SFO) or (2) which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or (3) which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange.

As at the Latest Practicable Date, none of the Directors or Supervisors had any interest, direct or indirect, in any asset which since 31 December 2011, the date to which the latest published audited financial statements of the Group were made up, have been acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group.

Save as the positions held by Mr. Li Ping, Mr. Zheng Qibao and Mr. Yuan Jianxing at China Telecom and the position held by Mr. Zhang Junan at China United Network Communications Group Company Limited, as at the Latest Practicable Date, none of the Directors were a director or an employee of any shareholders of the Company or a company which has an interest or short position in shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO.

As at the Latest Practicable Date, none of the Directors or Supervisors was materially interested in any contract or arrangement to which any member of the Group was a party and which was significant to the business of the Group, apart from their service contracts.

China Telecom and its associates, being connected persons to the Non-Exempt Continuing Connected Transactions, will abstain from voting on the ordinary resolutions to approve the proposed Revised Annual Caps and the renewal of the Non-Exempt Continuing Connected Transactions (together with the proposed New Annual Caps).

3. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors and Supervisors has entered or proposed to enter into a service contract with any member of the Group which is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

4. COMPETING INTEREST

As at the Latest Practicable Date, none of the Directors, Supervisors and their respective associates was interested in any business, apart from the business of the Group, which competes or is likely to compete, either directly or indirectly, with that of the Group.

5. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2011, being the date of the latest published audited financial statements of the Company.

6. QUALIFICATION OF EXPERTS

The following are the qualifications of GF Capital (Hong Kong) Limited who has given their advice, letters or reports for the inclusion in this circular:

Name	**Qualification**
GF Capital (Hong Kong) Limited	a corporation licensed to carry out Type 6 (advising on corporate finance) of the regulated activities under the SFO

7. CONSENT

(a) GF Capital (Hong Kong) Limited issued a letter dated 27 September 2012 for the purpose of incorporation in this circular, in connection with its advice to the Independent Board Committee and the Independent Shareholders.

(b) GF Capital (Hong Kong) Limited has given and has not withdrawn its respective written consents to the issue of this circular with the inclusion of its advice, letters and references to their names and logos in the form and context in which it appears.

(c) As at the Latest Practicable Date, GF Capital (Hong Kong) Limited was not beneficially interested in the share capital of any member of the Group nor had any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group and did not have any interest, either directly or indirectly, in any assets which have been, since 31 December 2011 (the date to which the latest published audited financial statements of the Company were made up), acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

8. GENERAL

(a) Mr. Chung Wai Cheung, Terence is the company secretary of the Company.

(b) The Company's registered office is at Level 5, No. 2 and B, Fuxingmen South Avenue, Xicheng District, Beijing, PRC and its principal place of business in Hong Kong is at Room 3203–3205, Great Eagle Centre, 23 Harbour Road, Wanchai, Hong Kong.

(c) The Company's share registrar and transfer office of the Company in Hong Kong is Computershare Hong Kong Investor Services Limited at Room 1806–1807, 18th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of the Company at Room 3203–3205, 32/F, Great Eagle Centre, 23 Harbour Road Wanchai, Hong Kong during normal business hours from the date of this circular up to and including the date of the EGM and at the EGM:

(a) the articles of association of the Company;

(b) the Agreements;

(c) the 2007 Supplemental Agreement;

(d) the 2008 Supplemental Agreement;

(e) the 2010 Supplemental Agreement;

(f) the 2012 Supplemental Agreement;

(g) the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, the text of which is set out in the section headed "Letter from the Independent Financial Adviser" of this circular;

(h) the letter from the Independent Board Committee, the text of which is set out in the section headed "Letter from the Independent Board Committee" of this circular; and

(i) the written consent referred to in the section headed "Consent" in this appendix.

10. MISCELLANEOUS

Unless otherwise stated and save as the names of the companies established in the PRC and mentioned in this circular, the English text of this circular shall prevail over its Chinese text in the case of any discrepancies.

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)

NOTICE OF THE EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of China Communications Services Corporation Limited (the "**Company**") will be held at 10:00 a.m. on 27 November 2012 at No. 19, Chaoyangmen Beidajie, Dongcheng District, Beijing, the PRC, to consider and, if thought fit, pass the following businesses:

ORDINARY RESOLUTIONS

1. **THAT** the proposed revised annual caps for the Operation Support Services Framework Agreement and the service charges receivable by the Company from China Telecom Group under the Supplies Procurement Services Framework Agreement for the year ending 31 December 2012 as described in the circular of the Company dated 27 September 2012 (the "**Circular**") be and are hereby approved, ratified and confirmed.

2. **THAT** the 2012 Supplemental Agreement (in respect of, among others, the renewal of terms of the non-exempt continuing connected transactions to 31 December 2015) with China Telecom as described in the Circular be and are hereby approved, ratified and confirmed and that any director of the Company be and is hereby authorized to do all such further acts and things and execute such further documents and take all such steps which in their opinion may be necessary, desirable or expedient to implement and/or give effect to the terms of such agreement.

3. **THAT** the proposed new annual caps for the non-exempt continuing connected transactions for the three years ending 31 December 2015 as described in the Circular be and are hereby approved, ratified and confirmed.

4. **THAT** Mr. Li Zhengmao's appointment as a non-executive director of the Company be considered and approved, with his term of office effective from the date when this resolution is passed until the annual general meeting of the Company for the year 2014 to be held in 2015; and that any one of the directors of the Company be authorized, on behalf of the Company, to enter into a service agreement with Mr. Li Zhengmao.

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

Beijing, the PRC

27 September 2012

Notes:

(1) Buyers who submit the share transfer application forms to the Company's share registrar before 4:30 p.m. on 26 October 2012 and then register as shareholders on the register of members of the Company are entitled to attend the extraordinary general meeting.

(2) Each shareholder entitled to attend and vote at the extraordinary general meeting may appoint one or more proxies to attend and vote on his behalf at the extraordinary general meeting. A proxy need not be a shareholder. Each shareholder who wishes to appoint one or more proxies should first review the Circular, which is expected to be despatched to shareholders at around 27 September 2012.

To be valid, the form of proxy together with the power of attorney or other authorization document (if any) signed by the authorized person or notarially certified power of attorney must be delivered to the Office of the Board of the Company for holders of domestic shares or to the Computershare Hong Kong Investor Services Limited for holders of H shares not less than 24 hours before the designated time for holding the extraordinary general meeting. Completion and return of a form of proxy will not preclude a shareholder from attending in person and voting at the extraordinary general meeting if he so wishes.

The address of the share registrar for the Company's H shares is as follows:

Computershare Hong Kong Investor Services Limited
17M Floor, Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

(3) China Telecom and its associates, being connected persons to the Company with material interests in the proposed Revised Annual Caps and the renewal of the Non-Exempt Continuing Connected Transactions, will abstain from voting on the ordinary resolutions to approve the proposed Revised Annual Caps and the renewal of the Non-Exempt Continuing Connected Transactions (together with the proposed New Annual Caps) as described in the Circular and in this notice. Any vote of the Shareholders at the extraordinary general meeting shall be taken by poll.

(4) The registration procedure for attending the extraordinary general meeting:

(a) shareholders attending the extraordinary general meeting in person or by proxy shall present their identity certification. If the attending shareholder is a corporation, its legal representative or person authorised by its board or other decision making authority shall present a copy of the relevant resolution of its board or other decision making authority in order to attend the extraordinary general meeting.

(b) shareholders intending to attend the extraordinary general meeting shall return the attendance slip via hand delivery, mail or fax to the Office of the Board of the Company on or before 6 November 2012.

(5) Closure of the register of members:

The register of members of the Company will be closed from 28 October 2012 to 27 November 2012 (both days inclusive).

(6) The extraordinary general meeting is expected to last for half a day and shareholders (in person or by proxy) attending the extraordinary general meeting shall be responsible for their own transport and accommodation expenses.

(7) The address of the Office of the Board is as follows:

No. 19, Chaoyangmen Beidajie
Dongcheng District, Beijing 100010, PRC
Contact person: Chung Wai Cheung, Terence
Telephone: (8610) 5850 2290
Facsimile: (8610) 5850 1534

(8) As at the date of this notice, our executive directors are Mr. Li Ping (Chairman), Mr. Zheng Qibao (President), Mr. Yuan Jianxing (Executive Vice President) and Ms. Hou Rui (Executive Vice President and Chief Financial Officer), our non-executive director is Mr. Zhang Junan, and our independent non-executive directors are Mr. Wang Jun, Mr. Zhao Chunjun, Mr. Wei Leping and Mr. Siu Wai Keung, Francis.