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 CONTINUING CONNECTED TRANSACTIONS AND PROPOSED NEW ANNUAL CAPS

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 29 of this circular. A letter from the Independent Board Committee is set out on pages 30 to 31 of this circular. A letter from the Independent Financial Adviser is set out on pages 32 to 69 of this circular.

A notice convening an extraordinary general meeting ("EGM") of the Company to be held at 10:00 a.m. on 11 December 2015, at No. 19, Chaoyangmen Beidajie, Dongcheng District, Beijing, the PRC, is set out on pages 73 to 75 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 and completion and return of the reply slip will not affect your right to attend the respective meeting.

22 October 2015

CONTENTS

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

"2012 Announcement and Circular"	the announcement and the circular of the Company dated 20 September 2012 and 27 September 2012, in respect of, among other things, the revision of annual caps, the renewal of the Original Agreements and proposed new annual caps
"2012 Supplemental Agreement"	the supplemental agreement between the Company and China Telecom dated 20 September 2012 in respect of, among other things, the renewal of the terms of each of the Original Agreements to 31 December 2015
"2015 Agreements"	the Engineering Framework Agreement, the Ancillary Telecommunications Services Framework Agreement, the Operation Support Services Framework Agreement, the IT Application Services Framework Agreement, the Centralized Services Agreement, the Property Leasing Framework Agreement and the Supplies Procurement Services Framework Agreement entered into between the Company and China Telecom on 29 September 2015
"associate"	has the meaning ascribed to it under the Listing Rules
"Board"	the board of Directors of the Company
"China" or "PRC"	the People's Republic of China (excluding, for the purposes of this 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
"close associate"	has the meaning ascribed to it under the Listing Rules
"Company"	China Communications Services Corporation Limited (中國通信服務股份有限公司), a joint stock limited company incorporated in the PRC with limited liability on 30 August 2006, whose H Shares are listed on the Stock Exchange

"Continuing Connected Transactions"	the connected transactions entered into between a member of the Group and China Telecom and its subsidiaries (excluding the Group) as governed by the 2015 Agreements, details of which are set out in section 3 of the Letter from the Board headed "Continuing Connected Transactions under the 2015 Agreements" in this circular
"Director(s)"	the director(s) of the Company
"EGM"	the extraordinary general meeting of the Company to be held on 11 December 2015
"Existing Annual Cap(s)"	the existing annual cap(s) applicable to the continuing connected transactions under each of the Original Agreements for the applicable period ending 31 December 2015, which were approved by the Independent Shareholders (where applicable)
"Group"	the Company and its subsidiaries
"H Share(s)"	overseas listed foreign invested share(s) in the Company's issued share capital with a par value of RMB1.00 per share which are listed on the Stock Exchange
"Hong Kong"	Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	an independent board committee, consisting of Mr. Wang Jun, Mr. Zhao Chunjun, Mr. Siu Wai Keung, Francis, Mr. Lv Tingjie and Mr. Wu Taishi who are independent non-executive Directors, which has been formed to advise the Independent Shareholders on the proposed Revised Annual Caps and the Non-exempt Continuing Connected Transactions (together with the proposed New Annual Caps thereof)
"Independent Financial Adviser"	GF Capital (Hong Kong) Limited, a corporation licensed to carry out Type 6 (advising on corporate finance) of the regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Independent Shareholders"	Shareholders other than China Telecom and its associates
"Latest Practicable Date"	20 October 2015, 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 Cap(s)"	the new annual cap(s) proposed for the Continuing Connected Transactions under each of the 2015 Agreements for the three years ending 31 December 2016, 2017 and 2018, where applicable, the Independent Shareholders' approval of which will be sought at the EGM
"Non-exempt Continuing Connected Transactions"	the Continuing Connected Transactions under the 2015 Agreements other than those under the Centralized Services Agreement and the Property Leasing Framework Agreement
"Original Agreements"	the Original Engineering Framework Agreement, the Original Ancillary Telecommunications Services Framework Agreement, the Original Operation Support Services Framework Agreement, the Original IT Application Services Framework Agreement, the Original Centralized Services Agreement and the Original Property Leasing Framework Agreement first entered into between the Company and China Telecom on 16 November 2006, as well as the Original Supplies Procurement Services Framework Agreement entered into between the Company and China Telecom on 29 October 2009 (as amended or supplemented from time to time)
"Revised Annual Cap(s)"	the revised annual cap(s) proposed for the service charges receivable by the Company from China Telecom Group under the Original Engineering Framework Agreement and the service charges payable by the Company to China Telecom Group under the Original Operation Support Services Framework Agreement for the year ending 31 December 2015, the Independent Shareholders' approval of which will be sought at the EGM
"RMB"	Renminbi, the lawful currency of the PRC

"Shareholders"	shareholders of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited

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.

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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
Sun Kangmin *(Chairman)*
Si Furong
Hou Rui

Non-executive Directors
Li Zhengmao
Zhang Junan

Independent Non-executive Directors
Wang Jun
Zhao Chunjun
Siu Wai Keung, Francis
Lv Tingjie
Wu Taishi

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

22 October 2015

To the Shareholders

Dear Sir or Madam,

REVISION OF ANNUAL CAPS
CONTINUING CONNECTED TRANSACTIONS
AND
PROPOSED NEW ANNUAL CAPS

1. INTRODUCTION

Reference is made to the announcement of the Company dated 29 September 2015 in relation to (i) the proposed Revised Annual Caps, and (ii) the entering into the Continuing Connected Transactions under the 2015 Agreements (together with the proposed New Annual Caps).

The Board announced on 29 September 2015 that the Company entered into the 2015 Agreements with China Telecom in relation to the Continuing Connected Transactions.

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

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

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

The Independent Board Committee comprising all of the independent non-executive Directors has been formed to advise the Independent Shareholders on the proposed Revised Annual Caps and the Non-exempt Continuing Connected Transactions (together with the proposed New Annual Caps thereof). 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, 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 thereof).

2. BACKGROUND

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

(1) the Original Engineering Framework Agreement;

(2) the Original Ancillary Telecommunications Services Framework Agreement;

(3) the Original Operation Support Services Framework Agreement;

(4) the Original IT Application Services Framework Agreement;

(5) the Original Centralized Services Agreement;

(6) the Original Property Leasing Framework Agreement; and

(7) the Original Supplies Procurement Services Framework Agreement.

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

Since the issuance of 4G (LTE FDD) licenses in early 2015, China Telecom Group has put more efforts on network construction, and its demand for the Company's engineering services has been increasing. Therefore, the aggregate service charges receivable by the Company from China Telecom Group under the Original Engineering Framework Agreement are anticipated to be higher than the applicable Existing Annual Caps. Besides, the rapid growth of the Company's engineering services and network maintenance business has led to an increase in demand for operation support services, and the aggregate service charges payable by the Company to China Telecom Group under the Original Operation Support Services Framework Agreement are also anticipated to be higher than the applicable Existing Annual Caps. The Directors proposed to increase the relevant annual caps for the service charges receivable by the Company from China Telecom Group under the Original Engineering Framework Agreement and the service charges payable by the Company to China Telecom Group under the Original Operation Support Services Framework Agreement for the year ending 31 December 2015.

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

3. CONTINUING CONNECTED TRANSACTIONS UNDER THE 2015 AGREEMENTS

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

(a) Engineering Framework Agreement

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

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

The charges for engineering related services rendered under the Engineering Framework Agreement shall be determined at prices fixed through tender process or market price. According to the relevant regulations and under the internal policy of China Telecom Group, whenever the value of any design and/or project supervision and management contracts exceeds RMB0.5 million, or the value of any construction contracts exceeds RMB2 million, the award of the relevant contract must be subject to a tender process (with a minimum of three parties tendering bids) in accordance with the Bidding Law of the PRC and Regulation on the Implementation of the Bidding Law of the PRC, except as otherwise provided by related laws and regulations. In determining the market price, the business and financial department of the relevant subsidiary of the Company shall collect the relevant market information (including but not limited to the change in price for the same or similar type of services), review and compare the costs and profits of transactions conducted in the most recent year of the same or similar type entered into with China Telecom Group or independent third parties, and prepare fee quotes for review by the marketing department of the relevant subsidiary of the Company, or the marketing department of the relevant subsidiary will further submit the fee quotes to the management of such subsidiary for review depending on the actual situations (such as the amount and size of the transaction). The marketing department or management of the relevant subsidiary of the Company shall primarily consider the following factors: (1) cost of service; (2) prices of the same or similar type of services provided to China Telecom Group by other service providers in the market; (3) prices of the same or similar type of services provided to China Telecom Group and independent third parties previously by the Company.

The Company will be given priority by China Telecom Group in the provision of the engineering related services except in the tender process, provided that the terms and conditions offered by independent third parties to China Telecom Group are no more favorable than those offered by the Company for the same type of services, and in return, the Company has undertaken to China Telecom Group that the Company shall not provide services to it on terms which are less favorable than those offered by the Company to independent third parties. The payment for engineering related services provided by the Company under the Engineering Framework Agreement is normally made in accordance with the progress of practical work following the general market practice in the industry.

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

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

(1) the actual transaction amount for the first half of 2015 under the Original Engineering Framework Agreement, and the increase in transaction amount in the second half compared to the first half of 2013 and 2014;

(2) that China Telecom Group's demand of engineering related services in the second half of 2015 is expected to further increase. Stipulated by the issuance of 4G (LTE FDD) licenses, the capital expenditure of China Telecom Corporation Limited (stock code: 728), a subsidiary of China Telecom, was approximately RMB36.7 billion for the first half of 2015, representing an increase of 59% as compared to the corresponding period last year, and its capital expenditure for 2015 is expected to reach approximately RMB107.8 billion. As the capital expenditure of China Telecom Corporation Limited for the first half of 2015 accounts for only 34% of its budgeted capital expenditure for 2015, the other 66% capital expenditure is expected to be used in the second half of 2015, which is expected to promote the

demand for engineering related services of China Telecom Group and increase the transaction amount for the second half of 2015 under the Original Engineering Framework Agreement; and

(3) the operation and growth conditions of the Group's businesses in this field.

The Directors proposed the New Annual Caps for the Engineering Framework Agreement in respect of the three years ending 31 December 2016, 2017 and 2018 to be RMB24,000 million, RMB24,000 million and RMB24,000 million, respectively. In determining the New Annual Caps, the Directors have considered:

(1) the historical annual transaction amounts for 2013 and 2014 and the estimated annual transaction amount for 2015 under the Original Engineering Framework Agreement (taking into account the anticipated transaction amount for the second half compared to the actual transaction amount for the first half of 2015);

(2) that China Telecom Group's demand for engineering related service is expected to remain stable after substantial increase in investment in network construction in 2015;

(3) that after rapid development over the past years, the PRC telecommunications industry is expected to maintain stable development in the future. The PRC telecommunications industry recorded revenue of approximately RMB571.3 billion in the first half of 2015, representing an increase of 2.3% as compared to the corresponding period last year; and

(4) the operation and growth conditions of the Group's businesses in this field.

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

(b) Ancillary Telecommunications Services Framework Agreement

Pursuant to the Ancillary Telecommunications Services Framework Agreement, the Company agreed to provide to China Telecom Group certain ancillary telecommunications services such as maintenance of network facilities including equipment, ducts and cables, equipment rooms and base stations; distribution of telecommunications products and services; provision of comprehensive logistics services, including purchasing agent, warehousing, transportation, delivery, testing and inspection, logistics information management and distribution; provision of application, content and other services such as fixed-line value added services, wireless value added services, Internet value added services, and development of online gaming, certificate authentication and value added business platform of Internet cafes (the "Ancillary Telecommunications Services"). The scope of the Ancillary Telecommunications Services Framework Agreement covers transactions between the Company (and its subsidiaries) and China Telecom (and its subsidiaries but excluding the Group), as may be applicable from time to time.

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

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

(1) market price. In determining the market price, the business and financial department of the relevant subsidiary of the Company shall collect the relevant market information (including but not limited to the change in price for the same or similar type of services), review and compare the costs and profits of transactions conducted in the most recent year of the same or similar type entered into with China Telecom Group or independent third parties, and prepare fee quotes for review by the marketing department of the relevant subsidiary of the Company, or the marketing department of the relevant subsidiary will further submit the fee quotes to the management of such subsidiary for review depending on the actual situations (such as the amount and size of the transaction). The marketing department or management of the relevant subsidiary of the Company shall primarily consider the following factors: (i) cost of service; (ii) prices of the same or similar type of services provided to China Telecom Group by other service providers in the market; (iii) prices of the same or similar type of services provided to China Telecom Group and independent third parties previously by the Company.

(2) in the absence of market price or where the market price cannot be determined, the price shall be agreed between both parties, which shall be the aggregate amount of reasonable costs, the relevant taxes in sales and reasonable profits. In determining such price, the business and financial department of the relevant subsidiary of the Company will review and compare the costs and profits of transactions conducted in the most recent year of the same or similar type entered into with China Telecom Group or independent third parties, take into account factors such as historical price, transaction size, average profit ratio within the relevant industry, supply and demand, labor cost, local commodity prices and economic development levels, and prepare fee proposals for review by the marketing department of the relevant subsidiary of the Company, or the marketing department of the relevant subsidiary will further submit the fee quotes to the management of such subsidiary for review depending on the actual situations (such as the amount and size of the transaction).

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

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

The Directors proposed the New Annual Caps for the Ancillary Telecommunications Services Framework Agreement in respect of the three years ending 31 December 2016, 2017 and 2018 to be RMB12,100 million, RMB13,300 million and RMB15,600 million, respectively. In determining the New Annual Caps, the Directors have considered:

(1) the historical annual transaction amounts for 2013 and 2014 and the estimated annual transaction amount for 2015 under the Original Ancillary Telecommunications Services Framework Agreement (taking into account the anticipated increase in transaction amount for the second half compared to the actual transaction amount for the first half of 2015);

(2) the expected increase in demand of the Ancillary Telecommunications Services by China Telecom Group mainly attributable to the growth of its fibre optic broadband and mobile network, customer base and wireless business. For example, the cost of network operations and support of China Telecom Corporation Limited was RMB37,224 million for the first half of 2015, representing an increase of 26.9% compared to the corresponding period last year. It is expected that China Telecom Group will focus on developing its core businesses and outsource its maintenance business;

(3) that the Group has been focusing on the business opportunities arising from the operating expenditure investment of telecommunications operators, actively develop businesses in network maintenance and optimization, and strive for breakthroughs in high-end maintenance business. In the first half of 2015, revenue from the

network maintenance business of the Group amounted to RMB4,341 million, representing an increase of 14.6% as compared to the corresponding period last year; and

(4) that while continuing to develop businesses in the provinces in Southern China, the Group is actively expanding its Ancillary Telecommunications Services business in major provinces and cities in Northern China. With the geographic expansion of its Ancillary Telecommunications Services business, the Group expects to further increase the business cooperation with China Telecom Group.

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

(c) Operation Support Services Framework Agreement

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

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

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

Each of the parties to the Operation Support Services Framework Agreement will accord priority to the other party in the provision of the operation support services, provided that the terms and conditions offered by independent third parties to the relevant party are no more favorable than those offered by the other party for the same services, and in return, each of the parties has undertaken to the other that it shall not provide services to the other on terms which are less favorable than those offered to independent third parties.

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

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

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

(1) the actual transaction amount for the first half of 2015 under the Original Operation Support Services Framework Agreement, and the increase in transaction amount in the second half compared to the first half year of 2013 and 2014 (taking into account the anticipated increase in transaction amount for the second half compared to the actual transaction amount for the first half year of 2015);

(2) the estimated increase in labour cost and demand of the operation support services from China Telecom Group in the second half of 2015 with the rapid development of engineering services and Ancillary Telecommunications Services; and

(3) the operation and growth conditions of the Group's businesses in this field.

The Directors proposed the New Annual Caps for the service charges receivable by the Company from China Telecom Group under the Operation Support Services Framework Agreement in respect of the three years ending 31 December 2016, 2017 and 2018 to be RMB3,200 million, RMB3,400 million and RMB3,600 million, respectively. The Directors proposed the New Annual Caps for the service charges payable by the Company to China Telecom Group under the Operation Support Services Framework Agreement in respect of the three years ending 31 December 2016, 2017 and 2018 to be RMB900 million, RMB1,000 million and RMB1,100 million, respectively. In determining the New Annual Caps, the Directors have considered:

(1) the historical annual transaction amounts for 2013 and 2014 and the estimated annual transaction amount for 2015 under the Original Operation Support Services Framework Agreement;

(2) that the PRC telecommunications industry is expected to maintain stable development in the future, and the demand of the Group and China Telecom Group for operation support services will maintain moderately stable growth; and

(3) the operation and growth conditions of the Group's businesses in this field.

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

(d) IT Application Services Framework Agreement

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

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

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

Each of the parties to the IT Application Services Framework Agreement will accord priority to the other party in the provision of the IT application services, provided that the terms and conditions offered by independent third parties to the relevant party are no more favorable than those offered by the other party for the same services, and in return, each of the parties has undertaken to the other that it shall not provide services to the other on terms which are less favorable than those offered to independent third parties.

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

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

The Directors proposed the New Annual Caps for the service charges receivable by the Company from China Telecom Group under the IT Application Services Framework Agreement in respect of the three years ending 31 December 2016, 2017 and 2018 to be RMB2,500 million, RMB2,700 million and RMB2,900 million, respectively. The Directors proposed the New Annual Caps for the service charges payable by the Company to China Telecom Group under the IT Application Services Framework Agreement in respect of the three years ending 31 December 2016, 2017 and 2018 to be RMB490 million, RMB490 million and RMB490 million, respectively. In determining the New Annual Caps, the Directors have considered:

(1) the historical annual transaction amounts for 2013 and 2014 and the estimated annual transaction amount for 2015 under the Original IT Application Services Framework Agreement (taking into account the anticipated increase in transaction amount for the second half compared to the actual transaction amount for the first half year of 2015);

(2) that it is expected China Telecom Group will continue to promote the development of its information service business and therefore its demand for IT application services from the Group will increase; and

(3) that it is expected the Group's demand for IT application services from China Telecom Group will remain stable considering the operation and growth conditions of the Group's businesses in this field.

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

(e) Centralized Services Agreement

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

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

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

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

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

Except as otherwise agreed by the parties, the aggregate administrative expenses incurred by the Company for the provision of the centralized services referred to above (all expenses incurred in connection with the above-mentioned headquarters management functions excluding remuneration for the Directors, share appreciation rights and provision of bad debts) will be apportioned pro rata between the Company and China Telecom Group according to the proportional net asset value of each of the relevant parties.

The Existing Annual Caps for the management fees (in the form of reimbursed apportioned cost received) of the Group for the centralized services provided to China Telecom Group under the Original Centralized Services Agreement for the two years of 2014 and 2015 are RMB410 million and RMB420 million, respectively. The actual amount of the management fees received by the Company from China Telecom Group under the Original Centralized Services Agreement for the year ended 31 December 2014 was RMB286 million. Based on the Company's unaudited 2015 interim financial report, the actual amount of the management fees received by the Company from China Telecom Group under the Original Centralized Services Agreement for the six months ended 30 June 2015 was RMB111 million.

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

(1) the historical annual transaction amounts for 2013 and 2014 and the estimated annual transaction amount for 2015 under the Original Centralized Services Agreement; and

(2) that the PRC telecommunications industry is expected to maintain stable development in the future, and the demand of China Telecom Group for centralized services from the Group will increase slightly.

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

(f) Property Leasing Framework Agreement

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

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

The rental charges in respect of each property are determined at market price. In determining the market price, the business and financial department of the relevant subsidiary of the Company shall collect the relevant market information (including but not limited to the change in price for the same or similar type of services), review and compare the costs and profits of transactions conducted in the most recent year of the same or similar type entered into with China Telecom Group or independent third parties, and prepare fee quotes for review by the marketing department of the relevant subsidiary of the Company, or the marketing department of the relevant subsidiary will further submit the fee quotes to the management of such subsidiary for review depending on the actual situations (such as the amount and size of the transaction). The marketing department or management of the relevant subsidiary of the Company shall primarily consider the following factors: (1) cost of property depreciation; (2) rental charges of the same or similar type of property provided to China Telecom Group and the Company by other service providers in the market; (3) rental charges of the same or similar type of property provided to China Telecom Group and independent third parties by the Company previously, or rental charges of the same or similar type of property provided to the Company by China Telecom Group and independent third parties previously. Rental charges are payable monthly in arrears, except as otherwise agreed by the parties, and subject to review every three years by both parties confirming after negotiations whether to adjust the rental charges and the amount of such adjustment.

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

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

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

(1) the historical annual transaction amounts for 2013 and 2014 and the estimated annual transaction amount for 2015 under the Original Property Leasing Framework Agreement; and

(2) the estimated moderate increase in demand for leased properties due to business expansion of the Group and China Telecom Group.

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

(g) Supplies Procurement Services Framework Agreement

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

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

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

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

(1) 1% of the contract value at the maximum for procurement services relating to imported telecommunications supplies;

(2) 3% of the contract value at the maximum for procurement services relating to domestic telecommunications supplies and other domestic non-telecommunications materials; and

(3) for other services:

(I) market price. In determining the market price, the business and financial department of the relevant subsidiary of the Company shall collect the relevant market information (including but not limited to the change in price for the same or similar type of services), review and compare the costs and profits of transactions conducted in the most recent year of the same or similar type entered into with China Telecom Group or independent third parties, and prepare fee quotes for review by the marketing department of the relevant subsidiary of the Company, or the marketing department of the relevant subsidiary will further submit the fee quotes to the management of such subsidiary for review depending on the actual situations (such as the amount and size of the transaction). The marketing department or management of the relevant subsidiary of the Company shall primarily consider the following factors: (i) cost of service; (ii) prices of the same or similar type of services provided to China Telecom Group or the Company by other service providers in the market; (iii) prices of the same or similar type of services provided to China Telecom Group and independent third parties by the Company, or prices of the same or similar type of services provided to the Company by China Telecom Group and independent third parties.

(II) in the absence of market price or where the market price cannot be determined, the price shall be agreed between both parties, which shall be the aggregate amount of reasonable costs, the taxes in sales and reasonable profits. In determining such price, the business and financial department of the relevant subsidiary of the Company will review and compare the costs and profits of transactions conducted in the most recent year of the same or similar type entered into with China Telecom Group or independent third parties, take into account factors such as historical price, transaction size, average profit ratio within the relevant industry, supply and demand, labor cost, local commodity prices and economic development levels, and prepare fee proposals for review by the marketing department of the relevant subsidiary of the Company, or the marketing department of the relevant subsidiary will further submit the fee quotes to the management of such subsidiary for review depending on the actual situations (such as the amount and size of the transaction).

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

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

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

The Existing Annual Caps for the service charges payable by the Company to China Telecom Group under the Original Supplies Procurement Services Framework Agreement for the two years of 2014 and 2015 are RMB3,600 million and RMB4,100 million, respectively. The actual amount for the service charges paid by the Company to China Telecom Group under the Original Supplies Procurement Services Framework Agreement for the year ended 31 December 2014 was RMB2,663 million. Based on the Company's unaudited 2015 interim financial report, the actual amount for the service charges paid by the Company to China Telecom Group under the Original Supplies Procurement Services Framework Agreement for the six months ended 30 June 2015 was RMB1,480 million.

The Directors proposed the New Annual Caps for the services charges receivable by the Company from China Telecom Group under the Supplies Procurement Services Framework Agreement in respect of three years ending 31 December 2016, 2017 and 2018 to be RMB6,700 million, RMB8,100 million and RMB10,000 million, respectively. The Directors proposed the New Annual Caps for the service charges payable by the Company to China Telecom Group under the Supplies Procurement Services Framework Agreement in respect of the three years ending 31 December 2016, 2017 and 2018 to be RMB4,900 million, RMB5,900 million and RMB7,000 million, respectively. In determining the New Annual Caps, the Directors have considered:

(1) the historical annual transaction amounts for 2013 and 2014 and the estimated annual transaction amount for 2015 under the Original Supplies Procurement Services Framework Agreement;

(2) that with the development of mobile Internet and proliferation of mobile terminals including smart phones, it is expected that the demand for supplies procurement services by the Group and China Telecom Group will increase. According to the relevant statistics published by the Ministry of Industry and Information Technology of the PRC, the number of mobile internet users in the PRC increased by 8.4% in 2014 compared with that of 2013, and the total mobile Internet data usage increased by 62.9% in 2014 from that of 2013; and

(3) that the Group expects to achieve rapid development in professional logistics business. In the first half of 2015, the Group was awarded "5A" qualification certificate as a logistics enterprise by China Federation of Logistics & Purchasing, becoming the only enterprise awarded with the "5A" logistics qualification in the telecommunications industry. The Group also established China Comservice Supply Chain Management Ltd. in July 2015 to further integrate resources to actively explore professional logistics business.

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

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 Original Engineering Framework Agreement, the Original Ancillary

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

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

It is expected that China Telecom Group will continue to expand its business operation, construct and optimize its telecommunications network as well as broaden its customer base. The Board considers that it is in the interest of the Company to enter into the 2015 Agreements and cooperate with China Telecom Group to ensure a stable revenue source from one of the largest telecommunications operators in the PRC so as to benefit the Company's future growth and development. All the Continuing Connected Transactions have been entered into in the ordinary and usual course of business of the Group on normal commercial terms which are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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, including telecommunications infrastructure services, business process outsourcing services and applications, content and other services.

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

As at the Latest Practicable Date, China Telecom held 3,559,362,496 domestic shares of the Company, representing 51.39% of the total issued share capital of the Company.

6. LISTING RULES IMPLICATIONS

As at 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.07 of the Listing Rules. Accordingly, the proposed Revised Annual Caps and the entering into the Continuing Connected Transactions under the 2015 Agreements (together with the proposed New Annual Caps) constitute continuing connected transactions of the Company.

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

Unit: RMB million

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

Note: The actual amounts for the year ended 31 December 2014 are from 2014 annual report and the actual amounts for the six months ended 30 June 2015 are from the unaudited 2015 interim financial report. Most of the transactions under the Original Agreements and the 2015 Agreements are subject to seasonality as they are usually commenced in the first half of the year and completed with revenue recognized generally in the second half (especially in the fourth quarter) of the year.

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

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

The Board (excluding the members of the Independent Board Committee, the opinion of which is included in "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 and in the interests of the Shareholders as a whole and that the proposed Revised Annual Caps and the proposed New Annual Caps for the Non-exempt Continuing Connected Transactions are fair and reasonable.

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

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

Two of the Directors, Mr. Sun Kangmin and Mr. Si Furong currently serve as a Vice President and the Managing Director of the Sideline Industrial Management Department of China Telecom, respectively. Due to their positions in China Telecom, Mr. Sun Kangmin and Mr. Si Furong abstained from voting on the resolutions relating to the above matters. Save as mentioned above, the Company confirms that none of the other Directors has any material interests in the proposed Revised Annual Caps, the 2015 Agreements and the proposed New Annual Caps.

As at the Latest Practicable Date, China Telecom held 3,559,362,496 domestic shares of the Company, representing 51.39% of the total issued share capital of the Company. Therefore, China Telecom is a connected person to the Company and will abstain from voting at the EGM on the ordinary resolutions to approve the proposed Revised Annual Caps and the Non-exempt Continuing Connected Transactions (together with the proposed New Annual Caps thereof). Any voting by the Independent Shareholders at the EGM will be taken by poll.

The Company has formulated and strictly implemented various systems including the *Administrative Measures of Connected Transactions of China Communications Services Corporation Limited* and the *Internal Control Guidance of China Communications Services Corporation Limited* and regularly assesses the effectiveness of these systems relating to connected transactions and internal control to ensure that connected transactions are entered into in accordance with pricing mechanisms and transactions models that are fair and reasonable and are in the interests of the Company and the shareholders as a whole.

The Company undertakes to comply with the rules in relation to annual review of continuing connected transactions set out in the Listing Rules. The Company specifically undertakes to comply in full with all applicable requirements set out in Chapter 14A of the Listing Rules upon any further material variation or renewal of the 2015 Agreements.

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 Non-exempt Continuing Connected Transactions (together with the proposed New Annual Caps thereof).

The Independent Financial Adviser considers that the Non-exempt Continuing Connected Transactions have been entered into 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 Non-exempt Continuing Connected Transactions and the proposed New Annual Caps thereof 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, 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 favor of the ordinary resolutions to be proposed at the EGM to approve the proposed Revised Annual Caps and the Non-exempt Continuing Connected Transactions (together with the proposed New Annual Caps thereof).

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 Non-exempt Continuing Connected Transactions have been entered into 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 Non-exempt Continuing Connected Transactions and the proposed New Annual Caps thereof 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 favor of the ordinary resolutions 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 thereof. The text of the letter from the Independent Board Committee is set out on pages 30 to 31 of this circular. No member of the Independent Board Committee has any material interest in the proposed Revised Annual Caps, the Non-exempt Continuing Connected Transactions and the proposed New Annual Caps thereof.

8. EXTRAORDINARY GENERAL MEETING

A notice convening the EGM to be held at 10:00 a.m. on 11 December 2015 at No. 19, Chaoyangmen Beidajie, Dongcheng District, Beijing, the PRC, is set out on pages 73 to 75 of this circular at which ordinary resolutions will be proposed to approve (i) the proposed Revised Annual Caps; and (ii) Non-exempt Continuing Connected Transactions (together with the proposed New Annual Caps thereof). 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 controlling shareholder of the Company holding 51.39% of the total issued share capital of the Company as at the Latest Practicable Date, will abstain from voting on the ordinary resolutions to approve the proposed Revised Annual Caps and the Non-exempt Continuing Connected Transactions (together with the proposed New Annual Caps thereof) 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.

9. 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
Sun Kangmin
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)

22 October 2015

To the Independent Shareholders

Dear Sir or Madam,

REVISION OF ANNUAL CAPS
CONTINUING CONNECTED TRANSACTIONS
AND
PROPOSED NEW ANNUAL CAPS

We refer to the circular issued by the Company to the Shareholders dated 22 October 2015 (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 29 September 2015, the Board announced that the Company has proposed to revise the relevant annual caps for the service charges receivable under the Original Engineering Framework Agreement and the services charges payable under the Original Operation Support Services Framework Agreement by the Company and has entered into the 2015 Agreements with China Telecom. Further details are contained in the letter from the Board set out on pages 5 to 29 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 Non-exempt Continuing Connected Transactions (together with the proposed New Annual Caps thereof) 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 Non-exempt Continuing Connected Transactions (together with the proposed New Annual Caps thereof) 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 32 to 69 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 entering into 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 Non-exempt Continuing Connected Transactions (together with the proposed New Annual Caps thereof).

The Independent Board Committee concurs with the view of the Independent Financial Adviser and considers that the proposed Revised Annual Caps and the Non-exempt Continuing Connected Transactions (together with the proposed New Annual Caps thereof) 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**	**Siu Wai Keung, Francis**	**Lv Tingjie**	**Wu Taishi**

The following is the text of the letter of advice to the Independent Board Committee and the Independent Shareholders from the Independent Financial Adviser which has been prepared for inclusion in this circular.

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

29–30/F, Li Po Chun Chambers
189 Des Voeux Road Central
Hong Kong

22 October 2015

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

Dear Sirs,

REVISION OF EXISTING ANNUAL CAPS, ENTERING INTO 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 entering into (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 "**2015 Non-exempt Agreements**") and the 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 22 October 2015 (the "**Circular**"), of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise defined.

As at the Latest Practicable Date, China Telecom held 3,559,362,496 domestic shares of the Company, representing approximately 51.39% of the total issued share capital of the Company. Accordingly, China Telecom is a controlling shareholder of the Company and therefore a connected person of the Company as defined under Rule 14A.07 of the Listing

Rules. As a result, the proposed Revised Annual Caps and the 2015 Non-exempt Agreements (together with the proposed New Annual Caps for the Non-exempt Continuing Connected Transactions) 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 entering into of the 2015 Non-exempt Agreements (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 2015 Non-exempt Agreements (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, 2015 Non-exempt Agreements and the proposed New Annual Caps for the Non-exempt Continuing Connected Transactions.

INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising all of the independent non-executive Directors, namely Mr. Wang Jun, Mr. Zhao Chunjun, Mr. Siu Wai Keung, Francis, Mr. Lv Tingjie and Mr. Wu Taishi, has been established to advise the Independent Shareholders on the proposed Revised Annual Caps and the entering into of the 2015 Non-exempt Agreements (together with the proposed New Annual Caps for the Non-exempt Continuing Connected Transactions).

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 the 2015 Non-exempt Agreements are 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 2015 Non-exempt Agreements and the proposed New Annual Caps for 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 (the "**Management**") and the Directors for which they are solely and wholly responsible for 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, the 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 the 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, the 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 2015 Non-exempt Agreements (together with the proposed New Annual Caps for the Non-exempt Continuing Connected Transactions), we have considered the following principal factors and reasons:

Information on the Company

As stated in the Letter from the Board, the Company is principally engaged in the provision of specialized telecommunications support services to telecommunications operators in the PRC, including telecommunications infrastructure services, business process outsourcing services and applications, content and 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, specialized telecommunications support services and other business. As at the Latest Practicable Date, China Telecom held approximately 51.39% of the total issued share capital of the Company.

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

All the relevant agreements which are among the Original Agreements and subject to the Independent Shareholders' approval requirement (the "**Existing Non-exempt Agreements**") will expire on 31 December 2015. The Existing Annual Caps for the Existing Non-exempt Agreements in respect of the three years ending 31 December 2015 were approved by the Independent Shareholders at the extraordinary general meeting of the Company convened on 27 November 2012.

Since the issuance of 4G (LTE-FDD) licenses in early 2015, China Telecom Group has put more efforts on network construction, and its demand for the Company's engineering services has been increasing, and as a result the aggregate service charges receivable by the Company from China Telecom Group under the Original Engineering Framework Agreement are anticipated to be higher than the applicable Existing Annual Cap in 2015. Besides, the growth of the Company's engineering services and network maintenance business has led to an increase in its demand for operation support services, and the aggregate service charges payable by the Company to China Telecom Group under the Original Operation Support Services Framework Agreement are also anticipated to be higher than the applicable Existing Annual Cap in 2015. The Directors proposed to increase the relevant annual caps for the service charges receivable by the Company from China Telecom Group under the Original Engineering Framework Agreement and the service charges payable by the Company to China Telecom Group under the Original Operation Support Services Framework Agreement for the year ending 31 December 2015.

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 are currently governed by the Existing 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 enter into the 2015 Non-exempt Agreements and cooperate with China Telecom Group to ensure a stable revenue source from one of the largest telecommunications operators in the PRC so as to benefit the Company's future growth and development. All the Non-exempt Continuing Connected Transactions have been 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 Existing Non-exempt Agreements has a current term due to expire on 31 December 2015, the Company entered into the 2015 Non-exempt Agreements with China Telecom on 29 September 2015. Save as the adjustment of terms and description of the pricing policies, other principal provisions of the 2015 Non-exempt Agreements are generally consistent with the Existing Non-exempt Agreements.

Having considered that the 2015 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 the 2015 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 proposed the Revised Annual Caps and the New Annual Caps for the Non-exempt Continuing Connected Transactions, details of which are set out below.

1. *The Engineering Framework Agreement*

(a) *Subject matter and terms 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 (and its subsidiaries but excluding the Group), as may be applicable from time to time.

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

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

Pursuant to the Engineering Framework Agreement, the pricing basis is determined at prices fixed through tender process or market price. According to the relevant regulations and under the internal policy of China Telecom Group, whenever the value of any design and/or project supervision and management contracts exceeds RMB0.5 million, or the value of any construction contracts exceeds RMB2 million, the award of the relevant contract must be subject to a tender process (with a minimum of three parties tendering bids) in accordance with the Bidding Law of the PRC and Regulation on the Implementation of the Bidding Law of the PRC, except as otherwise stated by related laws and regulations. In determining the market price, the business and financial department of the relevant subsidiary of the Company shall collect the relevant market information (including but not limited to the change in price for the same or similar type of services), review and compare the costs and profits of transactions conducted in the most recent year of the same or similar type entered into with China Telecom Group or independent third parties, and prepare fee quotes for review by the marketing department of the subsidiary of the Company, or the marketing department of the relevant subsidiary will further submit the fee quotes to the management of such subsidiary for review in consideration of the actual situations (such as amount and size of the transaction). The marketing department or management of the relevant subsidiary of the Company shall primarily considers a number of factors including (1) cost of services; (2) prices of the same or similar type of services provided to China Telecom Group by other service providers in the market; (3) prices of the same or similar type of services provided to China Telecom Group and independent third parties previously provided by the Company.

The Company will be given priority by China Telecom Group in the provision of the engineering related services except in the tender process, provided that the terms and conditions offered by independent third parties to China Telecom Group are no more favourable than those offered by the Company for the same type of services, and in return, the Company has undertaken to China Telecom Group that the Company shall not provide services to it on terms which are less 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.

As advised by the Management, most of past specific contracts were entered into between the Company and China Telecom Group through tender process. We have discussed with the Management and have been given to understand that the Company assessed cost of services, reviewed past bidding prices made to China Telecom Group and collected from market latest price information in respect of same or similar type of services before it determined the final bidding price for each tender process. As part of our due diligence, we have reviewed (i) the Company's Internal Measures on Bidding Management (the "**Internal Bidding Management Measures**"), which sets out its internal bidding approval process; and (ii) sample records of past internal approvals for certain specific transactions entered into by the Company through tender process under the Original Engineering Framework Agreement, and based on our review, discussion with the Management and further confirmation by the Management, past specific transactions entered into between the Company and China Telecom Group through tender process under the Original Engineering Framework Agreement were generally in compliance with the Internal Bidding Management Measures. For those past specific contracts entered into between the Company and China Telecom Group based on market price under the Original Engineering Framework Agreement over the last two years, we have reviewed sample contracts (the "**Engineering Sample Contracts**") previously entered into (i) between the Company and China Telecom Group under the Original Engineering Framework Agreement; and (ii) between the Group and independent third parties in respect of provision of engineering related services by the Company and noted that save for the fee quotes, other principal terms specified in the Engineering Sample Contracts entered into with China Telecom Group by the Company are no less favourable to the Company than those specified in the Engineering Sample Contracts entered into with independent third parties by the Company. We accordingly further discussed with the Management and understood that as each transaction under the Original Engineering Framework Agreement involves highly customized combination of services specifically required by each certain customer, the fee quotes offered by the Company in different transactions could substantially differ. The Management confirmed that the Company determined the pricing terms for each specific transaction thereunder strictly in accordance with the corresponding internal procedures and consideration factors as mentioned above and therefore was of the view that the pricing basis under the Engineering Framework Agreement is on commercial terms and is fair and reasonable. As part of our due diligence, we have reviewed (i) the Administrative Measure of Connected Transaction of China Communications Services Corporation Limited (the "**Connected Transactions Administrative Measures**"), which specifies the responsibilities of each involved development in managing connected transactions of the Company and sets out that connected transactions of the

Company must conform to the relevant pricing policies as stated in the corresponding framework agreements; (ii) the Internal Control Guidance of China Communications Services Corporation Limited (the "**Internal Control Guidance**"); and (iii) sample records of past internal approvals for certain specific transactions entered into by the Company under the Original Engineering Framework Agreement, and based on our review, discussion with the Management and further confirmation by the Company, past specific transactions entered into between the Company and China Telecom Group under the Original Engineering Framework Agreement were generally in compliance with the Connected Transactions Administrative Measures and the Internal Control Guidance which, as advised by the Management, are set to ensure that the Company conforms to the relevant pricing policies of each connected transaction framework agreement in entering into each specific connected transaction.

For transactions made under the Original Engineering Framework Agreement, we also examined other independent information by reviewing the letter issued by the Auditors, to the Board and noted that the Auditors have performed procedures in accordance with Hong Kong Standard on Assurance Engagements 3000 and with reference to Practice Note 740 and confirmed that they have performed sample checks on the continuing connected transactions entered into between the Group and China Telecom Group during the year ended 31 December 2014 and have not found that the continuing connected transactions were not in accordance with the pricing policies as stated in the relevant agreements.

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) *Reasons for the revision of the annual cap for the Original Engineering Framework Agreement for the year ending 31 December 2015*

As stated in the Letter from the Board, since the issuance of 4G (LTE FDD) licenses in early 2015, China Telecom Group has put more efforts on network construction, and its demand for the Company's engineering services has been increasing, and as a result the aggregate service charges receivable by the Company from China Telecom Group under the Original Engineering Framework Agreement for the year ending 31 December 2015 are projected to be higher than the 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 Original Engineering Framework Agreement for the year ending 31 December 2015.

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

The table below shows the historical transaction amounts, the Existing Annual Caps and the proposed Revised Annual Caps under the Original Engineering Framework Agreement and the New Annual Caps under the Engineering Framework Agreement:

Unit: RMB million

	Year ended 31 December				Year ending 31 December					
Transactions	**2013**		**2014**		**2015**			**2016**	**2017**	**2018**
Engineering Framework Agreement	**Existing Annual Cap**	**Actual amounts**	**Existing Annual Cap**	**Actual amounts**	**Existing Annual Cap**	**Actual amounts (up to 30 June 2015)**	**Revised Annual Cap**	**New Annual Cap**	**New Annual Cap**	**New Annual Cap**
Revenue	17,000	14,436	17,000	15,582	17,000	8,404	24,000	24,000	24,000	24,000
% of utilization		84.9%		91.7%		49.4%				
% of increase			0.0%		0.0%			41.2%[1] 0.0%[2]	0.0%	0.0%

Notes:

1. The percentage increase in the 2016 New Annual Cap is with reference to the 2015 Existing Annual Cap

2. The percentage increase in the 2016 New Annual Cap is with reference to the 2015 Revised 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 Original Engineering Framework Agreement for the two years ended 31 December 2014 were approximately RMB14,436 million and RMB15,582 million, respectively, representing a utilization rate of approximately 84.9% and 91.7%, respectively. Based on the interim report of the Company for the six months ended 30 June 2015 (the "**2015 Interim Report**"), the actual amounts for the service charges received by the Company from China Telecom Group under the Original Engineering Framework Agreement for the six months ended 30 June 2015 was approximately RMB8,404 million, representing a utilization rate of approximately 49.4%.

We also note that there is an approximately 41.2% increase in the 2016 New Annual Cap as compared to the 2015 Existing Annual Cap (or the same as the 2015 Revised Annual Cap), and no further increase in the 2017 New Annual Cap and the 2018 New Annual Cap.

As stated in the Letter from the Board, in determining the Revised Annual Caps, the Directors have considered (i) the actual transaction amounts under the Original Engineering Framework Agreement in the first half of 2015, and the increases in transaction amount in the second half compared to the first half of 2013 and 2014; (ii) the expected increase of China Telecom Group's demand of the engineering services in the second half of 2015 simulated by the growth in its capital expenditure; and (iii) the operation and growth conditions of the Group's businesses in this field. As further advised by the Management, the Company particularly took into account the substantial increase of capital expenditure of China Telecom Corporation Limited (stock code: 728) ("**China Telecom Corporation**" together with its subsidiaries, collectively "**China Telecom Corporation Group**"), which is expected to continue to greatly drive demand of China Telecom Corporation for engineering related services and in turn boost transaction amounts under the Original Engineering Framework Agreement in the second half of 2015.

In assessing the reasonableness of the proposed Revised Annual Caps for the Original Engineering Framework Agreement for the year ending 31 December 2015, we have reviewed the historical transaction amounts and the utilization rates as previously mentioned and we have also discussed with the Management the relevant historical trends and future business demand and understood that transactions under the Existing Non-exempt Agreements are generally subject to seasonality with transaction amounts generally higher in the second half of a year as transactions thereunder are commenced in the first half of a year and completed with revenue recognised in the second half (especially in the fourth quarter) of a year. As part of our due diligence, we prepared a half-year breakdown of historical actual transaction amounts for the two years ended 31 December 2014 under each of the Existing Non-exempt Agreements (the "**Historical Transaction Breakdown**") and noted that actual transaction amounts under the Original Engineering Framework Agreement for each of the second half of 2013 and 2014 represented approximately 55.8% and 65.8% of the corresponding total actual annual transaction amount, respectively. As the actual transaction amount for the first half of 2015 under the Original Engineering Framework Agreement has already utilized approximately 49.4% of the 2015 Existing Annual Cap (as shown in the table above), and the estimated transaction amount for the second half of 2015 is expected to be higher than the actual transaction amount for the first half of 2015 under the Original Engineering Framework Agreement due to the seasonality as mentioned above, the 2015 Existing Annual Cap is highly likely to be exceeded. Furthermore, we were given to understand by the management that the steady growth of the PRC's economy as well as the stable development of the telecommunications industry, particularly 4G network standard, will continue to drive the demand of China Telecom Group for the Group's engineering related services in the near future. As part of our due diligence, we discussed with the Management and reviewed (i) the announcement of 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, the "**MIIT**") in respect of its grant of the operation permit for LTE-FDD 4G network standard to China Telecom in February 2015; and (ii) a public interpretative statement made by the MIIT regarding the impact of LTE-FDD 4G network and noted that LTE-FDD license issuance will further release the vitality of China's telecommunications market and stimulate investment growth in 4G related areas; China Telecom and China United Network Communications Group Company Limited will increase efforts in building 4G covered networks, optimize network structure and improve network capacity for 4G users with a better user experience, providing consumers with more choices of 4G terminal products in the market. Therefore, the Management considered that it is anticipated that China Telecom Group will enhance its network construction accordingly, and thus increase its demand for engineering related services. We also reviewed the (i) interim report for the six months ended 30 June 2015 of China Telecom Corporation; and (ii) the circular of China Telecom Corporation released on 9 October 2015 and noted (i) that its capital expenditure for the six-month period ended 30 June 2015 grew by approximately 58.9% to RMB36.7 billion from RMB23.1 billion for the six-month period ended 30 June 2015; and (ii) that China Telecom Corporation estimated that its capital expenditure for 2015 will be approximately RMB107.8 billion and approximately 34.0% of such estimated yearly capital expenditure was spent in the first half of 2015. Therefore, approximately RMB71.1 billion capital expenditure of China Telecom Corporation is expected to be incurred in the second half of 2015, which would in turn lead to a significant increase in the transaction amounts under the Original Engineering Framework Agreement. Besides, we also noted that, according to the annual report of the Company for the year ended 31 December 2014 (the "**2014 Annual Report**"), the Group will capitalize on the opportunities brought by the increase in capital expenditure of telecommunication operators to fully support 4G network construction.

Therefore, taking into account the facts and reasons discussed above as well as the historical high utilization rates of the 2013 and 2014 Existing Annual Caps, which were 84.9% and 91.7%, respectively, we consider that it is reasonable for the Company to raise the caps in response to the expected significant increase in transaction amounts under the Original Engineering Framework Agreement in the second half of 2015 as a result of the increasing capital expenditure of China Telecom Corporation and the Group's development strategy in respect of 4G network, both of which are for the purpose of seizing great business opportunities brought by continuous development of telecommunications industry.

As stated in the Letter from the Board, in determining the New Annual Caps, the Directors have considered (i) the historical annual transaction amounts for 2013 and 2014 and the estimated annual transaction amount for 2015 under the Original Engineering Framework Agreement; (ii) China Telecom Group's demand for engineering related service is expected to remain stable after substantial increase in investment in network construction in 2015; (iii) the PRC telecommunication industry is anticipated to maintain stable development in the future; and (iv) the operation and growth conditions of the Group's businesses in this field.

In assessing the reasonableness of the proposed New Annual Caps for the Engineering Framework Agreement, in addition to the foregoing factors considered by the Directors, we have taken into consideration the followings:

(i) after rapid development over past years, the PRC telecommunication industry is currently of a relatively large scale and is anticipated to maintain stable development in the future. We have examined the relevant public data released by the MIIT and noted that the revenue of the telecommunication industry in the PRC increased from approximately RMB870.7 billion in 2009 to approximately RMB1,154.1 billion in 2014, representing a compound annual growth rate of approximately 5.8%. For the six months ended 30 June 2015, the telecommunication industry in the PRC recorded revenue of approximately RMB571.3 billion, representing a 2.3% increase as compared to the corresponding period last year; and

(ii) the future growth of the Group's engineering services businesses spurred by China Telecom Group's development of LTE-FDD 4G network will already have been taken into account by the 2015 Revised Annual Cap and therefore it is reasonable not to further raise the proposed New Annual Caps.

Based on the above, we are of the view that the proposed Revised Annual Cap under the Original Engineering Framework Agreement and the proposed New Annual Caps under 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 terms of the Ancillary Telecommunications Services Framework Agreement*

Pursuant to the Ancillary Telecommunications Services Framework Agreement, the Company agreed to provide to China Telecom Group certain ancillary telecommunications services such as maintenance of network facilities including equipment, ducts and cables, equipment rooms and base stations; distribution of telecommunications products and services; provision of comprehensive logistics services, including purchasing agent, warehousing, transportation, delivery, testing and inspection, logistics information management and distribution; provision of application, content and other services such as fixed-line value added services, wireless value added services, Internet value added services, and development of online gaming, certificate authentication and value added business platform of Internet cafes (the "**Ancillary Telecommunications Services**"). The scope of the Ancillary Telecommunications Services Framework Agreement covers transactions between the Group and China Telecom (and its subsidiaries, but excluding the Group), as may be applicable from time to time.

The Ancillary Telecommunications Services Framework Agreement will expire on 31 December 2018, automatically renewable for 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.

(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) the market price, which is determined by the Company through the same procedures and based on the same consideration factors as those described in Engineering Framework Agreement; and (ii) in the absence of market price or when the market price cannot be determined, the price shall be agreed between both parties, which shall be the aggregate amount of reasonable costs, the relevant taxes in sales and reasonable profits. In determining such price, the business and financial department of the relevant subsidiary of the Company will review and compare the costs and profits of transactions conducted in the most recent year of the same or similar type entered into with China Telecom Group or independent third parties, take into account factors such as historical price, transaction size, average profit ratio within the relevant industry, supply and demand, labor cost, local commodity prices and economic development levels, and prepare fee proposals for review by the marketing department of the relevant subsidiary of the Company, or the marketing department of the relevant professional subsidiaries will further submit the fee quotes to the management of such subsidiary for review in consideration of the actual situations (such as amount and size of the transaction).

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.

With respect to past specific contracts entered into between the Company and China Telecom Group based on market price under the Original Ancillary Telecommunication Services Framework Agreement over the last two years, we have reviewed sample contracts (the "**Ancillary Sample Contracts**") previously entered into (i) between the Company and China Telecom Group under the Original Ancillary Telecommunication Services Framework Agreement; and (ii) between the Group and independent third parties in respect of provision of ancillary telecommunication services by the Company and noted that save for the fee quotes, other principal terms specified in the Ancillary Sample Contracts entered into with China Telecom Group by the Company are no less favourable to the Company than those specified in the Ancillary Sample Contracts entered into with independent third parties by the Company. We accordingly further discussed with the Management and understood that as each transaction under the Original Ancillary Telecommunication Services Framework Agreement involves highly customized combination of services specifically required by each certain customer, the fee quotes offered by the Company in different transaction could substantially differ. The Management confirmed that the Company determined the pricing terms for each specific transaction thereunder strictly in accordance with the corresponding internal procedures and consideration factors as mentioned above and therefore was of the view that the pricing basis under the Ancillary Telecommunication Services Framework Agreement is on commercial terms and is fair and reasonable. As part of our due diligence, we have reviewed (i) the Company's Connected Transactions Administrative Measures; (ii) the Company's Internal Control

Guidance; and (iii) sample records of past internal approvals for certain specific transactions entered into by the Company under the Original Ancillary Telecommunications Services Framework Agreement, and based on our review, discussion with the Management and further confirmation by the Company, past specific transactions entered into between the Company and China Telecom Group under the Original Ancillary Telecommunications Services Framework Agreement were generally in compliance with the Connected Transactions Management Measures and the Internal Control Procedures.

For transactions made under the Original Ancillary Telecommunications Services Agreement, we also examined other independent information by reviewing the letter issued by the Auditors to the Board and noted that the Auditors have performed procedures in accordance with Hong Kong Standard on Assurance Engagements 3000 and with reference to Practice Note 740 and confirmed that they have performed sample checks the continuing connected transactions entered into between the Group and China Telecom Group during the year ended 31 December 2014 and have not found that the continuing connected transactions were not in accordance with the pricing policies as stated in the relevant agreements.

Based on the above, we consider that the pricing basis under the Ancillary Telecommunications 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 under the Ancillary Telecommunications Services Framework Agreement:

Unit: RMB million

	Year ended 31 December				Year ending 31 December				
Transactions	2013		2014		2015		2016	2017	2018
Ancillary Telecommunications Services Framework Agreement	Existing Annual Cap	Actual amounts	Existing Annual Cap	Actual amounts	Existing Annual Cap	Actual amounts (up to 30 June 2015)	New Annual Cap	New Annual Cap	New Annual Cap
Revenue	9,000	6,640	10,000	7,548	11,000	3,634	12,100	13,300	15,600
% of utilization		73.8%		75.5%		33.0%			
% of increase			11.1%		10.0%		10.0%	9.9%	17.3%

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 Original Ancillary Telecommunications Services Framework Agreement for the two years ended 31 December 2014 were approximately RMB6,640 million and RMB7,548 million, respectively, representing a utilization rate of approximately 73.8% and 75.5%, respectively. Based on the 2015 Interim Report, the actual amounts for the service charges received by the Company from China Telecom Group under the Original Ancillary Telecommunications Services Framework Agreement for the six months ended 30 June 2015 was approximately RMB3,634 million, representing a utilization rate of approximately 33.0%. We prepared and reviewed the Historical Transaction Breakdown and noted that actual transaction amounts under the Original Ancillary Telecommunication Services Framework Agreement for each of the second half of 2013 and 2014 represented approximately 54.8% and 53.8% of the corresponding total actual annual transaction amount, respectively, and we further discussed with the Management and understood that the estimated transaction amount for the second half of 2015 is expected to be higher than the actual transaction amount for the first half of 2015 under the Original Ancillary Telecommunication Framework Agreement due to the seasonality of the Company's Ancillary Telecommunication Services business as mentioned above. We also note that there is an approximately 10.0% increase in the 2016 New Annual Cap as compared to the 2015 Existing Annual Cap, an approximately 9.9% increase in the 2017 New Annual Cap as compared to the 2016 New Annual Cap and an approximately 17.3% increase in the 2018 New Annual Cap as compared to the 2017 New Annual Cap.

As stated in the Letter from the Board, in determining the New Annual Caps, the Directors have considered (i) the historical annual transaction amounts for 2013 and 2014 and the estimated annual transaction amount for 2015 under the Original Ancillary Telecommunications Services Framework Agreement (taking into account the anticipated increase of transaction amount in the second half year comparing to the actual transaction amount of the first half year in 2015); (ii) the expected increase in demand of the Ancillary Telecommunications Services by China Telecom Group, which is mainly attributable to the growth of its fibre optic broadband and mobile network, customer base and wireless business; (iii) the fact that the Group has been focusing on the business opportunities arising from the operating expenditure investment of the telecommunications operators, actively develop businesses in network maintenance and optimization, and strive for breakthroughs in high-end maintenance business; and (iv) the fact that the Group is actively expanding its Ancillary Telecommunications Services business in major provinces and cities in Northern China. With the geographic expansion of Ancillary Telecommunications Services business, the Group expects to further increase the business cooperation with China Telecom Group.

In assessing the reasonableness of the proposed New Annual Caps for the Ancillary Telecommunications Services Framework Agreement, in addition to the foregoing factors considered by the Director, we have taken into consideration the followings:

(i) the estimated increase in the demand of China Telecom Group for maintenance services. We have examined the relevant information in the 2014 Annual Report and noted that it is expected that domestic telecommunications operators will put more effort in network construction and will continue to outsource their maintenance business so as to focus on their core business, which will bring valuable opportunities to the Group to expand such market;

(ii) based on our review of the interim report of China Telecom Corporation for the six months ended 30 June 2015, we noted that network operations and support expenses of China Telecom Corporation for the six-month period ended 30 June 2015 amounted to RMB37,224 million, representing an increase of approximately 26.9% as compared to the same period last year;

(iii) based on our review of the 2014 Annual Report and the 2015 Interim Report, we noted (i) that the Group will further develop its high-end maintenance services businesses to optimize the business structure;

and (ii) that the revenue from the Group's network maintenance business for the six-month period ended 30 June 2015 increased by approximately 14.6% as compared to the same period last year; and

(iv) based on our further discussion with the Management, the Company planned to expand its ancillary telecommunications services in Northern region, and it is appropriate to reserve sufficient buffer in determining the New Annual Caps so as to ensure that a sufficient degree of flexibility is allowed for the Group to capture additional revenue arising from China Telecom Group's increasing needs for maintenance services. We further discussed with the Management on the 2018 New Annual Cap and was given to understand that provision of the Company's ancillary telecommunications services to China Telecom Group is expected to increase by a higher rate in 2018 where business growth momentum will be further unleashed following the initial development and subsequent enlargement of the Company's geographical presence in Northern region in the preceding two years. We accordingly further reviewed the 2014 Annual Report and the 2015 Interim Report and noted that the Group will expand its regional presence from southern to northern China and continuously step up its efforts in such expansion plan.

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

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

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

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

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.

We have reviewed sample contracts (the "**Operation Support Sample Contracts**") previously entered into (i) between the Company and China Telecom Group under the Original Operation Support Services Framework Agreement; and (ii) between the Group and independent third parties in respect of both provision of operation support services by the Company and purchase of operation support services by the Company and noted that save for the fee quotes, other principal terms specified in the Operation Support Sample Contracts entered into with China Telecom Group by the Company are no less favourable to the Company than those specified in the Operation Support Sample Contracts entered into with independent third parties by the Company. We accordingly further discussed with the Management and understood that as each transaction under the Original Operation Support Services Framework Agreement involves highly customized combination of services specifically required by each certain customer, the fee quotes offered by the Company in different transactions could substantially differ. The Management confirmed that the Company determined the pricing terms for each specific transaction thereunder strictly in accordance with the corresponding internal procedures and consideration factors as mentioned above and therefore was of the view that the pricing basis under the Operation Support Services Framework Agreement is on commercial terms and is fair and reasonable. As part of our due diligence, we have reviewed (i) the Company's Connected Transactions Administrative Measures; (ii) the Company's Internal Control Guidance; and (iii) sample records of past internal approvals for certain specific transactions entered into by the Company under the Original Operation Support Services Framework Agreement, and based on our review, discussion with the Management and further confirmation by the Company, past specific transactions entered into between the Company and China Telecom Group under the Original Operation Support Services Framework Agreement were generally in compliance with the Connected Transactions Administrative Measures and the Internal Control Guidance.

For transactions made under the Original Operation Support Services Framework Agreement, we also examined other independent information by reviewing the letter issued by the Auditors to the Board and noted that the

Auditors have performed procedures in accordance with Hong Kong Standard on Assurance Engagements 3000 and with reference to Practice Note 740 and confirmed that they have performed sample checks on the continuing connected transactions entered into between the Group and China Telecom Group during the year ended 31 December 2014 and have not found that the continuing connected transactions were not in accordance with the pricing policies as stated in the relevant agreements.

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 Original Operation Support Services Framework Agreement for the year ending 31 December 2015*

As stated in the Letter from the Board, as the growth of the Company's engineering services and network maintenance business has led to an increase in demand for operation support services, the aggregate service charges payable by the Company to China Telecom Group under the Original Operation Support Services Framework Agreement for the year ending 31 December 2015 is projected to be higher than the Existing Annual Cap. The Directors proposed to increase the annual cap for the service charges payable by the Company to China Telecom Group under the Original Operation Support Services Framework Agreement for the year ending 31 December 2015.

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

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

Unit: RMB million

Transactions	Year ended 31 December				Year ending 31 December					
	2013		2014		2015			2016	2017	2018
Operation Support Services Framework Agreement	Existing Annual Cap	Actual amounts	Existing Annual Cap	Actual amounts	Existing Annual Cap	Actual amounts (up to 30 June 2015)	Revised Annual Cap	New Annual Cap	New Annual Cap	New Annual Cap
Revenue	2,800	2,271	2,900	2,402	3,000	895		3,200	3,400	3,600
% of utilization		81.1%		82.8%		29.8%				
% of increase			3.6%		3.4%			6.7%	6.3%	5.9%
Expenditure	650	598	650	644	650	254	800	900	1,000	1,100
% of utilization		92.0%		99.1%		39.0%		38.5%[1]		
% of increase			0.0%		0.0%			12.5%[2]	11.1%	10.0%

Notes:

1. The percentage increase in the 2016 New Annual Cap for the service charges payable by the Company is with reference to the 2015 Existing Annual Cap

2. The percentage increase in the 2016 New Annual Cap for the service charges payable by the Company is with reference to the 2015 Revised 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 Original Operation Support Services Framework Agreement for the two years ended 31 December 2014 were approximately RMB2,271 million and RMB2,402 million, respectively, representing a utilization rate of approximately 81.1% and 82.8%, respectively. Based on the 2015 Interim Report, the actual amounts for the service charges received by the Company from China Telecom Group under the Original Operation Support Services Framework Agreement for the six months ended 30 June 2015 was approximately RMB895 million, representing a utilization rate of approximately 29.8%. Besides, the actual amounts for the service charges paid by the Company to China Telecom Group under the Original Operation Support Services Framework Agreement for the two years ended 31 December 2014 were approximately RMB598 million and RMB644 million, representing a utilization rate of approximately 92.0% and 99.1%. Based on the 2015 Interim Report, the actual amounts for the service charges paid by the Company to China Telecom Group under the Original Operation Support Services Framework Agreement for the six months ended 30 June 2015 was approximately RMB254 million, representing a utilization rate of approximately 39.0%. We prepared and reviewed the Historical Transaction Breakdown and noted that actual transaction amounts in relation to provision of operations support services by the Company to China Telecom Group under the Original Operation Support Services Framework Agreement for each of the second half of 2013 and 2014 represented approximately 56.7% and 57.2% of the corresponding total actual annual transaction amount, respectively, and actual transaction amounts in relation to provision of operations support services by China Telecom Group to the Company under the Original Operation Support Services Framework Agreement for each of the second half of 2013 and 2014 represented approximately 61.0% and 58.0% of the corresponding total actual annual transaction amount, respectively. We further discussed with the Management and understood that the estimated transaction amounts for the services charges receivable and payable by the Company for the second half of 2015 are expected to be higher than the actual transaction amounts for the services charges receivable and payable by the Company for the first half of 2015 under the Original Operation Support Services Framework Agreement due to the seasonality of the Company's operation support services business as mentioned above.

We also note that there is an approximately 6.7% increase in the 2016 New Annual Cap for the service charges receivable by the Company from China Telecom Group as compared to the 2015 Existing Annual Cap, an approximately 6.3% increase in the 2017 New Annual Cap for the service charges receivable by the Company from China Telecom Group as compared to the 2016 New Annual Cap and an approximately 5.9% increase in the 2018 New Annual Cap for the service charges receivable by the Company from China Telecom Group as compared to the 2017 New Annual Cap. Besides, there is an approximately 38.5% increase in the 2016 New Annual Cap for the service charges payable by the Company to China Telecom Group as compared to the 2015 Existing Annual Cap (or an approximately 12.5% increase as compared to the 2015 Revised Annual Cap), an approximately 11.1% increase in the 2017 New Annual Cap for the service charges payable by the Company to China Telecom Group as compared to the 2016 New Annual Cap and an approximately 10.0% increase in the 2018 New Annual Cap for the service charges payable by the Company to China Telecom Group as compared to the 2017 New Annual Cap.

As stated in the Letter from the Board, in determining the Revised Annual Caps, the Directors have considered (i) the actual transaction amounts under the Original Operation Support Services Framework Agreement in the first half of 2015 and the increase in transaction amount in the second half compared to the first half in 2013 and 2014 (taking into account the anticipated increase of transaction amount in the second half year comparing to the actual transaction amount of the first half in 2015); (ii) the estimated increase in labor costs and demands of the operation support services of the Group in the second half of 2015 driven by rapid development of engineering services and ancillary telecommunications services; and (iii) the operation and growth conditions of the Group's businesses in this field.

In assessing the reasonableness of the proposed Revised Annual Cap for the Original 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 the relevant historical trends. We were given to understand by the Management that the Company's expenses on operation support services are mainly determined by the development of the Company's other businesses, particularly engineering and ancillary services businesses, and based on the growth trend of the Company's other businesses, the Management is of the view that the historical transaction amounts of the operation support services paid by the Group to the China Telecom Group under the Original Operation Support Services Framework Agreement for the year ended 31 December 2014 and the six months ended 30 June 2015 were higher than expected. We were further advised by the Management that possible future growth in the operation support service business between the Group and China Telecom Group may likely to happen in the second half of 2015 as a result of the Group's anticipation that its expenses on operation support services would increase in the second half of this year, so as to support the anticipated growth of other businesses. In this regard, we considered the consideration factors we took into account to and the due diligence work we performed in evaluating the 2015 Revised Annual Cap for the Original Engineering Framework Agreement as well as the historical extremely high utilization rates of the 2013 and 2014 Existing Annual Caps for the Group's expenditure under the Original Operation Support Services Framework Agreement, which were 92.0% and 99.1%, respectively. Therefore, we consider that it is reasonable for the Company to reserve sufficient buffer to cater for the expected increase in demand for the operation support services in the second half of 2015.

As stated in the Letter from the Board, in determining the New Annual Caps, the Directors have considered (i) the historical annual transaction amounts for 2013 and 2014 and the estimated annual transaction amount for 2015 under the Original Operation Support Services Framework Agreement; (ii) the PRC telecommunication industry is anticipated to maintain stable development in the future, and the demand of the Group and China Telecom Group for operation support services will maintain moderately stable growth; and (iii) the operation and growth conditions of the Group's businesses in this field.

In assessing the reasonableness of the proposed New Annual Caps for the Operation Support Services Framework Agreement, in addition to the foregoing factors considered by the Directors, we have taken into consideration the followings:

(i) we have discussed with the Management and understood that given the Group will provide more engineering related services to China Telecom Group to cater for the planned increase in capital expenditure of China Telecom Corporation, as mentioned above, the Group is expected to have a higher demand for operation related services provided by China Telecom Group to support its growing needs for skillful labors in response to its increased provision of engineering related services. Therefore, in determining the New Annual Caps for the Operation Support Services Framework Agreement, the Management built in a modest buffer in determining the relevant New Annual Caps;

(ii) as further advised by the Management, it is anticipated that the demand for the Company's operation support services by China Telecom Group would stabilize in the future, and therefore, it is appropriate to reserve sufficient buffer in determining the relevant proposed New Annual Cap so as to ensure that a sufficient degree of flexibility is allowed for the Group to satisfy additional demand for operation support services by China Telecom Group in the future; and

(iii) we have reviewed the Existing Annual Caps in respect of both the revenue and expenditure of the Group under the Original Operation Support Services Framework Agreements for 2013 and 2014 and noted that they were accurately determined and sufficiently utilized.

Based on the above, we are of the view that proposed Revised Annual Cap under the Original Operation Services Framework Agreement and 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 terms 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 the IT Application Services Framework Agreement, the Company agreed to provide China Telecom Group with telecommunications network support services, software and hardware development and other related IT services. China Telecom Group also agreed to provide to the Company certain IT application services including 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 (and its subsidiaries, but excluding the Group), as may be applicable from time to time.

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

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

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

Each of the parties to the IT Application Services Framework Agreement will accord priority to the other party in the provision of the IT application services, provided that the terms and conditions offered by independent third parties to the relevant party are no more favorable than those offered by the other party for the same services, and in return, each of the parties has undertaken to the other that it shall not provide services to the other on terms which are less favorable than those offered to independent third parties.

We have reviewed sample contracts (the "**IT Application Sample Contracts**") previously entered into (i) between the Company and China Telecom Group under the Original IT Application Services Framework Agreement; and (ii) between the Group and independent third parties in respect of both provision of IT services by the Company and purchase of IT services by the Company except those in respect of purchase of IT services by the Company from independent third parties[1] and noted that save for the fee quotes, other principal terms specified in the IT Application Sample Contracts entered into with China Telecom Group by the Company are no less favourable to the Company than those specified in the IT Application Sample Contracts entered into with independent third parties by the Company. We accordingly further discussed with the Management and understood that as each transaction under the Original IT Application Services Framework Agreement involves highly customized combination of services specifically required by each certain customer, the fee quotes offered by the Company in different transaction could substantially differ. The Management confirmed that the Company determined the pricing terms for each specific transaction strictly in accordance with the consideration factors as mentioned above and therefore was of the view that the pricing basis under the IT Application Services Framework Agreement is on commercial terms and is fair and reasonable. As part of our due diligence, we have reviewed (i) the Company's Connected Transactions Administrative Measures; (ii) the Company's Internal Control Guidance; and (iii) sample records of past internal approvals for certain specific transactions entered into by the Company under the Original IT Application Services Framework Agreement, and based on our review, discussion with the Management and further confirmation by the Company, past specific transactions entered into between the Company and China Telecom Group under the Original IT Application Services Framework Agreement were generally in compliance with the Connected Transactions Administrative Measures and the Internal Control Guidance.

For transactions made under the Original IT Application Services Framework Agreement, we also examined other independent information by reviewing the letter issued by the Auditors to the Board and noted that the Auditors have performed procedures in accordance with Hong Kong Standard on Assurance Engagements 3000 and with reference to Practice Note 740 and confirmed that they have performed sample checks on the continuing connected transactions entered into between the Group and China Telecom Group during the year ended 31 December 2014 and have not found that the continuing connected transactions were not in accordance with the pricing policies as stated in the relevant agreements.

Note:

1. The Company chooses China Telecom Group as its only provider of telecommunication network services considering that there are very a few nationwide providers of telecommunication network services and that purchasing IT services directly from China Telecom Group would bring higher operational efficiency as compared to purchasing IT

services from independent third parties given both the Company and China Telecom Group are under the same centralized IT system. Therefore, the Company hardly purchased IT services from independent third parties.

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 under the IT Application Services Framework Agreement:

Unit: RMB million

	Year ended 31 December				Year ending 31 December				
Transactions	**2013**		**2014**		**2015**		**2016**	**2017**	**2018**
IT Application Services Framework Agreement	**Existing Annual Cap**	**Actual amounts**	**Existing Annual Cap**	**Actual amounts**	**Existing Annual Cap**	**Actual amounts (up to 30 June 2015)**	**New Annual Cap**	**New Annual Cap**	**New Annual Cap**
Revenue	2,000	1,637	2,100	1,848	2,300	605	2,500	2,700	2,900
% of utilization		81.9%		88.0%		26.3%			
% of increase			5.0%		9.5%		8.7%	8.0%	7.4%
Expenditure	430	248	460	239	490	119	490	490	490
% of utilization		57.7%		52.0%		24.3%			
% of increase			7.0%		6.5%		0.0%	0.0%	0.0%

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 Original IT Application Services Framework Agreement for the two years ended 31 December 2014 were approximately RMB1,637 million and RMB1,848 million, respectively, representing a utilization rate of approximately 81.9% and 88.0%, respectively. Based on the 2015 Interim Report, the actual amounts for the service charges received by the Company from China Telecom Group under the Original IT Application Services Framework Agreement for the six months ended 30 June 2015 was approximately RMB605 million, representing a utilization rate of approximately 26.3%. Besides, the actual amounts for the service charges paid by the Company to China Telecom Group under the Original IT Application Services Framework Agreement for the two years ended 31 December 2014 were approximately RMB248 million and RMB239 million, respectively, representing a utilization rate of approximately 57.7% and 52.0%, respectively. Based on the 2015 Interim Report, the actual amounts for the service charges paid by the Company to China Telecom Group under the Original IT Application Services Framework Agreement for the six months ended 30 June 2015 was approximately RMB119 million, representing a utilization rate of approximately 24.3%. We noticed 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, the Company's demand for the IT application services provided by China Telecom Group was relatively stable. We also prepared and reviewed the Historical Transaction Breakdown and noted that actual transaction amounts in relation to provision of IT services by the Company to China Telecom Group under the Original IT Application Services Framework Agreement for each of the second half of 2013 and 2014 represented approximately 66.8% and 72.1% of the corresponding total actual annual transaction amount, respectively, and actual transaction amounts in relation to provision of IT services by China Telecom Group to the Company under the Original IT Application Services Framework Agreement for each of the second half of 2013 and 2014 represented approximately 58.7% and 70.1% of the corresponding total actual annual transaction amount, respectively. We further discussed with the Management and understood that the estimated transaction amounts for the services charges receivable and payable by the Company for the second half of 2015 are expected to be higher than the actual transaction amounts for the services charges receivable and payable by the Company for the first half of 2015 under the Original IT Application Services Framework Agreement due to the seasonality of the Company's IT services business as mentioned above.

We also note that there is an approximately 8.7% increase in the 2016 New Annual Cap for the IT application service charges receivable by the Company from China Telecom Group as compared to the 2015 Existing Annual Cap, an approximately 8.0% increase in the 2017 New Annual Cap for the IT application service charges receivable by the Company from China Telecom Group as compared to the 2016 New Annual Cap and an approximately 7.4% increase in the 2018 New Annual Cap for the IT application service charges receivable by the Company from China Telecom Group as compared to the 2017 New Annual Cap. Besides, there is no further increase in the 2016 New Annual Cap, the 2017 New Annual Cap and the 2018 New Annual Cap as compared to the 2015 Existing Annual Cap for the IT application service charges receivable by the Company from China Telecom Group.

As stated in the Letter from the Board, in determining the New Annual Caps, the Directors have considered (i) the historical annual transaction amounts for 2013 and 2014 and the estimated annual transaction amount for 2015 under the Original IT Application Services Framework Agreement (taking into account the anticipated increase of transaction amount in the second half compared to the actual transaction amount of the first half in 2015); (ii) the expected plan that China Telecom Group will continue to promote the development of its information service business and therefore its demand for IT application services from the Group will increase; and (iii) the operation and growth conditions of the Group's businesses in this field and the Group's prediction that its demand of the IT application services from China Telecom Group is expected to be stable.

In assessing the reasonableness of the proposed New Annual Caps for the IT Application Services Framework Agreement, in addition to the foregoing factors considered by the Directors, we have taken into consideration of the followings:

(i) as advised by the Management, the Company anticipated that the business growth of the Group's IT application related services brought by the self-construction of IT application systems by China Telecom Group would increase at a stable pace in the future, and therefore, the proposed New Annual Caps in respect of revenue of the Group under the IT Application Services Framework Agreement also reflected the modest buffer reserved for such moderate growth accordingly. We reviewed the relevant information in the annual report for the year ended 31 December 2014 of China Telecom Corporation and noted that revenue from its integrated information application services increased by approximately 6.8% to RMB26,939 million in 2014; and

(ii) as advised by the Management, based on the current operation status and future development needs of the Company, the IT application services of the Company provided by China Telecom Group were anticipated to remain stable in the next three years, and therefore, the relevant proposed New Annual Caps remained unchanged accordingly.

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 terms 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 Group 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 Group and China Telecom (and its subsidiaries but excluding the Group), as may be applicable from time to time and splits off the provision of comprehensive logistics services from the Ancillary Telecommunications Services Framework Agreement and the Operation Support Services Framework Agreement.

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

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

Pursuant to the Supplies Procurement Services Framework Agreements, the pricing basis for the provision of comprehensive supplies procurement services is determined as follows:

(1) 1% of the contract value at the maximum for procurement services relating to imported telecommunications supplies;

(2) 3% of the contract value at the maximum for procurement services relating to domestic telecommunications supplies and other domestic non-telecommunications materials; and

(3) for other services under the Supplies Procurement Services Framework Agreement, pricing basis is determined through the same procedures and based on the same consideration factors as those described in Engineering Framework Agreement. In the absence of market price or when the market price cannot be determined, the price shall be agreed between both parties, which shall be the aggregate amount of reasonable costs, the taxes in sales and reasonable profits,

and such price is determined through the same procedures and based on the same consideration factors as those described in the Ancillary Telecommunications Services Framework.

We noted that 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. Unless otherwise stipulated, settlement of payment should be made at least once every 60 days unless otherwise provided.

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.

We have reviewed sample contracts (the "**Supplies Procurement Sample Contracts**") previously entered into (i) between the Company and China Telecom Group under the Original Supplies Procurement Services Framework Agreement; and (ii) between the Group and independent third parties in respect of both provision of supplies procurement services by the Company and purchase of supplies procurement services by the Company and noted that save for the fee quotes, other principal terms specified in the Supplies Procurement Sample Contracts entered into with China Telecom Group by the Company are no less favourable to the Company than those specified in the Supplies Procurement Sample Contracts entered into with independent third parties by the Company. We accordingly further discussed with the Management and understood that as each transaction under the Original Supplies Procurement Services Framework Agreement involves highly customized combination of services specifically required by each certain customer, the fee quotes offered by the Company in different transactions could substantially differ. The Management confirmed that the Company determined the pricing terms for each specific transaction strictly in accordance with the corresponding internal procedures and consideration factors as mentioned above and therefore was of the view that the pricing basis under the Supplies Procurement Services Framework Agreement is on commercial terms and is fair and reasonable. As part of our due diligence, we have reviewed (i) the Company's Connected Transactions Administrative Measures; (ii) the Company's Internal Control Guidance; and (iii) sample records of past internal approvals for certain specific transactions entered into by the Company under the Original Supplies

Procurement Services Framework Agreement, and based on our review, discussion with the Management and further confirmation by the Company, past specific transactions entered into between the Company and China Telecom Group under the Original Supplies Procurement Services Framework Agreement were generally in compliance with the Connected Transactions Administrative Measures and the Internal Control Guidance. For transactions made under the Original Supplies Procurement Services Framework Agreement, we also examined other independent information by reviewing the letter issued by the Auditors to the Board and noted that the Auditors have performed procedures in accordance with Hong Kong Standard on Assurance Engagements 3000 and with reference to Practice Note 740 and confirmed that they have performed sample checks on the continuing connected transactions entered into between the Group and China Telecom Group during the year ended 31 December 2014 and have not found that the continuing connected transactions were not in accordance with the pricing policies as stated in the relevant agreements.

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) *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 under the Supplies Procurements Services Framework Agreement:

Unit: RMB million

Transactions	Year ended 31 December				Year ending 31 December				
	2013		2014		2015		2016	2017	2018
Supplies Procurement Services Framework Agreement	Existing Annual Cap	Actual amounts	Existing Annual Cap	Actual amounts	Existing Annual Cap	Actual amounts (up to 30 June 2015)	New Annual Cap	New Annual Cap	New Annual Cap
Revenue	4,600	4,163	5,100	4,470	5,600	2,226	6,700	8,100	10,000
% of utilization		90.5%		87.7%		39.8%			
% of increase			10.9%		9.8%		19.6%	20.9%	23.5%
Expenditure	3,100	2,996	3,600	2,663	4,100	1,480	4,900	5,900	7,000
% of utilization		96.7%		74.0%		36.1%			
% of increase			16.1%		13.9%		19.5%	20.4%	18.6%

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 Original Supplies Procurement Services Framework Agreement for the two years ended 31 December 2014 were approximately RMB4,163 million and RMB4,470 million, respectively, representing a utilization rate of approximately 90.5% and 87.7%, respectively. Based on the 2015 Interim Report, the actual amount for the services charge received by the Company from China Telecom Group under the Original Supplies Procurement Services Framework Agreement for the six months ended 30 June 2015 was approximately RMB2,226 million, representing a utilization rate of approximately 39.8%. Besides, the actual amounts for the service charges paid by the Company to China Telecom Group under the Original Supplies Procurement Services Framework Agreement for the two years ended 31 December 2014 were approximately RMB2,996 million and RMB2,663 million, respectively, representing a utilization rate of approximately 96.7% and 74.0%, respectively. Based on the 2015 Interim Report, the actual amount for the service charges paid by the Company to China Telecom Group under the Original Supplies Procurement Services Framework Agreement for the six months ended 30 June 2015 was approximately RMB1,480 million, representing a utilization rate of approximately 36.1%.

We also note that there is an approximately 19.6% increase in the 2016 New Annual Cap for the service charges receivable by the Company from China Telecom Group as compared to the 2015 Existing Annual Cap, an approximately 20.9% increase in the 2017 New Annual Cap for the service charges receivable by the Company from China Telecom Group as compared to the 2016 New Annual Cap and an approximately 23.5% increase in the 2018 New Annual Cap for the service charges receivable by the Company from China Telecom Group as compared to the 2017 New Annual Cap. Besides, there is an approximately 19.5% increase in the 2016 New Annual Cap for the service charges payable by the Company to China Telecom Group as compared to the 2015 Existing Annual Cap, an approximately 20.4% increase in the 2017 New Annual Cap for the service charges payable as compared to the 2016 New Annual Cap and an approximately 18.6% increase in the 2018 New Annual Cap for the service charges payable as compared to the 2017 New Annual Cap.

As stated in the Letter from the Board, in determining the New Annual Caps, the Directors have also considered (i) the historical annual transaction amounts for 2013 and 2014 and the estimated annual transaction amount for 2015 under the Original Supplies Procurement Services Framework Agreement; (ii) with the development of mobile Internet and proliferation of mobile terminals including smart phones, it is expected that the demand for supplies procurement services by the Company and China Telecom Group will increase; and (iii) the Group expects to achieve rapid development in professional logistics business.

In assessing the reasonableness of the proposed New Annual Caps for the Supplies Procurement Services Framework Agreement, in addition to the foregoing factors considered by the Director, we have taken into consideration of the followings:

(i) the increasing use of mobile services, especially the 4G services in the PRC, will drive the mutual demand for supplies procurement services by the Group and China Telecom Group. We reviewed the relevant public data published by MIIT and noted that China's 4G mobile users surpassed 250 million for the first time at the end of July 2015, accounting for 19.4% of the total 1.30 billion mobile users, and China's mobile broadband users (3G and 4G subscribers) have increased by 110 million during the seven months ended 31 July 2015 to 695 million, up by 8.4% from the end of 2014 to account for 53.7% of the total mobile users;

(ii) the expected increase in the domestic demand for mobile terminals due to the popular use of the Internet in the PRC. We reviewed the relevant statistics published by the MIIT and noted that (i) as of December 2014, there were 875.2 million mobile Internet users in China, up by 8.4% as compared to 807.6 million mobile Internet users as of December 2013; (ii) total mobile Internet data usage in China grew by 62.9% in 2014 to 2,062.3 million gigabyte as compared with

2013; and (iii) the number of 4G users in China has been growing fast with its growth outpacing that of the number of 3G users with 97.284 million new subscribers comparing to 83.644 million 3G new subscribers in 2014; and

(iii) the Group's leading position in the telecommunication logistics area in China and its continuous efforts in strengthening its logistics businesses. We reviewed the 2015 Interim Report and noted (i) that during the first half of 2015, the Group was awarded "5A" qualification certificate as a logistics enterprise by China Federation of Logistics & Purchasing, becoming the only enterprise awarded with the "5A" logistics qualification in the telecommunications industry; and (ii) that the Group further established China Comservice Supply Chain Management Ltd. in July 2015 to further integrate resources to actively explore professional logistics business. As further advised by the Management, for the purpose of scaling up the Company's telecommunication logistics businesses and achieving more revenue in this market in the future, the Company will strategically put special focus on this industry, particularly the fields of procurement and sales of mobile terminal products, to capture the great opportunities in this market, which the Company believes that will drive the transaction amounts under the Supplies Procurement Services Framework Agreement to increase rapidly. We also reviewed a public statement made by the MIIT and noted that LTE-FDD license issuance will drive China Telecom and China Unicom to further promote the development of the booming mobile terminal market and offer more models of lower-price mobile terminal products for consumers to choose from, which is in line with the development direction of the Company's telecommunication logistics business. Therefore, we concur with the view of the Management that it is necessary for the Company to take into account the possible fast growth pace of its business in telecommunication logistics industry in determining the proposed New Annual Caps to cater for its business development and strategic needs.

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 2015 Non-exempt Agreements, the proposed Revised Annual Caps, the proposed New Annual Caps for the Non-exempt Continuing Connected Transactions and any continuing connected transactions contemplated thereunder are subject to the annual review requirements of Rule 14A.55 to 14A.59 of the Listing Rules. According to 2014 Annual Report, the independent non-executive Directors have confirmed that the Non-exempt Continuing Connected Transactions for the year ended 31 December 2014:

- have been entered into by the Group in the ordinary and usual course of business;
- have been entered into on normal commercial terms or better; and
- have been entered into on terms that are fair and reasonable so far as the overall interests of the shareholders of the Company are concerned.

Furthermore, according to the 2014 Annual Report, the Company's auditors have issued a letter to the Board confirming that the Non-exempt Continuing Connected Transactions for the year ended 31 December 2014:

- have received the approval of the Board;
- are in accordance with the pricing policies of the Company in all material respects if the transactions involve provision of goods or services by the Group;
- have been entered into in accordance with the relevant agreements governing the transactions in all material respects; 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 2015 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 2015 Non-exempt Agreements and the proposed New Annual Caps for 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. 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 for the Non-exempt Continuing Connected Transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
GF Capital (Hong Kong) Limited
Brian Lee
Managing Director

Mr. Brian Lee is a licensed person registered with the Securities and Futures Commission as a responsible officer of GF Capital (Hong Kong) Limited to carry out Type 6 (advising on corporate finance) regulated activities under the SFO and has over ten years of experience in advising corporate finance transactions including giving independent financial advisory opinion on connected transactions.

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 2014, 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. Sun Kangmin and Mr. Si Furong at China Telecom, the position held by Mr. Li Zhengmao at China Mobile Communications Corporation 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, being a connected person to the Non-exempt Continuing Connected Transactions, will abstain from voting on the ordinary resolutions to approve the proposed Revised Annual Caps and the Non-exempt Continuing Connected Transactions (together with the proposed New Annual Caps thereof).

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 close 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 2014, 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 22 October 2015 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 2014 (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, 32/F, 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 Shops 1712–1716, 17th 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 Original Agreements and 2012 Supplemental Agreement;

(c) the 2015 Agreements;

(d) 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;

(e) 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

(f) 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 11 December 2015, Friday, 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 cap for the service charges receivable under the Original Engineering Framework Agreement by the Company for the year ending 31 December 2015 as described in the circular of the Company dated 22 October 2015 (the "**Circular**") be and are hereby approved, ratified and confirmed.

2. **THAT** the proposed revised annual cap for the service charges payable under the Original Operation Support Services Framework Agreement by the Company for the year ending 31 December 2015 as described in the Circular be and are hereby approved, ratified and confirmed.

3. **THAT** the Engineering Framework Agreement, the non-exempt continuing connected transactions thereunder, and the proposed new annual caps for the three years ending 31 December 2018 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.

4. **THAT** the Ancillary Telecommunications Services Framework Agreement, the non-exempt continuing connected transactions thereunder, and the proposed new annual caps for the three years ending 31 December 2018 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.

5. **THAT** the Operation Support Services Framework Agreement, the non-exempt continuing connected transactions thereunder, and the proposed new annual caps for the three years ending 31 December 2018 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.

6. **THAT** the IT Application Services Framework Agreement, the non-exempt continuing connected transactions thereunder, and the proposed new annual caps for the three years ending 31 December 2018 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.

7. **THAT** the Supplies Procurement Services Framework Agreement, the non-exempt continuing connected transactions thereunder, and the proposed new annual caps for the three years ending 31 December 2018 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.

By Order of the Board
China Communications Services Corporation Limited
Chung Wai Cheung, Terence
Company Secretary

Beijing, the PRC
22 October 2015

Notes:

(1) Buyers who submit the share transfer application forms to the Company's share registrar before 4:30 p.m. on 10 November 2015 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 on around 22 October 2015.

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, being a connected person to the Company with material interests in the proposed Revised Annual Caps and the 2015 Agreements, will abstain from voting on the ordinary resolutions to approve the proposed Revised Annual Caps and the Non-exempt Continuing Connected Transactions (together with the proposed New Annual Caps thereof) 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 20 November 2015.

(5) Closure of the register of members:

The register of members of the Company will be closed from 11 November 2015 to 11 December 2015 (both days inclusive). In order to attend the extraordinary general meeting, all transfer documents, accompanied by the relevant share certificates, must be lodged for registration with Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, not later than 4:30 p.m. on 10 November 2015. H share shareholders who are registered with Computershare Hong Kong Investor Services Limited on 11 December 2015 are entitled to attend the extraordinary general meeting.

(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

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