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)

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS AND PROPOSED NEW ANNUAL CAPS; PROPOSED ELECTION AND RE-ELECTION OF DIRECTORS AND SUPERVISORS; AND SUPPLEMENTAL NOTICE OF THE EGM

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

脈搏 Pulsar
資本 Capital

A letter from the Board is set out on pages 5 to 33 of this circular. A letter from the Independent Board Committee is set out on pages 34 to 35 of this circular. A letter from the Independent Financial Adviser is set out on pages 36 to 74 of this circular.

This circular shall be read in conjunction with the announcement of the Postponed Election of the New Session of the Board and the Supervisory Committee dated 28 June 2018 and the notice of the EGM dated 29 October 2018 (the "**Previous Notice**").

A notice convening the EGM to be held at 10:00 a.m. on 13 December 2018, at No. 19, Chaoyangmen Beidajie, Dongcheng District, Beijing, the PRC and a form of proxy for use at the EGM were despatched to the Shareholders on 29 October 2018. The Company will hold the EGM as originally scheduled. A supplemental notice (the "**Supplemental Notice**") convening the EGM is set out on pages 82 to 85 of this circular. Whether or not you are able to attend the EGM, you are requested to complete the form of proxy accompanying with the Previous Notice and a supplemental form of proxy (the "**Supplemental Form of Proxy**") accompanying with this circular 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 and a supplemental form of proxy shall not preclude you from attending and voting in person at the EGM or any adjourned meeting should you so wish.

19 November 2018

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

"2015 Announcement and Circular"	the announcement and the circular of the Company dated 29 September 2015 and 22 October 2015, in respect of, among other things, the continuing connected transactions and Existing Annual Caps
"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
"2018 Supplemental Agreements"	the supplemental agreements of 2015 Agreements entered into between the Company and China Telecom on 28 September 2018 in respect of, among other things, the renewal of the terms of each of the 2015 Agreements to 31 December 2021
"associate"	has the meaning ascribed to it under the Listing Rules
"Articles of Association"	the articles of association of the Company, as amended, modified or otherwise supplemented from time to time
"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, the Macau Special Administrative Region of the People's Republic of China and Taiwan)
"China Telecom Group"	China Telecom and its subsidiaries, and unless otherwise provided, excluding the Group
"China Telecom"	China Telecommunications Corporation (中國電信集團有限公司), a state-owned enterprise established under the laws of the PRC on 17 May 2000 and a Substantial 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
"Connected Person(s)"	has the meaning ascribed to it under the Listing Rules
"Continuing Connected Transactions"	the connected transactions entered into between the Group and China Telecom Group as governed by the 2015 Agreements and the 2018 Supplemental Agreements, details of which are set out in section 2 of the Letter from the Board headed "Continuing Connected Transactions under the 2015 Agreements and the 2018 Supplemental Agreements" in this circular
"Director(s)"	the director(s) of the Company
"EGM"	the extraordinary general meeting of the Company to be held on 13 December 2018
"Existing Annual Cap(s)"	the existing annual cap(s) applicable to the continuing connected transactions under each of the 2015 Agreements for the applicable period ending 31 December 2018, which (to the extent they were subject to Independent Shareholders' approval under Chapter 14A of the Listing Rules) were approved by the then Independent Shareholders
"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. Zhao Chunjun, Mr. Siu Wai Keung, Francis, Mr. Lv Tingjie, Mr. Wu Taishi and Mr. Liu Linfei who are independent non-executive Directors, which has been formed to advise the Independent Shareholders on the Non-exempt Continuing Connected Transactions (together with the proposed New Annual Caps thereof)

"Independent Financial Adviser"	Pulsar Capital Limited, a corporation licensed to carry out Type 1 (Dealing in Securities) and 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"	13 November 2018, 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 and the 2018 Supplemental Agreements for the three years ending 31 December 2019, 2020 and 2021, 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 and the 2018 Supplemental Agreements other than those under the Centralized Services Agreement and the Property Leasing Framework Agreement
"RMB"	Renminbi, the lawful currency of the PRC
"Shareholders"	shareholders of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Substantial Shareholder(s)"	has the meaning ascribed to it under the Listing Rules
"Supervisor(s)"	the supervisor(s) of the Company
"Supervisory Committee"	the supervisory committee of the Company

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

中国通信服务
CHINA COMSERVICE
中 國 通 信 服 務 股 份 有 限 公 司
CHINA COMMUNICATIONS SERVICES CORPORATION LIMITED
(A joint stock limited company incorporated in the People's Republic of China with limited liability)
(Stock code: 552)

Executive Directors
Zhang Zhiyong *(Chairman)*
Si Furong
Hou Rui

Non-executive Directors
Li Zhengmao
Shao Guanglu

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

Registered office
Level 5 and B
No. 2 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

19 November 2018

To the Shareholders

Dear Sir or Madam,

RENEWAL OF CONTINUING CONNECTED TRANSACTION AND PROPOSED NEW ANNUAL CAPS; PROPOSED ELECTION AND RE-ELECTION OF DIRECTORS AND SUPERVISORS; AND SUPPLEMENTAL NOTICE OF THE EGM

I. INTRODUCTION

We refer to the announcement of the Company dated 28 September 2018 in relation to the entering into the Continuing Connected Transactions under the 2015 Agreements and the 2018 Supplemental Agreements (together with the proposed New Annual Caps); the announcement of the

Postponed Election of the New Session of the Board and the Supervisory Committee dated 28 June 2018 and the Previous Notice dated 29 October 2018, which set out the venue of the EGM and the resolutions to be tabled at the EGM for shareholders' approval. This circular and Supplemental Notice should be read in conjunction with the Previous Notice.

The Board announced that the Company entered into the 2018 Supplemental Agreements with China Telecom on 28 September 2018 based on the 2015 Agreements to renew each of the 2015 Agreements for a further term of three years from 1 January 2019 to 31 December 2021.

As at the Latest Practicable Date, China Telecom was a Substantial Shareholder of the Company holding approximately 51.39% of the total issued share capital of the Company, and was thus a Connected Person of the Company under Rule 14A.07 of the Listing Rules. As a result, the Continuing Connected Transactions under the 2015 Agreements and the 2018 Supplemental 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 New Annual Caps for the Non-exempt Continuing Connected Transactions, on an annual basis, exceeds 5%, the Non-exempt Continuing Connected Transactions (together with the proposed New Annual Caps thereof) are subject to the reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

As all the applicable percentage ratios of the proposed New Annual Caps for the Continuing Connected Transactions under the Centralized Services Agreement and the Property Leasing Framework Agreement, on an annual basis, are more than 0.1% but less than 5%, the Continuing Connected Transactions under the Centralized Services Agreement and the Property Leasing Framework Agreement and the proposed New Annual Caps thereof are subject to the reporting, announcement and annual review requirements, but exempt from the circular (including independent financial advice) and independent shareholders' approval requirements 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 Non-exempt Continuing Connected Transactions (together with the proposed New Annual Caps thereof). Pulsar Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on the same.

At the EGM, in addition to the resolutions set out in the Previous Notice, the Shareholders will also consider the resolutions, which were submitted to the EGM by China Telecom (being a shareholder holding approximately 51.39% of the shares of the Company) in accordance with the laws and Articles of Association in relation to the election and re-election of the members to the fifth session of the Board and the Supervisory Committee.

The purpose of this circular is to provide, among other things, further information about the Continuing Connected Transactions, and letters from the Independent Board Committee and from the Independent Financial Adviser; to give you Supplemental Notice of the EGM, which is enclosed as Appendix III to this circular, and to provide you with information which is reasonably necessary to enable you to make an informed decision on whether to vote for or against certain resolutions to be proposed at the EGM and as described in the Supplemental Notice of the EGM.

II. RENEWAL OF CONTINUING CONNECTED TRANSACTIONS AND THE PROPOSED NEW ANNUAL CAPS

1. Background

We refer to the 2015 Announcement and Circular in relation to the Continuing Connected Transactions between the Group and China Telecom and/or its associates which are governed by the 2015 Agreements as below:

(a) the Engineering Framework Agreement;

(b) the Ancillary Telecommunications Services Framework Agreement;

(c) the Operation Support Services Framework Agreement;

(d) the IT Application Services Framework Agreement;

(e) the Centralized Services Agreement;

(f) the Property Leasing Framework Agreement; and

(g) the Supplies Procurement Services Framework Agreement.

All the 2015 Agreements above were entered into between the Company and China Telecom on 29 September 2015, pursuant to which the 2015 Agreements will expire on 31 December 2018, and will be automatically renewable for further periods of no more than three years subject to shareholders' approval (if applicable) unless it is terminated by either party with three months' prior written notice. The Existing Annual Caps (to the extent they were subject to Independent Shareholders' approval under Chapter 14A of the Listing Rules) were approved by the then Independent Shareholders at the extraordinary general meeting of the Company held on 11 December 2015.

As each of the 2015 Agreements will expire on 31 December 2018, the Company entered into the 2018 Supplemental Agreements with China Telecom on 28 September 2018 based on the 2015 Agreements to, among other things, renew each of the 2015 Agreements for a further term of three years from 1 January 2019 to 31 December 2021, change contact information of China Telecom and adjust the terms related to tender process of the Engineering Framework Agreement pursuant to the applicable PRC regulations. Other key terms of each of the 2015 Agreements remain unchanged.

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

2. Continuing Connected Transactions Under the 2015 Agreements and the 2018 Supplemental Agreements

Details of the Continuing Connected Transactions under the 2015 Agreements and the 2018 Supplemental Agreements are set out below.

(a) *Engineering Framework Agreement and Supplemental 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 charges for engineering related services rendered under the Engineering Framework Agreement shall be determined at market price or prices obtained through tender process. According to the supplemental agreement to the Engineering Framework Agreement entered into between the Company and China Telecom, the parties amended the thresholds which the project must be determined through tender process under the Engineering Framework Agreement: whenever the value of any design or project supervision and management project exceeds RMB1 million, or the value of any construction project exceeds RMB4 million, the award of the relevant project 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. The amendments were made in accordance with the Provisions on Projects Subject to Tender Process issued under the Order No. 16 of the National Development and Reform Commission of the PRC in March 2018, which increased (i) the threshold for design or project supervision and management projects that must be determined through tender process from RMB0.5 million to RMB1 million, and (ii) the threshold for construction project that must be determined through tender process from RMB2 million to RMB4 million. China Telecom Group (including the Group) has also adjusted the internal guidelines and increased such thresholds accordingly.

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. 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 work progress of practical work following the general market practice in the industry.

The Existing Annual Cap for the service charges receivable by the Company from China Telecom Group under the Engineering Framework Agreement for each of the three years of 2016, 2017 and 2018 is RMB24,000 million. The actual amounts for the service charges received by the Company from China Telecom Group under the Engineering Framework Agreement for the years ended 31 December 2016 and 2017 were RMB21,230 million and RMB21,155 million, respectively. Based on the Company's unaudited 2018 interim financial report, the actual amount for the service charges received by the Company from China Telecom Group under the Engineering Framework Agreement for the six months ended 30 June 2018 was RMB8,727 million.

The Directors proposed the New Annual Caps for the Engineering Framework Agreement in respect of the three years ending 31 December 2019, 2020 and 2021 to be RMB26,000 million, RMB33,000 million and RMB35,000 million, respectively. In determining the New Annual Caps, the Directors have considered:

(1) the historical annual transaction amounts for 2016 and 2017 and the estimated annual transaction amount for 2018 under the Engineering Framework Agreement;

(2) that there had been a high utilization rate of the Existing Annual Caps for the engineering related services. In particular, the utilization rate was approximately 88% for each of 2016 and 2017. In addition, high utilization rates reduced the Group's flexibility to respond to any unforeseen events. Hence, a degree of buffer is built in when determining the New Annual Caps in relation to the engineering related services, which (i) allows the Group to be flexible in case of unforeseen events; and (ii) caters for the possible inflations in the coming three years, which had once been as high as approximately 6% per annum during the period from 2008 to 2017 according to the PRC consumer price index published by National Bureau of Statistics of China;

(3) that China Telecom was granted the permit to operate the LTE/4G digital cellular mobile service (LTE FDD) in 2015 and its capital expenditure peaked out in the same year; the capital expenditure reduced in the subsequent year of 2016 and 2017 and thus the engineering services provided by the Group to China Telecom Group was affected in 2016 and 2017 mainly due to such factor. In contrast, China Telecom Group will promote network intelligentisation reforms and 5G network development and strengthen the commercial application of which in the coming two to three years, and this will greatly enhance the Group's engineering-related business;

(4) that taking into account the overall progress of related business in previous years, it is expected that the telecommunications operators will further promote the construction of 5G trial network in 2019, and the years 2020 and 2021 will be an important phase for the construction and development of commercial application of 5G network. According to the White Paper on 5G Economic and Social Impact (《5G經濟社會影響白皮書》) issued by China Academy of Information and Communications Technology (中國信息通信研究院) in June 2017, the investment amount on 5G network equipment by domestic telecommunications operators is expected to exceed RMB220 billion in 2020. As such, the volume of related business is expected to increase in the coming three years. In addition, the Groups' revenue of telecommunications infrastructure ("**TIS**") services from China Telecom Group for each of 2016 and 2017 was approximately RMB21,200 million, representing approximately 19% and 20% of the total capital expenditure of China Telecom Group for the corresponding period, respectively. It is expected that the TIS revenue from China Telecom Group as a percentage to the capital expenditure of China Telecom Group would remain largely stable for the next three years;

(5) that as disclosed in the circular of China Telecom Corporation Limited (a subsidiary of China Telecom, stock code: 728.HK, "**China Telecom Corporation**") dated 10 September 2018, the renewed annual caps for the engineering framework agreement with China Telecom under which the engineering related services is expected to be provided by the Group, are RMB23,000 million, RMB30,000 million, and RMB32,000 million for 2019, 2020, and 2021, respectively; and

(6) the Group's overall operation and development in related business fields.

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

(b) ***Ancillary Telecommunications Services Framework Agreement and Supplemental 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, server 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 electronic authentication. 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 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. 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 costs and profits, the business and financial departments of the relevant subsidiary of the Company will (i) review and compare the costs and profit margins of similar and comparable transactions conducted in the most recent year entered into with China Telecom Group or independent third parties, or (ii) where such comparison is not practicable, consider for reference the recent profit margins of comparable enterprises engaging in providing similar services in the relevant industry.

Factors considered would also include, but not limited to, the scale of the comparable enterprises, quality of services, transaction size, supply and demand, labor cost, local commodity prices and economic development levels.

The Company will be given priority by China Telecom Group in the provision of the ancillary telecommunications services, provided that the terms and conditions offered by independent third parties to China Telecom Group are no more favorable than those offered by the Company for the same services. 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 with reference to the market practices.

The Existing Annual Caps for the service charges receivable by the Company from China Telecom Group under the Ancillary Telecommunications Services Framework Agreement for the three years of 2016, 2017 and 2018 are RMB12,100 million, RMB13,300 million and RMB15,600 million, respectively. The actual amounts for the service charges received by the Company from China Telecom Group under the Ancillary Telecommunications Services Framework Agreement for the years ended 31 December 2016 and 2017 were RMB9,255 million and RMB11,041 million, respectively. Based on the Company's unaudited 2018 interim financial report, the actual amount for the service charges received by the Company from China Telecom Group under the Ancillary Telecommunications Services Framework Agreement for the six months ended 30 June 2018 was RMB6,027 million.

The Directors proposed the New Annual Caps for the Ancillary Telecommunications Services Framework Agreement in respect of the three years ending 31 December 2019, 2020 and 2021 to be RMB20,000 million, RMB24,000 million and RMB27,000 million, respectively. In determining the New Annual Caps, the Directors have considered:

(1) the historical annual transaction amounts for 2016 and 2017 and the estimated annual transaction amount for 2018 under the Ancillary Telecommunications Services Framework Agreement;

(2) that there had been a high utilization rate of the Existing Annual Caps for the ancillary telecommunications services. In particular, the utilization rates were approximately 77% for 2016 and 83% for 2017, respectively, and that the actual amount of revenue from ancillary telecommunications services in 2017 increased rapidly by 19% as compared with 2016. In addition, high utilization rates reduced the Group's flexibility to respond to any unforeseen events. Hence, a degree of buffer is built in when determining the New Annual Caps in relation to the ancillary telecommunications services, which (i) allows the

Group to be flexible in case of unforeseen events; and (ii) caters for the possible inflations in the coming three years, which had once been as high as approximately 6% per annum during the period from 2008 to 2017 according to the PRC consumer price index published by National Bureau of Statistics of China.

(3) that the Group is competitive in network maintenance capability, and has identified the related ancillary telecommunication services such as network maintenance, among others, is one of its major measures to expand the domestic telecommunications operator market;

(4) the number of mobile users as well as other service users has increased significantly and users base of China Telecom Group is expected continue to grow in the coming years. In particular, as disclosed in the annual reports of China Telecom Corporation, the number of mobile users of China Telecom Group increased from approximately 90.5 million in 2010 to approximately 250 million in 2017, representing a CAGR of 15.6%. In addition, the number of other users (including wireline broadband subscribers, e-Surfing HD subscribers, Internet of things connected devices and "BestPay" average monthly active users) increased from approximately 63.5 million in 2010 to approximately 296.6 million in 2017, representing a CAGR of 24.6%. According to the report "China is Poised to Win the 5G Race" (《中國揚帆啟航，引領全球5G》) issued by Ernst & Young in June 2018, the number of 5G users in China is expected to increase to 576 million by 2025. In order to provide reliable services to its growing customers, China Telecom Group's demand for ancillary telecommunications services is also expected to grow; and

(5) the Group's overall operation and development in related business fields.

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

(c) *Operation Support Services Framework Agreement and Supplemental 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 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 with 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 Operation Support Services Framework Agreement for the three years of 2016, 2017 and 2018 are RMB3,200 million, RMB3,400 million and RMB3,600 million, respectively. The actual amounts for the service charges received by the Company from China Telecom Group under the Operation Support Services Framework Agreement for the years ended 31 December 2016 and 2017 were RMB2,571 million and RMB2,791 million, respectively. Based on the Company's unaudited 2018 interim financial report, the actual amount for the service charges received by the Company from China Telecom Group under the Operation Support Services Framework Agreement for the six months ended 30 June 2018 was RMB1,280 million.

The Existing Annual Caps for the service charges payable by the Company to China Telecom Group under the Operation Support Services Framework Agreement for the three years of 2016, 2017 and 2018 are RMB900 million, RMB1,000 million and RMB1,100 million, respectively. The actual amounts for the service charges paid by the

Company to China Telecom Group under the Operation Support Services Framework Agreement for the years ended 31 December 2016 and 2017 were RMB672 million and RMB950 million, respectively. Based on the Company's unaudited 2018 interim financial report, the actual amount for the service charges paid by the Company to China Telecom Group under the Operation Support Services Framework Agreement for the six months ended 30 June 2018 was RMB362 million.

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 2019, 2020 and 2021 to be RMB3,800 million, RMB4,000 million and RMB4,200 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 2019, 2020 and 2021 to be RMB1,600 million, RMB2,000 million and RMB2,400 million, respectively. In determining the New Annual Caps, the Directors have considered:

(1) the historical annual transaction amounts for 2016 and 2017 and the estimated annual transaction amount for 2018 under the Operation Support Services Framework Agreement;

(2) that there had been a high utilization rate of the Existing Annual Cap for the operation support services provided by China Telecom Group. In particular, the utilization rates were approximately 75% for 2016 and 95% for 2017, respectively, and that the actual amount of expenditure for operation support services in 2017 increased rapidly by 41% as compared with the year of 2016. In addition, high utilization rates reduced the Group's flexibility to respond to any unforeseen events. Hence, a degree of buffer is built in when determining the New Annual Caps in relation to the operation support services provided by China Telecom Group, which (i) allows the Group to be flexible in case of unforeseen events; and (ii) caters for the possible inflations in the coming three years, which had once been as high as approximately 6% per annum during the period from 2008 to 2017 according to the PRC consumer price index published by National Bureau of Statistics of China.

(3) that with regard to the operation support services provided to China Telecom Group, along with its business development, China Telecom Group's demand for operation support services such as property management and conference services has maintained a steady upward trend; at the same time, the Group's capability to provide operation support services has improved continuously, and is competitive in such market, and adaptive to meet the business needs of China Telecom Group;

(4) that with respect to the operation support services provided by China Telecom Group, the logistics business is currently considered as one of the key direction of business development of the Group. In July 2015, the Company established China Comservice Supply Chain Management Company Ltd. (中通服供應鏈管理有限公司, "**CCS Supply Chain**"), a wholly-owned subsidiary focused on logistics business. Based on the business plan of CCS Supply Chain, in order to build its national logistic and warehouse network, it is expected to need an aggregate of over 350 warehouses with an aggregate area of over 2,000,000 square meters, covering approximately 300 cities in China by 2020. As such, the demand for warehousing service from China Telecom Group is expected to grow. In addition, given the Group is expected to provide more engineering related services to China Telecom Group to cater for the planned increase in capital expenditure of China Telecom Group resulted from 5G network development, the Group is expected to have a higher demand for operation related services (such as warehousing services) provided by China Telecom Group. And China Telecom Group has necessary warehousing resources to meet the business needs of the Group in this respect; and

(5) the Group's overall operation and development in related business fields.

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

(d) ***IT Application Services Framework Agreement and Supplemental 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 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 with 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 IT Application Services Framework Agreement for the three years of 2016, 2017 and 2018 are RMB2,500 million, RMB2,700 million and RMB2,900 million, respectively. The actual amounts for the service charges received by the Company from China Telecom Group under the IT Application Services Framework Agreement for the year ended 31 December 2016 and 2017 were RMB2,235 million and RMB2,382 million, respectively. Based on the Company's unaudited 2018 interim financial report, the actual amount for the service charges received by the Company from China Telecom Group under the IT Application Services Framework Agreement for the six months ended 30 June 2018 was RMB780 million.

The Existing Annual Cap for the service charges payable by the Company to China Telecom Group under the IT Application Services Framework Agreement for each of the three years of 2016, 2017 and 2018 is RMB490 million. The actual amounts for the service charges paid by the Company to China Telecom Group under the IT Application Services Framework Agreement for the years ended 31 December 2016 and 2017 were RMB269 million and RMB268 million, respectively. Based on the Company's unaudited 2018 interim financial report, the actual amount for the service charges paid by the Company to China Telecom Group under the IT Application Services Framework Agreement for the six months ended 30 June 2018 was RMB137 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 2019, 2020 and 2021 to be RMB3,600 million, RMB4,300 million and RMB5,000 million, respectively. The

Directors proposed the New Annual Cap for the service charges payable by the Company to China Telecom Group under the IT Application Services Framework Agreement in respect of each of the three years ending 31 December 2019, 2020 and 2021 to be RMB500 million. In determining the New Annual Caps, the Directors have considered:

(1) the historical annual transaction amounts for 2016 and 2017 and the estimated annual transaction amount for 2018 under the IT Application Services Framework Agreement;

(2) that there had been a high utilization rate of the Existing Annual Cap for the IT application services provided to China Telecom Group. In particular, the utilization rates were approximately 89% for 2016 and 88% for 2017, respectively. In addition, high utilization rates reduced the Group's flexibility to respond to any unforeseen events. Hence, a degree of buffer is built in when determining the New Annual Caps in relation to the IT application services provided to China Telecom Group, which (i) allows the Group to be flexible in case of unforeseen events; and (ii) caters for the possible inflations in the coming three years, which had once been as high as approximately 6% per annum during the period from 2008 to 2017 according to the PRC consumer price index published by National Bureau of Statistics of China.

(3) that with respect to the IT application services provided to China Telecom Group, the demand for China Telecom Group's IT system construction and provision of telecommunication and technology application services for its customers is expected to be further increased due to the transformation of network intelligentisation and smart operation. According to the development plans on Internet of Things, Big Data, Cloud Computing and software and information technology issued by the Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和信息化部), the industry revenue from Internet of Things is expected to reach RMB1,500 billion in 2020, representing a CAGR of approximately 15% from RMB750 billion in 2015; the industry revenue from Big Data is expected to reach RMB1,000 billion in 2020, representing a CAGR of 29% from RMB280 billion in 2015; the industry revenue from Cloud Computing is expected to reach RMB430 billion in 2019, representing a CAGR of approximately 30% from RMB150 billion in 2015; the revenue from software and information technology service industry is expected to reach RMB8,000 billion in 2020, representing a CAGR of approximately 13% from RMB4,300 billion in 2015. Besides, the Group's smart product series has undergone rapid development in recent years, and the Group has significantly improved its capabilities in the field of telecommunication and technology application. It is expected that scale effect will take place in the Group's business segment of IT application services in future, and thereby significantly increase the business volume;

(4) that with respect to IT application services provided by China Telecom Group, it is expected that the business volume of the application services such as circuit leasing and IT provided by China Telecom Group to the Group will remain stable with slight increase; and

(5) the Group's overall operation and development in related business fields.

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

(e) *Centralized Services Agreement and Supplemental Agreement*

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

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

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

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

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

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 Centralized Services Agreement for the three years of 2016, 2017 and 2018 are RMB430 million, RMB440 million and RMB450 million, respectively. The actual amounts of the management fees received by the Company from

China Telecom Group under the Centralized Services Agreement for the years ended 31 December 2016 and 2017 were RMB313 million and RMB329 million, respectively. Based on the Company's unaudited 2018 interim financial report, the actual amount of the management fees received by the Company from China Telecom Group under the Centralized Services Agreement for the six months ended 30 June 2018 was RMB119 million.

The Directors proposed the New Annual Cap for the management fees receivable by the Company from China Telecom Group under the Centralized Services Agreement in respect of each of the three years ending 31 December 2019, 2020 and 2021 to be RMB450 million. In determining the New Annual Caps, the Directors have considered:

(1) the historical annual transaction amounts for 2016 and 2017 and the estimated annual transaction amount for 2018 under the Centralized Services Agreement; and

(2) that the future demand of China Telecom Group for centralized services from the Group is expected to maintain stable.

As all the applicable percentage ratios of the proposed New Annual Caps under the Centralized Services Agreement and its supplemental agreement, calculated on an annual basis, are more than 0.1% but less than 5%, the Centralized Services Agreement together with its supplemental agreement as well as the proposed New Annual Caps are subject to the reporting, announcement and annual review requirements, but exempt from the circular (including the independent financial advice) and the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

(f) ***Property Leasing Framework Agreement and Supplemental Agreement***

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

The rental charges in respect of each property are 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. 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 independent third parties 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. Both parties will review the rental every three years and decide, after negotiation, on 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 Property Leasing Framework Agreement for the three years of 2016, 2017 and 2018 are RMB200 million, RMB210 million and RMB220 million, respectively. The actual amounts for the rents received by the Company from China Telecom Group under the Property Leasing Framework Agreement for the years ended 31 December 2016 and 2017 were RMB111 million and RMB105 million, respectively. Based on the Company's unaudited 2018 interim financial report, the actual amount for the rents received by the Company from China Telecom Group under the Property Leasing Framework Agreement for the six months ended 30 June 2018 was RMB47 million.

The Existing Annual Caps for the rents payable by the Company to China Telecom Group under the Property Leasing Framework Agreement for the three years of 2016, 2017 and 2018 are RMB200 million, RMB220 million and RMB240 million, respectively. The actual amounts for the rents paid by the Company to China Telecom Group under the Property Leasing Framework Agreement for the years ended 31 December 2016 and 2017 were RMB179 million and RMB200 million, respectively. Based on the Company's unaudited 2018 interim financial report, the actual amount for the rents paid by the Company to China Telecom Group under the Property Leasing Framework Agreement for the six months ended 30 June 2018 was RMB93 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 2019, 2020 and 2021 to be RMB230 million, RMB240 million and RMB250 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 2019, 2020 and 2021 to be RMB270 million, RMB300 million and RMB330 million, respectively. In determining the New Annual Caps, the Directors have considered:

(1) the historical annual transaction amounts for 2016 and 2017 and the estimated annual transaction amount for 2018 under the Property Leasing Framework Agreement; and

(2) that the rental rate is expected to increase, and that the demand for leased properties of the Group and China Telecom Group is expected to increase due to business expansion.

As all the applicable percentage ratios of the proposed New Annual Caps under the Property Leasing Framework Agreement and its supplemental agreement, calculated on an annual basis, are more than 0.1% but less than 5%, the Property Leasing Framework Agreement together with its supplemental agreement as well as the proposed New Annual Caps are subject to the reporting, announcement and annual review requirements, but exempt from the circular (including the independent financial advice) and the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

(g) ***Supplies Procurement Services Framework Agreement and Supplemental 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 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;

(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. 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.

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 Supplies Procurement Services Framework Agreement for the three years of 2016, 2017 and 2018 are RMB6,700 million, RMB8,100 million and RMB10,000 million, respectively. The actual amounts for the service charges received by the Company from China Telecom Group under the Supplies Procurement Services Framework Agreement for the years ended 31 December 2016 and 2017 were RMB5,196 million and RMB4,094 million, respectively. Based on the Company's unaudited 2018 interim financial report, the actual amount for the services charges received by the Company from China Telecom Group under the Supplies Procurement Services Framework Agreement for the six months ended 30 June 2018 was RMB1,508 million.

The Existing Annual Caps for the service charges payable by the Company to China Telecom Group under the Supplies Procurement Services Framework Agreement for the three years of 2016, 2017 and 2018 are RMB4,900 million, RMB5,900 million and RMB7,000 million, respectively. The actual amounts for the service charges paid by the Company to China Telecom Group under the Supplies Procurement Services Framework Agreement for the years ended 31 December 2016 and 2017 were RMB2,498 million and RMB2,122 million, respectively. Based on the Company's unaudited 2018 interim financial report, the actual amount for the service charges paid by the Company to China Telecom Group under the Supplies Procurement Services Framework Agreement for the six months ended 30 June 2018 was RMB947 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 2019, 2020 and 2021 to be RMB6,000 million, RMB6,500 million and RMB7,000 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 2019, 2020 and 2021 to be RMB5,000 million, RMB5,200 million and RMB5,400 million, respectively. In determining the New Annual Caps, the Directors have considered:

(1) the historical annual transaction amounts for 2016 and 2017 and the estimated transaction amount for 2018 under the Supplies Procurement Services Framework Agreement;

(2) that with respect to the supplies procurement services provided to China Telecom Group, China Telecom Group has gradually changed its suppliers procurement model to direct procurement from equipment and raw material suppliers in recent years, resulting in a decrease in China Telecom Group's demand of supplies procurement services provided by the Group in 2016 and 2017. Therefore, the relevant utilization rates of the Existing Annual Caps were approximately 78% and 51% in 2016 and 2017, respectively. However, considering the network expansion of China Telecom Group and its 5G network construction (including but not limited to the expected growth in the number of 5G users), it is expected that its demand for supplies procurement (including but not limited to handsets, modem and equipment) will increase in the next three years;

(3) that with respect to the supplies procurement services provided by China Telecom Group, as China Telecom Group's marketing model has focused on providing subsidy to its customers in the form of phone charges rather than handsets in recent years, the Group's demand for telecommunications supplies in the related business was decreased in recent years, resulting in a lower utilization rates of the Existing Annual Caps in 2016 and 2017, being approximately 51% and 36%, respectively. From the industry perspective, the sales volume of mobile phones in the domestic handset market for the nine months ended 30 September 2018 amounted to 305 million units, representing a decrease of approximately 17% compared to the corresponding period of 2017. But it is expected that the change in the form of subsidy by China Telecom Group as well as the industry downtrend would not have further material impact on the Group's related business. With the development of 5G network and the upgrade of mobile terminals, it is expected that the Group's demand for telecommunications supplies will increase steadily in the coming years; and

(4) the Group's overall operation and development in related business fields.

As the highest applicable percentage ratio of the proposed New Annual Caps under the Supplies Procurement Services Framework Agreement and its supplemental agreement, calculated on an annual basis, exceeds 5%, the Supplies Procurement

Services Framework Agreement together with its supplemental agreement as well as the proposed New Annual Caps are subject to the reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

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

China Telecom Group is one of the largest telecommunications operators in the PRC. The Group is a leading service provider in the informatization sector in the PRC and has been providing such services to China Telecom Group on a long-term basis which are currently governed by the Engineering Framework Agreement, the Ancillary Telecommunications Services Framework Agreement, the Operation Support Services Framework Agreement, the IT Application Services Framework Agreement and the Supplies Procurement Services Framework Agreement.

In addition, China Telecom Group and the Group leased from each other certain properties essential to their operation under the Property Leasing Framework Agreement, and the Group has also been providing to China Telecom certain centralized management services in respect of the businesses and assets retained by China Telecom as governed by the Centralized Services Agreement.

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 2018 Supplemental 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 or better which are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

4. Information About the Company and China Telecom

(a) *The Company*

The Company is a leading service provider in the informatization sector in the PRC, providing integrated comprehensive solutions in the informatization sector, including telecommunications infrastructure services, business process outsourcing services and applications, content and other services.

Since its listing in 2006, the Company has been committed to diversifying its businesses and expanding its customer base. In particular, in recent years, in addition to the domestic telecommunications operator market, the Company has also focused on providing integrated comprehensive solutions in the PRC informatization sector including a series of smart and digital services for smart society, and developed domestic non-telecom operator market (such as customers in sectors of government, transportation, electricity, internet and IT) as well as overseas market, thereby achieving a more balanced customer revenue mix and further reducing reliance on a single customer.

With the Company's continuing efforts, the proportion of revenue from China Telecom continued to decrease in recent years, while the proportion of revenue from the domestic non-telecom operator market and the domestic telecommunications operators other than China Telecom continued to increase. For the two years ended 31 December 2016 and 2017 and the six months ended 30 June 2018, the proportion of the Company's revenue from China Telecom was approximately 46%, 44% and 36%, respectively. For the six months ended 30 June 2018, the aggregate proportion of the Company's revenue from the domestic non-telecom operator market and domestic telecommunications operators other than China Telecom exceeded 60% for the first time.

(b) ***China Telecom***

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

5. Listing Rules Implications

As at the Latest Practicable Date, China Telecom was a Substantial Shareholder of the Company holding approximately 51.39% of the total issued share capital of the Company, and was thus a Connected Person of the Company under Rule 14A.07 of the Listing Rules. Accordingly, the entering into the Continuing Connected Transactions under the 2015 Agreements and the 2018 Supplemental Agreements (together with the proposed New Annual Caps) constitute Continuing Connected Transactions of the Company.

The table below sets out the historical figures and the Existing Annual Caps relating to the 2015 Agreements and the proposed New Annual Caps relating to the 2015 Agreements and the 2018 Supplemental Agreements.

Unit: RMB million

Transactions	Year ended 31 December				Year ending 31 December				
	2016		2017		2018		2019	2020	2021
	Existing Annual Cap	Actual amounts*	Existing Annual Cap	Actual amounts*	Existing Annual Cap	Actual amounts (up to 30 June)*	New Annual Cap	New Annual Cap	New Annual Cap
Engineering related services provided to China Telecom Group	24,000	21,230	24,000	21,155	24,000	8,727	26,000	33,000	35,000
Ancillary telecommunications services provided to China Telecom Group	12,100	9,255	13,300	11,041	15,600	6,027	20,000	24,000	27,000
Operation support services provided to/by China Telecom Group									
Revenue	3,200	2,571	3,400	2,791	3,600	1,280	3,800	4,000	4,200
Expenditure	900	672	1,000	950	1,100	362	1,600	2,000	2,400
IT application services provided to/by China Telecom Group									
Revenue	2,500	2,235	2,700	2,382	2,900	780	3,600	4,300	5,000
Expenditure	490	269	490	268	490	137	500	500	500
Centralized services provided to China Telecom Group	430	313	440	329	450	119	450	450	450
Property leasing provided to/by China Telecom Group									
Revenue	200	111	210	105	220	47	230	240	250
Expenditure	200	179	220	200	240	93	270	300	330
Supplies procurement services provided to/by China Telecom Group									
Revenue	6,700	5,196	8,100	4,094	10,000	1,508	6,000	6,500	7,000
Expenditure	4,900	2,498	5,900	2,122	7,000	947	5,000	5,200	5,400

Note: The actual amounts for the year ended 31 December 2016 and 2017 are from the Company's 2016 annual report and 2017 annual report, respectively, and the actual amounts for the six months ended 30 June 2018 are from the Company's unaudited 2018 interim financial report. Most of the transactions under 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 had been exceeded as at the Latest Practicable Date. The Board is of the view that 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 New Annual Caps for each of the Non-exempt Continuing Connected Transactions, on an annual basis, exceeds 5%, the Non-exempt Continuing Connected Transactions (together with the proposed New Annual Caps thereof) are subject to the reporting, announcement, annual review 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 carried out in the ordinary and usual course of business of the Group and on normal commercial terms or better which are fair and reasonable and in the interests of the Company and the Shareholders as a whole, and that the proposed New Annual Caps for the Non-exempt Continuing Connected Transactions are fair and reasonable.

As all the applicable percentage ratios of the proposed New Annual Caps for the Continuing Connected Transactions under the Centralized Services Agreement and the Property Leasing Framework Agreement, on an annual basis, are more than 0.1% but less than 5%, the Continuing Connected Transactions under the Centralized Services Agreement and the Property Leasing Framework Agreement and the proposed New Annual Caps thereof are subject to the reporting, announcement and annual review requirements, but exempt from the circular (including the independent financial advice) and the independent shareholders' approval requirements 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 carried out, in the ordinary and usual course of business of the Group and on normal commercial terms or better which are fair and reasonable and in the interests of the Company and the Shareholders as a whole, and that the proposed New Annual Caps for the Centralized Services Agreement and the Property Leasing Framework Agreement are fair and reasonable.

Due to their positions in China Telecom, two of the Directors, Mr. Zhang Zhiyong 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 Continuing Connected Transactions under 2015 Agreements and 2018 Supplemental Agreements and the proposed New Annual Caps.

China Telecom and its associates, being Connected Persons to the Company, will abstain from voting at the EGM on the ordinary resolutions to approve the 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 will comply with the rules in relation to annual review of continuing connected transactions set out in the Listing Rules. The Company will comply with all applicable requirements set out in Chapter 14A of the Listing Rules upon any further material variation or renewal of the 2015 Agreements and the 2018 Supplemental Agreements.

III. ELECTION AND RE-ELECTION OF MEMBERS TO THE FIFTH SESSION OF THE BOARD AND THE SUPERVISORY COMMITTEE

The following persons have been nominated for, and agreed to their election/re-election as the members to the fifth session of the Board or the Supervisory Committee. Separate ordinary resolutions to approve their election/re-election will be proposed at the EGM for the Shareholders' consideration and approval. It is also proposed that (i) any Director be authorised, on behalf of the Company, to enter into a service agreement with each of the following persons with a term of three years, effecting from the date when the resolution in relation to his/her election/re-election is passed; and (ii) the Board and the Supervisory Committee, after obtaining the approval from the Shareholders at the EGM, be authorised to determine the remuneration of each Director and Supervisor, respectively.

After the election of the Directors, the Board of the Company will be composed of 9 Directors, including 4 independent non-executive Directors, meeting the Listing Rules requirement that at least 3 persons and one third of the directors should be independent non-executive directors. The nomination of Directors has considered the factors including gender, age, culture and educational background or professional experience of the board members under the Board diversity policy.

Proposed Directors	**Proposals**
ZHANG Zhiyong	Re-elected to be Executive Director
SI Furong	Re-elected to be Executive Director
ZHANG Xu	Elected to be Executive Director
LI Zhengmao	Re-elected to be Non-Executive Director
SHAO Guanglu	Re-elected to be Non-Executive Director
SIU Wai Keung, Francis	Re-elected to be Independent Non-Executive Director
LV Tingjie	Re-elected to be Independent Non-Executive Director
WU Taishi	Re-elected to be Independent Non-Executive Director
LIU Linfei	Re-elected to be Independent Non-Executive Director

Proposed Supervisors	**Proposals**
HAN Fang	Re-elected to be Supervisor
HAI Liancheng	Re-elected to be Supervisor

The brief information concerning the above proposed Directors and Supervisors (collectively, the "**Nominee(s)**") is set out in Appendix II to this circular. The Supervisor representing the employees shall be elected by the employees of the Company. The results of such election will be announced separately.

All the candidates for the Independent Non-executive Directors have confirmed that they have met the independence criteria under Rule 3.13 of the Listing Rules. The Board has assessed their independence and believed that they have complied with the independence guidelines as set out in Rule 3.13 of the Listing Rules, and are independent under the terms of the guidelines.

Except for those stated in Appendix II to this circular, none of the Nominee has held any directorship in public companies, the securities of which are listed on any securities market in Hong Kong or overseas, or taken up a post in any affiliated companies of the Company in the past three years. In addition, none of the Nominee has any relationship with any other director, supervisor, senior management, substantial shareholder or controlling shareholder of the Company. None of the Nominee has any equity interest in the Company within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

The Nominees will be elected subject to approval by the Shareholders at the EGM, and their terms will be effective from the date when the resolution in relation to his/her appointment is passed. The remuneration of each Director and Supervisor will be determined with reference to their duties, responsibilities, experience as well as the current market situations.

To the best of the knowledge, information and belief of the Board and having made all reasonable enquiries, except for those stated in this circular, there is no other information relating to the Nominees that is required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules nor any matter which needs to be brought to the attention of the Shareholders.

IV. EGM

The EGM will be held as originally scheduled at 10:00 a.m. on Thursday, 13 December 2018 at No. 19, Chaoyangmen Beidajie, Dongcheng District, Beijing, the PRC. A Supplemental Notice of the EGM is set out on pages 82 to 85 of this circular.

The Supplemental Notice of the EGM and the Supplemental Form of Proxy in respect of the ordinary resolutions numbered 6 and 7 is enclosed with this circular. The Supplemental Form of Proxy will not affect the validity of any form of proxy duly completed by you in respect of the resolutions set out in the Previous Notice. If you have validly appointed a proxy to attend and act for you at the EGM but do not complete and deliver the Supplemental Form of Proxy, your proxy will be entitled to vote at his discretion on the ordinary resolutions numbered 6 and 7 mentioned above.

Shareholders are entitled to appoint one or more proxies to attend the EGM, but only one of the proxies can be designated to vote at the EGM. If the proxy being appointed to attend the EGM under the Supplemental Form of Proxy is different from the proxy appointed under the previous form of proxy and both proxies attended the EGM, the proxy validly appointed under the previous form of proxy shall be designated to vote at the EGM.

Please refer to the Previous Notice, which was issued on 29 October 2018, for details in respect of other resolutions to be passed at the EGM, eligibility for attending the EGM, proxy, registration procedures, closure of register of members, and other relevant matters in relation to the EGM.

V. CONCLUSIONS AND RECOMMENDATIONS

Pulsar Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders with regard to 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 Group on normal commercial terms or better and 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 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 Group on normal commercial terms or better and that 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 Non-exempt Continuing Connected Transactions (together with the proposed New Annual Caps thereof). The text of the letter from the Independent Board Committee is set out on pages 34 to 35 of this circular. No member of the Independent Board Committee has any material interest in the Non-exempt Continuing Connected Transactions (together with the proposed New Annual Caps thereof).

The Company considers that all the matters proposed to be approved at the EGM are in the interests of the Company and the Shareholders as a whole, and recommends the Shareholders to vote in favor of the relevant resolutions to be proposed at the EGM.

VI. 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 appendix to this circular.

By Order of the Board
China Communications Services Corporation Limited
Zhang Zhiyong
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)

19 November 2018

To the Independent Shareholders

Dear Sir or Madam,

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

We refer to the circular issued by the Company to the Shareholders dated 19 November 2018 (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 28 September 2018, the Board announced that the Company has entered into the 2018 Supplemental Agreements with China Telecom. Further details are contained in the letter from the Board set out on pages 5 to 33 of the Circular.

The Independent Board Committee was formed to make a recommendation to the Independent Shareholders as to whether, in its view, 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.

Pulsar Capital 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 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 36 to 74 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 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 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 Non-exempt Continuing Connected Transactions (together with the proposed New Annual Caps thereof) have been carried out in the ordinary and usual course of business of the Group and on normal commercial terms or better, which are fair and reasonable 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 despatched on 29 October 2018.

Yours faithfully,
For and on behalf of
Independent Board Committee

Zhao Chunjun **Siu Wai Keung, Francis** **Lv Tingjie** **Wu Taishi** **Liu Linfei**

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.

脈搏 Pulsar
資本 Capital

Unit 318, 3/F, Shui On Centre
6–8 Harbour Road, Wanchai
Hong Kong

19 November 2018

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

Dear Sirs,

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

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the renewal of the Non-exempt Continuing Connected Transactions contemplated under the 2015 Agreements and the 2018 Supplemental Agreements which includes (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 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 19 November 2018 (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 holds approximately 51.39% of the total issued share capital of the Company, which is a Substantial 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 Continuing Connected Transactions under the 2015 Agreements and the 2018 Supplemental 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 New Annual Caps for the Non-exempt Continuing Connected Transactions, on an annual basis, exceeds 5%, the Non-exempt Continuing Connected Transactions (together with the proposed New Annual Caps thereof) are subject to the reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

China Telecom and its associates, being Connected Persons to the Company, will abstain from voting at the EGM on the ordinary resolutions to approve the Non-exempt Continuing Connected Transactions (together with the proposed New Annual Caps thereof). Any voting of the Independent Shareholders at the EGM shall be taken by poll. Due to their positions in China Telecom, Mr. Zhang Zhiyong 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 Non-exempt Continuing Connected Transactions under 2015 Agreements and 2018 Supplemental Agreements and the proposed New Annual Caps.

INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising all of the independent non-executive Directors (namely, Mr. Zhao Chunjun, Mr. Siu Wai Keung, Francis, Mr. Lv Tingjie, Mr. Wu Taishi and Mr. Liu Linfei) has been formed to advise the Independent Shareholders on the renewal of Non-exempt Continuing Connected Transactions (together with the proposed New Annual Caps thereof).

We have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders as to whether the Non-exempt Continuing Connected Transactions are in the ordinary and usual course of business of the Company and on normal commercial terms or better; and whether 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.

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 Non-exempt Continuing Connected Transactions (together with the proposed New Annual Caps thereof), we have considered the following principal factors and reasons:

Information on the Company

As stated in the Letter from the Board, the Company is a leading service provider in the informatization sector in the PRC, providing integrated comprehensive solutions in the informatization sector, including telecommunications infrastructure services, business process outsourcing services and applications, content and other services.

Since its listing in 2006, the Company has been committed to diversifying its businesses and expanding its customer base. In particular, in recent years, in addition to the domestic telecommunications operator market, the Company has also focused on providing integrated comprehensive solutions in the PRC informatization sector including a series of smart and digital services for smart society, and developed domestic non-telecom operator market (such as customers in sectors of government, transportation, electricity, internet and IT) as well as overseas market, thereby achieving a more balanced customer revenue mix and further reducing reliance on a single customer.

With the Company's continuing efforts, the proportion of revenue from China Telecom continued to decrease in recent years, while the proportion of revenue from the domestic non-telecom operator market and the domestic telecommunications operators other than China Telecom continued to increase. For the two years ended 31 December 2016 and 2017 and the six months ended 30 June 2018, the proportion of the Company's revenue from China Telecom was approximately 46%, 44% and 36%, respectively. For the six months ended 30 June 2018, the aggregate proportion of the Company's revenue from the domestic non-telecom operator market and domestic telecommunications operators other than China Telecom exceeded 60% for the first time.

Information on China Telecom

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

Background of the Non-exempt Continuing Connected Transactions

All the 2015 Agreements were entered into between the Company and China Telecom on 29 September 2015, pursuant to which the 2015 Agreements will expire on 31 December 2018, and will be automatically renewable for further periods of no more than three years subject to shareholders' approval (if applicable) unless it is terminated by either party with three months' prior written notice. The Existing Annual Caps (to the extent they were subject to Independent Shareholders' approval under Chapter 14A of the Listing Rules) were approved by the then Independent Shareholders at the extraordinary general meeting of the Company held on 11 December 2015.

As each of the 2015 Agreements will expire on 31 December 2018, the Company entered into the 2018 Supplemental Agreements with China Telecom on 28 September 2018 based on the 2015 Agreements to, among other things, renew each of the 2015 Agreements for a further terms of three years from 1 January 2019 to 31 December 2021, change contact information of China Telecom and adjust the terms related to tender process of the Engineering Framework Agreement pursuant to the applicable PRC regulations. Other key terms of each of the 2015 Agreements remain unchanged.

According to internal estimates and historical transaction amounts, the Directors also proposed the New Annual Caps.

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 a leading service provider in the informatization sector in the PRC and has been providing such services to China Telecom Group on a long-term basis which are currently governed by the Engineering Framework Agreement, the Ancillary Telecommunications Services Framework Agreement, the Operation Support Services Framework Agreement, the IT Application Services Framework Agreement and the Supplies Procurement Services Framework Agreement.

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 2018 Supplemental 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 or better which are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Having considered that the Non-exempt Continuing Connected Transactions allow the Group to capture the business opportunity and strengthen its strategic relationship with China Telecom Group, we are of the view that the Non-exempt Continuing Connected Transactions have been entered into in the ordinary and usual course of business of the Group on normal commercial terms or better which are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Details of the Non-exempt Continuing Connected Transactions contemplated under the 2015 Agreements and 2018 Supplemental Agreements are set out below:

1. *Engineering Framework Agreement and Supplemental Agreement*

(a) *Subject matter and terms of the Engineering Framework Agreement and Supplemental 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.

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

The charges for engineering related services rendered under the Engineering Framework Agreement shall be determined at market price or prices obtained through tender process. According to the supplemental agreement to the Engineering Framework Agreement entered into between the Company and China Telecom, the parties amended the thresholds which the project must be determined through tender process under the Engineering Framework Agreement: whenever the value of any design or project supervision and management project exceeds RMB1 million, or the value of any construction project exceeds RMB4 million, the award of the relevant project 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. The amendments were made in accordance with the Provisions on Projects Subject to Tender Process issued under the Order No. 16 of the National Development and Reform Commission of the PRC in March 2018, which increased (i) the threshold for design or project supervision and management projects that must be determined through tender process from RMB0.5 million to RMB1 million, and (ii) the threshold for construction project that must be determined through tender process from RMB2 million to RMB4 million. China Telecom Group (including the Group) has also adjusted the internal guidelines and increased such thresholds accordingly.

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. 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 Group.

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 Group 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 Group 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 work 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 Group and China Telecom Group through tender process. We have discussed with the Management and have been given to understand that the Group 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 Group through tender process under the Engineering Framework Agreement. Based on our review, discussion with the Management and further confirmation by the Management, past specific transactions entered into between the Group and China Telecom Group through tender process under the Engineering Framework Agreement were generally in compliance with the Internal Bidding Management Measures. For those past specific contracts entered into between the Group and China Telecom Group based on market price under the Engineering Framework Agreement over the last two years, we have reviewed sample contracts (the "**Engineering Sample Contracts**") previously entered into (a) between the Group and China Telecom Group under the Engineering Framework Agreement; and (b) between the Group and independent third parties in respect of provision of engineering related services by the Group. We note that save for the fee quotes, other principal terms specified in the Engineering Sample Contracts entered into with China Telecom Group by the Group were no less favorable to the Company than those specified in the Engineering Sample Contracts entered into with independent third parties by the Group. We accordingly further discussed with the Management and understood that as each transaction under the Engineering Framework Agreement involved highly customized combination of services specifically required by each certain customer, the fee quotes offered by the Group 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 was on commercial terms and was 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 specified the responsibilities of each involved department in managing connected transactions of the Company and set 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 Group under the 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 Group and China Telecom Group under the Engineering Framework Agreement were generally in compliance with the Connected Transactions Administrative Measures and the Internal Control Guidance which, as advised by the Management, were set to ensure that the Company conformed to the relevant pricing policies of each connected transaction framework agreement in entering into each specific connected transaction.

For transactions made under the Engineering Framework Agreement, we also examined other independent information by reviewing the letter issued by the auditors of the Company (the "**Auditors**"), to the Board and note that the Auditors had performed procedures in accordance with Hong Kong Standard on Assurance Engagements 3000 and with reference to Practice Note 740 and confirmed that they had performed sample checks on the continuing connected transactions entered into between the Group and China Telecom Group during the year ended 31 December 2017 and had not found that the continuing connected transactions were not, in all material respects, 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 and its supplemental agreement is on normal commercial terms or better and is fair and reasonable so far as the Independent Shareholders are concerned.

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

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

Unit: RMB million

Transactions	Year ended 31 December				Year ending 31 December				
	2016		2017		2018		2019	2020	2021
Engineering Framework Agreement	**Existing Annual Cap**	**Actual amounts**	**Existing Annual Cap**	**Actual amounts**	**Existing Annual Cap**	**Actual amounts (up to 30 June 2018)**	**New Annual Cap**	**New Annual Cap**	**New Annual Cap**
Revenue	24,000	21,230	24,000	21,155	24,000	8,727	26,000	33,000	35,000
% of utilization		88.5%		88.1%		36.4%			
% of increase			0.0%		0.0%		8.3%	26.9%	6.1%

As calculated from the table above, we note that the actual amounts for the service charges received by the Company from China Telecom Group under the Engineering Framework Agreement for the two years ended 31 December 2017 were approximately RMB21,230 million and RMB21,155 million, respectively, representing a utilization rate of approximately 88.5% and 88.1%, respectively. Based on the interim report of the Company for the six months ended 30 June 2018 (the "**2018 Interim Report**"), the actual amount for the service charges received by the Company from China Telecom Group under the Engineering Framework Agreement for the six months ended 30 June 2018 was approximately RMB8,727 million, representing a utilization rate of approximately 36.4%.

We also note that there would be an approximately 8.3% increase in the 2019 New Annual Cap as compared to the 2018 Existing Annual Cap and approximately 26.9% increase in the 2020 New Annual Cap as compared to the 2019 New Annual Cap and approximately 6.1% increase in the 2021 New Annual Cap as compared to the 2020 New Annual Cap.

As stated in the Letter from the Board, in determining the New Annual Caps, the Directors have considered (1) the historical annual transaction amounts for 2016 and 2017 and the estimated annual transaction amount for 2018 under the Engineering Framework Agreement; (2) that there had been a high utilization rate of the Existing Annual Cap for the engineering related services. In particular, the utilization rate was approximately 88% for each of 2016 and 2017. In addition, high utilization rates reduced the Group's flexibility to respond to any unforeseen events. Hence, a degree of buffer is built in when determining the New Annual Caps in relation to the engineering related services, which (i) allows the Group to be flexible in case of unforeseen events; and (ii) caters for the possible inflation in the coming three years, which had once been as high as approximately 6% per annum during the period from 2008 to 2017 according to the PRC consumer price index published by National Bureau of Statistics of China; (3) that China Telecom was granted the permit to operate the LTE/4G digital cellular mobile service (LTE FDD) in 2015 and its capital expenditure peaked out in the same year; the capital expenditure reduced in the subsequent year of 2016 and 2017 and thus the engineering services provided by the Group to China Telecom Group was affected in 2016 and 2017 mainly due to such factor. In contrast, China Telecom Group will promote network intelligentisation reforms and 5G network development and strengthen the commercial application of which in the coming two to three years, and this will greatly enhance the Group's engineering-related business; (4) that taking into account the overall progress of related business in previous years, it is expected that the telecommunications operators will further promote the construction of 5G trial network in 2019, and the years 2020 and 2021 will be an important phase for the construction and development of commercial application of 5G network. According to the White Paper on 5G Economic and Social Impact (《5G經濟社會影響白皮書》) issued by China Academy of Information and Communications Technology (中國信息通信研究院) in June 2017, the investment amount on 5G network equipment by domestic telecommunications operators is expected to exceed RMB220 billion in 2020. As such, the volume of related business is expected to increase in the coming three years. In addition, the Groups' revenue of telecommunications infrastructure ("**TIS**") services from China Telecom Group for each of 2016 and 2017 was approximately RMB21,200 million, representing approximately 19% and 20% of the total capital expenditure of China Telecom Group for the corresponding period, respectively. It is expected that the TIS revenue from China Telecom Group as a percentage to the capital expenditure of China Telecom Group would remain largely stable for the next three years; (5) that as disclosed in the circular of China Telecom Corporation Limited (a subsidiary of China Telecom, stock code: 728.HK, "**China Telecom Corporation**") the renewed annual caps for the engineering framework agreement with China Telecom under which the engineering related services is expected to be provided by the Group, are RMB23,000 million, RMB30,000 million, and RMB32,000 million for 2019, 2020, and 2021, respectively; and (6) the Group's overall operation and development in related business fields.

In assessing the reasonableness of the New Annual Caps for the Engineering Framework Agreement and its supplemental agreement, we have reviewed the historical transaction amounts and the utilization rates as previously mentioned. We have also discussed with the Management the relevant historical trends and future business demand and understood that the Non-exempt Continuing Connected Transactions were generally subject to seasonality as they were 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 part of our due diligence, we prepared a half-year breakdown of historical actual transaction amounts for the two years ended 31 December 2017 in respect of the Non-exempt Continuing Connected Transactions (the "**Historical Transaction Breakdown**") and note that actual transaction amounts under the Engineering Framework Agreement for each of the second half of 2016 and 2017 represented approximately 62.2% and 55.7% of the corresponding total actual annual transaction amount, respectively. Thus, the estimated transaction amount for the second half of 2018 is expected to be higher than the actual transaction amount for the first half of 2018 under the Engineering Framework Agreement due to the seasonality as mentioned above.

Furthermore, we were given to understand from the Management that the steady growth of the PRC's economy and the stable development of the telecommunications industry, particularly the 5G network standard, will continue to drive the demand from 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 called "The 3 years (2018–2020) execution plan for expanding and upgrading information consumption" published by the Ministry of Industry and Information Technology of the People's Republic of China (中華人民共和國工業和信息化部, the "**MIIT**") on August 2018 which describes the future of the information infrastructure construction. We notice that MIIT is planning to promote fiber broadband, increase coverage of 4G network, expediate the study of the 5G network standard, carry out testing on the technologies, advance the setting up of 5G network infrastructure construction and exemplary application projects. Accordingly, the Management expects that China Telecom Group will upgrade its network infrastructure and develop its 5G network, and increase its demand on engineering related services; (ii) the interim report for the six months ended 30 June 2018 of China Telecom Corporation, together with its subsidiaries, collectively "**China Telecom Corporation Group**", (iii) the annual report of the Company for the year ended 31 December 2017 (the "**2017 Annual Report**"), and (iv) the circular of China Telecom Corporation released on 10 September 2018. We note that (1) the coming two to three years will be an important stage for China Telecom Corporation Group on network intelligentisation reform and upgrade, as well as 5G development. China Telecom Corporation Group is therefore required to maintain necessary capital expenditure; and (2) given the improvement in its unique integrated solution capabilities, the Group has clear business advantages over other third-party service providers in the industry and can meet the future demand of China Telecom Group. In addition, we notice that the Group will capture the opportunities brought by the increase in capital expenditure by telecommunication operators, and fully support the 5G network infrastructure construction.

Therefore, taking into account the facts and reasons discussed above, as well as the historical high utilization rates of the 2016 and 2017 Existing Annual Caps of 88.5% and 88.1% respectively, we consider that it is reasonable for the Company to raise the caps in response to the expected increase in transaction amounts during 2019 to 2021 under the Engineering Framework Agreement and the 2018 Supplemental Agreements. It is because China Telecom Corporation expects 5G will enter into commercialization phase in 2020. This will result in a higher increment in the 2020 transaction amount under the Engineering Framework Agreement as compared to the 2019 transaction amount.

In assessing the reasonableness of the New Annual Caps for the Engineering Framework Agreement and its supplemental agreement, in addition to the foregoing factors considered by the Directors, we have taken into consideration the following:

(i) the capital expenditure of China Telecom Group may rise in future, mainly due to network intelligentisation evolution and the development of 5G network. China Telecom published the "CTNet2025 Network Structure White Paper" in July 2016 which promoted network intelligentisation evolution including the promotion of network reconstitution, introduction of technologies, expedition of network equipment upgrade for building a simplified network featuring efficient centralization and openness; and the development of 5G network and commencement of large-scale commercial use subsequent to the commercial trial in 2019. This may lead to the potential increase in capital expenditure by China Telecom Group in 2020. Due to the network intelligentisation reforms and upgrade, and the entering into the 5G era, it is expected that both the capital expenditure of China Telecom Group and the transactions under the Engineering Framework Agreement may increase in the upcoming three years; and

(ii) historically high utilization rates and buffers for unforeseen market conditions and inflation. There had been a high utilization rate of the Existing Annual Cap for the Engineering Framework Agreement. In particular, the utilization rates were approximately 88% for each of the two years ended 31 December 2017. In addition, high utilization rates also reduced the Group's flexibility to respond to any unforeseen events. Hence, a degree of buffer was also built in when determining the New Annual Caps in relation to the Engineering Framework Agreement and its supplemental agreement, which (i) allows the Group to be flexible in case of unforeseen events; and (ii) caters for the possible inflation in the coming three years, which had once been as high as approximately 6% per annum during the period from 2008 to 2017 according to the PRC consumer price index published by National Bureau of Statistics of China.

Based on the above, we are of the view that the New Annual Caps under the Engineering Framework Agreement and its supplemental 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. *Ancillary Telecommunications Services Framework Agreement and Supplemental Agreement*

(a) *Subject matter and terms of the Ancillary Telecommunications Services Framework Agreement and Supplemental 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, server 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 electronic authentication. 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.

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

Pursuant to the Ancillary Telecommunications Services Framework Agreement, the pricing basis is determined by reference to:

(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 the Group 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. 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 Group;

(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 costs and profits, the business and financial departments of the relevant subsidiary of the Company will (i) review and compare the costs and profit margins of similar and comparable transactions conducted in the most recent year entered into with China Telecom Group or independent third parties, or (ii) where such comparison is not practicable, consider for reference the recent profit margins of comparable enterprises engaging in providing similar services in the relevant industry. Factors considered would also include, but not limited to, the scale of the comparable enterprises, quality of services, transaction size, supply and demand, labor cost, local commodity prices and economic development levels.

Furthermore, 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. 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 Group 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.

We have reviewed the (i) the Ancillary Telecommunications Services Framework Agreement entered into between the Company and China Telecom; and (ii) with respect to past specific contracts entered into between the Group and China Telecom Group based on market price under the Ancillary Telecommunication Services Framework Agreement over the last two years, we have reviewed sample contracts (the "**Ancillary Sample Contracts**") previously entered into (a) between the Group and China Telecom Group under the Ancillary Telecommunication Services Framework Agreement; and (b) between the Group and independent third parties in respect of provision of ancillary telecommunication services by the Group. We note that save for the fee quotes, other principal terms specified in the Ancillary Sample Contracts entered into with China Telecom Group by the Group were no less favorable to the Company than those specified in the Ancillary Sample Contracts entered into with independent third parties by the Group. We accordingly further discussed with the Management and understood that as each transaction under the Ancillary Telecommunication Services Framework Agreement involved highly customized combination of services specifically required by each certain customer, the fee quotes offered by the Group 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 was on commercial terms and was fair and reasonable. As part of our due diligence, we have also 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 Group under the 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 Group and China Telecom Group under the Ancillary Telecommunications Services Framework Agreement were generally in compliance with the Connected Transactions Administrative Measures and the Internal Control Guidance.

For transactions made under the Ancillary Telecommunications Services Agreement, we also examined other independent information by reviewing the letter issued by the Auditors to the Board and note that the Auditors had performed procedures in accordance with Hong Kong Standard on Assurance Engagements 3000 and with reference to Practice Note 740 and confirmed that they had performed sample checks the continuing connected transactions entered into between the Group and China Telecom Group during the year ended 31 December 2017 and had not found that the continuing connected transactions were not, in all material respects, 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 and its supplemental agreement is on normal commercial terms or better and is fair and reasonable so far as the Independent Shareholders are concerned.

(c) *Historical amounts and the 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	**2016**		**2017**		**2018**		**2019**	**2020**	**2021**
Ancillary Telecommunications Services Framework Agreement	**Existing Annual Cap**	**Actual amounts**	**Existing Annual Cap**	**Actual amounts**	**Existing Annual Cap**	**Actual amounts (up to 30 June 2018)**	**New Annual Cap**	**New Annual Cap**	**New Annual Cap**
Revenue	12,100	9,255	13,300	11,041	15,600	6,027	20,000	24,000	27,000
% of utilization		76.5%		83.0%		38.6%			
% of increase			9.9%		17.3%		28.2%	20.0%	12.5%

As calculated from the table above, we note that the actual amounts for the service charges received by the Company from China Telecom Group under the Ancillary Telecommunications Services Framework Agreement for the two years ended 31 December 2017 were approximately RMB9,255 million and RMB11,041 million, respectively, representing a utilization rate of approximately 76.5% and 83.0%, respectively. Based on the 2018 Interim Report, the actual amount for the service charges received by the Company from China Telecom Group under the Ancillary Telecommunications Services Framework Agreement for the six months ended 30 June 2018 was approximately RMB6,027 million, representing a utilization rate of approximately 38.6%. We prepared and reviewed the Historical Transaction Breakdown and note that actual transaction amounts under the Ancillary

Telecommunications Services Framework Agreement for each of the second half of 2016 and 2017 represented approximately 56.7% and 55.7% of the corresponding total actual annual transaction amount, respectively. We further discussed with the Management and understood that the estimated transaction amount for the second half of 2018 is expected to be higher than the actual transaction amount for the first half of 2018 under the Ancillary Telecommunications Services Framework Agreement. We also note that there would be an approximately 28.2% increase in the 2019 New Annual Cap as compared to the 2018 Existing Annual Cap, an approximately 20.0% increase in the 2020 New Annual Cap as compared to the 2019 New Annual Cap and an approximately 12.5% increase in the 2021 New Annual Cap as compared to the 2020 New Annual Cap.

As stated in the Letter from the Board, in determining the New Annual Caps, the Directors have considered (1) the historical annual transaction amounts for 2016 and 2017 and the estimated annual transaction amount for 2018 under the Ancillary Telecommunications Services Framework Agreement; (2) that there had been a high utilization rate of the Existing Annual Caps for the ancillary telecommunications services. In particular, the utilization rates were approximately 77% for 2016 and 83% for 2017, and that the actual amount of revenue from ancillary telecommunications services in 2017 increased rapidly by 19% as compared with 2016. In addition, high utilization rates reduced the Group's flexibility to respond to any unforeseen events. Hence, a degree of buffer is built in when determining the New Annual Caps in relation to the ancillary telecommunications services, which (i) allows the Group to be flexible in case of unforeseen events; and (ii) caters for the possible inflation in the coming three years, which had once been as high as approximately 6% per annum during the period from 2008 to 2017 according to the PRC consumer price index published by National Bureau of Statistics of China; (3) that the Group is competitive in network maintenance capability, and has identified the related ancillary telecommunication services such as network maintenance, among others, is one of its major measures to expand the domestic telecommunications operator market; (4) the number of mobile users as well as other service users has increased significantly and users base of China Telecom Group is expected continue to grow in the coming years. In particular, as disclosed in the annual reports of China Telecom Corporation, the number of mobile users of China Telecom Group increased from approximately 90.5 million in 2010 to approximately 250 million in 2017, representing a CAGR of 15.6%. In addition, the number of other users (including wireline broadband subscribers, e-Surfing HD subscribers, Internet of things connected devices and "BestPay" average monthly active user) increased from approximately 63.5 million in 2010 to approximately 296.6 million in 2017, representing a CAGR of 24.6%. According to the report "China is Poised to Win the 5G Race" (《中國揚帆啟航，引領全球5G》) issued by Ernst & Young in June 2018, the number of 5G users in China is expected to increase to 576 million by 2025. In order to provide reliable services to its growing customers, China Telecom Group's demand for ancillary telecommunications services is also expected to grow; and (5) the Group's overall operation and development in related business fields.

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

(i) based on our review of the interim report of China Telecom Corporation for the six months ended 30 June 2018, we note that network operations and support expenses of China Telecom Corporation Group for the six-month period ended 30 June 2018 amounted to RMB54,184 million, representing an increase of approximately 11.8% as compared to the same period last year;

(ii) based on our review of the 2017 Annual Report and the 2018 Interim Report of the Company, we note that (i) the Group will further develop its CAPEX and OPEX businesses to strengthen its business offering by offering network integrated maintenance, standardized services and attempt to create a platform for maintenance business (ii) the revenue from the Group's network maintenance business for the six-month period ended 30 June 2018 increased by approximately 13.8% as compared to the same period last year; and

(iii) we note from the annual reports of the China Telecom Corporation that the number of mobile users of China Telecom Corporation Group increased from approximately 90.5 million in 2010 to approximately 250 million in 2017, representing a CAGR of 15.6%. In addition, the number of other users (including wireline broadband subscribers, e-Surfing HD subscribers, Internet of things connected devices and "BestPay" average monthly active users. Internet of things connected devices and "BestPay" were introduced in 2015 and e-Surfing HD was introduced in 2014) increased from approximately 63.5 million in 2010 to approximately 296.6 million in 2017, representing a CAGR of 24.6%. China Telecom Corporation expects its users base will continue to grow in the next 3 years and as a result, the high amount of traffic will put more pressure on its network and therefore the demand for maintenance services, outsourced network repairs, installation and relocation of equipment will continue to grow. In order to provide reliable services to its growing customers, the demand for ancillary telecommunications services is also expected to grow. Thus, given that the utilization rate of the Ancillary Telecommunications Services Framework was already relatively high at approximately 83.0% in the latest financial year (i.e. for the year ended 31 December 2017), we consider it appropriate to have a higher increase in the New Annual Cap for 2019 in order to provide a buffer: (i) to ensure that a sufficient degree of flexibility is allowed for the Group to handle any unexpected future demand and (ii) to cater for the possible inflation in the coming three years, which had once been as high as approximately 6% per annum during the period from 2008 to 2017 according to the PRC consumer price index published by National Bureau of Statistics of China.

Based on the above, we are of the view that the New Annual Caps for the Ancillary Telecommunications Services Framework Agreement and its supplemental 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. *Operation Support Services Framework Agreement and Supplemental Agreement*

(a) *Subject matter and terms of the Operation Support Services Framework Agreement and Supplemental 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 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 Group and China Telecom (and its subsidiaries but excluding the Group), as may be applicable from time to time.

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

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 Group by China Telecom Group, the Company primarily considered the following factors: (i) prices of the same or similar type of services provided to the Group by other service providers in the market; (ii) prices of the same or similar type of services provided to the Group 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.

We have reviewed (i) the Operation Support Services Framework Agreement entered into between the Company and China Telecom; and (ii) sample contracts (the "**Operation Support Sample Contracts**") previously entered into (a) between the Group and China Telecom Group under the Operation Support Services Framework Agreement; and (b) between the Group and independent third parties in respect of both provision of operation support services by the Group and purchase of operation support services by the Group. We note that save for the fee quotes, other principal terms specified in the Operation Support Sample Contracts entered into with China Telecom Group by the Group were no less favourable to the Company than those specified in the Operation Support Sample Contracts entered into with independent third parties by the Group. We accordingly further discussed with the Management and understood that as each transaction under the Operation Support Services Framework Agreement involved highly customized combination of services specifically required by each certain customer, the fee quotes offered by the Group 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 Operation Support Services Framework Agreement was on commercial terms and was 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 Group under the 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 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 Operation Support Services Framework Agreement, we also examined other independent information by reviewing the letter issued by the Auditors to the Board and note that the Auditors had performed procedures in accordance with Hong Kong Standard on Assurance Engagements 3000 and with reference to Practice Note 740 and confirmed that they had performed sample checks on the continuing connected transactions entered into between the Group and China Telecom Group during the year ended 31 December 2017 and had not found that the continuing connected transactions were not, in all material respects, 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 and its supplemental agreement is on normal commercial terms or better and is fair and reasonable so far as the Independent Shareholders are concerned.

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

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

Unit: RMB million

	Year ended 31 December				Year ending 31 December				
Transactions	**2016**		**2017**		**2018**		**2019**	**2020**	**2021**
Operation Support Services Framework Agreement	**Existing Annual Cap**	**Actual amounts**	**Existing Annual Cap**	**Actual amounts**	**Existing Annual Cap**	**Actual amounts (up to 30 June 2018)**	**New Annual Cap**	**New Annual Cap**	**New Annual Cap**
Revenue	3,200	2,571	3,400	2,791	3,600	1,280	3,800	4,000	4,200
% of utilization		80.3%		82.1%		35.5%			
% of increase			6.3%		5.9%		5.6%	5.3%	5.0%
Expenditure	900	672	1,000	950	1,100	362	1,600	2,000	2,400
% of utilization		74.7%		95.0%		32.9%			
% of increase			11.1%		10.0%		45.5%	25.0%	20.0%

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 Operation Support Services Framework Agreement for the two years ended 31 December 2017 were approximately RMB2,571 million and RMB2,791 million, respectively, representing a utilization rate of approximately 80.3% and 82.1%, respectively. Based on the 2018 Interim Report, the actual amount for the service charges received by the Company from China Telecom Group under the Operation Support Services Framework Agreement for the six months ended 30 June 2018 was approximately RMB1,280 million, representing a utilization rate of approximately 35.5%.

Besides, the actual amounts for the service charges paid by the Company to China Telecom Group under the Operation Support Services Framework Agreement for the two years ended 31 December 2017 were approximately RMB672 million and RMB950 million, representing a utilization rate of approximately 74.7% and 95.0%, respectively. Based on the 2018 Interim Report, the actual amount for the service charges paid by the Company to China Telecom Group under the Operation Support Services Framework Agreement for the six months ended 30 June 2018 was approximately RMB362 million, representing a utilization rate of approximately 32.9%.

We prepared and reviewed the Historical Transaction Breakdown and note that actual transaction amounts in relation to provision of operations support services by the Group to China Telecom Group under the Operation Support Services Framework Agreement for each of the second half of 2016 and 2017 represented approximately 58.2% and 59.0% 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 Group under the Operation Support Services Framework Agreement for each of the second half of 2016 and 2017 represented approximately 35.8% and 50.2% 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 2018 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 2018 under the Operation Support Services Framework Agreement due to business activities including logistic services as the Group plans to focus on developing this business in future.

We also note that there would be an approximately 5.6% increase in the 2019 New Annual Cap for the service charges receivable by the Company from China Telecom Group as compared to the 2018 Existing Annual Cap, an approximately 5.3% increase in the 2020 New Annual Cap for the service charges receivable by the Company from China Telecom Group as compared to the 2019 New Annual Cap and an approximately 5.0% increase in the 2021 New Annual Cap for the service charges receivable by the Company from China Telecom Group as compared to the 2020 New Annual Cap.

Besides, there would be an approximately 45.5% increase in the 2019 New Annual Cap for the service charges payable by the Company to China Telecom Group as compared to the 2018 Existing Annual which was comparable to the 41.4% increase in actual amounts of service charges payable by the Company to China Telecom Group between 2016 and 2017, an approximately 25.0% increase in the 2020 New Annual Cap for the service charges payable by the Company to China Telecom Group as compared to the 2019 New Annual Cap and an approximately 20.0% increase in the 2021 New Annual Cap for the service charges payable by the Company to China Telecom Group as compared to the 2020 New Annual Cap.

As stated in the Letter from the Board, in determining the New Annual Caps, the Directors have considered (1) the historical annual transaction amounts for 2016 and 2017 and the estimated annual transaction amount for 2018 under the Operation Support Services Framework Agreement; (2) that there had been a high utilization rate of the Existing Annual Cap for the operation support services provided by China Telecom Group. In particular, the utilization rates were approximately 75% for 2016 and 95% for 2017, and that the actual amount of expenditure for operation support services in 2017 increased rapidly by 41% as compared with the year of 2016. In addition, high utilization rates reduced the Group's flexibility to respond to any unforeseen events. Hence, a degree of buffer is built in when determining the New Annual Caps in relation to the operation support services provided by China Telecom Group, which (i) allows the Group to be flexible in case of unforeseen events; and (ii) caters for the possible inflation in the coming three years, which had once been as high as approximately 6% per annum during the period from 2008 to 2017 according to the PRC consumer price index published by National Bureau of Statistics of China; (3) that with regard to the operation support services provided to China Telecom Group, along with its business development, China Telecom Group's demand for operation support services such as property management and conference services has maintained a steady upward trend; at the same time, the Group's capability to provide operation support services has improved continuously, and is competitive in such market and adaptive to meet the business needs of China Telecom Group; (4) that with respect to the operation support services provided by China Telecom Group, the logistics business is currently considered as one of the key direction of business development of the Group. In July 2015, the Company established China Comservice Supply Chain Management Company Ltd. (中通服供應鏈管理有限公司, "**CCS Supply Chain**"), a wholly-owned subsidiary focused on logistics business. Based on the business plan of CCS Supply Chain, in order to build its national logistic and warehouse network, it is expected to need an aggregate of over 350 warehouses with an aggregate area of over 2,000,000 square meters, covering approximately 300 cities in China by 2020. As such the demand for warehousing service from China Telecom Group is expected to grow. In addition, given the Group is expected to provide more engineering related services to China Telecom Group to cater for the planned increase in capital expenditure of China Telecom Group resulted from 5G network development, the Group is expected to have a higher demand for operation related services (such as warehousing services) provided by China Telecom Group. And China Telecom Group has necessary warehousing resources to meet the business needs of the Group in this respect; and (5) the Group's overall operation and development in related business fields.

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

(i) we have discussed with the Management and understood that it is anticipated that the demand for the Company's operation support services by China Telecom Group would stabilize in the future. Therefore, it is appropriate to provide a 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

(ii) as further advised by the Management, 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 Group, as mentioned above, the Group is expected to have a higher demand for operation related services (such as warehousing services) provided by China Telecom Group in response to its plan to supporting logistics services as one of the important development focus in future. Therefore, in determining the New Annual Caps for the Operation Support Services Framework Agreement, the Management built in a sufficient buffer in determining the relevant New Annual Caps;

Based on the above, we are of the view that the New Annual Caps for the Operation Support Services Framework Agreement and its supplemental 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. *IT Application Services Framework Agreement and Supplemental Agreement*

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

As stated in the Letter from the Board, the IT Application Services Framework Agreement governs the arrangements between the Group and China Telecom Group with respect to mutual provision of IT application services. Pursuant to this agreement, the Company agreed to provide China Telecom Group with telecommunications network support services, software and hardware development and other related IT services. China Telecom Group also agreed to provide to the 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.

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

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 China Telecom Group, the Company primarily considers the following factors: (i) prices of the same or similar type of services provided to the Group by other service providers in the market; (ii) prices of the same or similar type of services provided to the Group 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 (i) the IT Application Services Framework Agreement entered into between the Company and China Telecom; and (ii) sample contracts (the "**IT Application Sample Contracts**") previously entered into (a) between the Group and China Telecom Group under the IT Application Services Framework Agreement; and (b) between the Group and independent third parties in respect of both provision of IT services by the Group and purchase of IT services by the Group except those in respect of purchase of IT services by the Group from independent third parties, we note that save for the fee quotes, other principal terms specified in the IT Application Sample Contracts entered into with China Telecom Group by the Group were no less favorable to the Company than those specified in the IT Application Sample Contracts entered into with independent third parties by the Group. We accordingly further discussed with the Management and understood that as each transaction under the IT Application Services Framework Agreement involved highly customized combination of services specifically required by each certain customer, the fee quotes offered by the Group 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 corresponding procedures and consideration factors as mentioned above and therefore was of the view that the pricing basis under the IT Application Services Framework Agreement was on commercial terms and was 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 Group under the 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 Group and China Telecom Group under the 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 IT Application Services Framework Agreement, we also examined other independent information by reviewing the letter issued by the Auditors to the Board and note that the Auditors had performed procedures in accordance with Hong Kong Standard on Assurance Engagements 3000 and with reference to Practice Note 740 and confirmed that they had performed sample checks on the continuing connected transactions entered into between the Group and China Telecom Group during the year ended 31 December 2017 and had not found that the continuing connected transactions were not, in all material respects, in accordance with the pricing policies as stated in the relevant agreements.

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

(c) *Historical amounts and the 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

Transactions	Year ended 31 December				Year ending 31 December				
	2016		2017		2018		2019	2020	2021
IT Application Services Framework Agreement	Existing Annual Cap	Actual amounts	Existing Annual Cap	Actual amounts	Existing Annual Cap	Actual amounts (up to 30 June 2018)	New Annual Cap	New Annual Cap	New Annual Cap
Revenue	2,500	2,235	2,700	2,382	2,900	780	3,600	4,300	5,000
% of utilization		89.4%		88.2%		26.9%			
% of increase			8.0%		7.4%		24.1%	19.4%	16.3%
Expenditure	490	269	490	268	490	137	500	500	500
% of utilization		54.9%		54.6%		28.0%			
% of increase			0.0%		0.0%		2.0%	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 IT Application Services Framework Agreement for the two years ended 31 December 2017 were approximately RMB2,235 million and RMB2,382 million, respectively, representing a utilization rate of approximately 89.4% and 88.2%, respectively. Based on the 2018 Interim Report, the actual amount for the service charges received by the Company from China Telecom Group under the IT Application Services Framework Agreement for the six months ended 30 June 2018 was approximately RMB780 million, representing a utilization rate of approximately 26.9%.

Besides, the actual amounts for the service charges paid by the Company to China Telecom Group under the IT Application Services Framework Agreement for the two years ended 31 December 2017 were approximately RMB269 million and RMB268 million, respectively, representing a utilization rate of approximately 54.9% and 54.6%, respectively. Based on the 2018 Interim Report, the actual amount for the service charges paid by the Company to China Telecom Group under the IT Application Services Framework Agreement for the six months ended 30 June 2018 was approximately RMB137 million, representing a utilization rate of approximately 28.0%. We notice that the utilization rate of historical annual caps for the service charges paid by the

Group to China Telecom Group is relatively low. As advised by the Management, the Group'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 note that actual transaction amounts in relation to provision of IT services by the Group to China Telecom Group under the IT Application Services Framework Agreement for each of the second half of 2016 and 2017 represented approximately 71.9% and 66.3% 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 Group under the IT Application Services Framework Agreement for each of the second half of 2016 and 2017 represented approximately 69.9% and 59.2% 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 2018 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 2018 under the IT Application Services Framework Agreement.

We also note that there would be an approximately 24.1% increase in the 2019 New Annual Cap for the IT application service charges receivable by the Company from China Telecom Group as compared to the 2018 Existing Annual Cap, an approximately 19.4% increase in the 2020 New Annual Cap for the IT application service charges receivable by the Company from China Telecom Group as compared to the 2019 New Annual Cap and an approximately 16.3% increase in the 2021 New Annual Cap for the IT application service charges receivable by the Company from China Telecom Group as compared to the 2020 New Annual Cap.

Besides, there would be an approximately 2.0% increase in the 2019 New Annual Cap for the IT application service charges payable by the Company to China Telecom Group as compared to the 2018 Existing Annual Cap and no further increase in the 2020 New Annual Cap and the 2021 New Annual Cap as compared to the 2019 New Annual Cap for the IT application service charges payable by the Company to China Telecom Group.

As stated in the Letter from the Board, in determining the New Annual Caps, the Directors have considered (1) the historical annual transaction amounts for 2016 and 2017 and the estimated annual transaction amount for 2018 under the IT Application Services Framework Agreement; (2) that there had been a high utilization rate of the Existing Annual Cap for the IT application services provided to China Telecom Group. In particular, the utilization rates were approximately 89% for 2016 and 88% for 2017. In addition, high utilization rates reduced the Group's flexibility to respond to any unforeseen events. Hence, a degree of buffer is built in when determining the New Annual Caps in relation to the IT application services provided to China Telecom Group, which (i) allows the Group to be flexible in case of unforeseen events; and (ii) caters for the possible inflation in the coming three years, which had once been as high as approximately 6% per annum during the period from 2008 to 2017 according to the PRC consumer price index published by National Bureau of Statistics of China; (3) that with respect to the IT application services provided to China Telecom Group, the demand for China Telecom Group's IT system construction and provision of telecommunication and technology application services for its customers is expected to be further increased due to the transformation of network intelligentisation and smart operation. According to the development plans on Internet of Things, Big Data, Cloud Computing and software and information technology issued by the Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和信息化部), the industry revenue from Internet of Things is expected to reach RMB1,500 billion in 2020, representing a CAGR of approximately 15% from RMB750 billion in 2015; the industry revenue from Big Data is expected to reach RMB1,000 billion in 2020, representing a CAGR of 29% from RMB280 billion in 2015; the industry revenue from Cloud Computing is expected to reach RMB430 billion in 2019, representing a CAGR of approximately 30% from RMB150 billion in 2015; the revenue from software and information technology service industry is expected to reach RMB8,000 billion in 2020, representing a CAGR of approximately 13% from RMB4,300 billion in 2015. Besides, the Group's smart product series has undergone rapid development in recent years, and the Group has significantly improved its capabilities in the field of telecommunication and technology application. It is expected that scale effect will take place in the Group's business segment of IT application services in future, and thereby significantly increase the business volume; (4) that with respect to IT application services provided by China Telecom Group, it is expected that the business volume of the application services such as circuit leasing and IT provided by China Telecom Group to the Group will remain stable with slight increase; and (5) the Group's overall operation and development in related business fields.

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

(i) China Telecom Corporation Group begins the intelligentisation of its network and operation, and its ability in offering new ICT application services strengthened. The demand for the Group's IT Application Services will rise significantly in view of China Telecom Corporation Group's needs to upgrade its own IT systems and offer new integrated ICT application services to its customers. Hence, a degree of buffer was also built in when determining the New Annual Caps in relation to the Group's revenue side under the IT Application Services Framework Agreement for the Group to meet its future demand; and

(ii) we were advised by the Management that, based on the current business operation and future development needs, the Company will mainly need the line leasing, telecommunication and other IT services from China Telecom Group, the future IT applications services provided by China Telecom Group to the Company is expected to be stable in the next 3 years. Thus, there would be a moderate increase in the 2019 New Annual Cap on the bases of the 2018 Existing Annual Cap to reflect inflation, and the 2020 New Annual Cap and 2021 New Annual Cap will remain the same.

Based on the above, we are of the view that the New Annual Caps for the IT Application Services Framework Agreement and its supplemental 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. *Supplies Procurement Services Framework Agreement and the Supplemental Agreement*

(a) *Subject matter and terms of the Supplies Procurement Services Framework Agreement and Supplemental 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 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.

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

Pursuant to the Supplies Procurement Services Framework Agreement, the price 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;

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

(II) in the absence of market price or where the market price cannot be determined, the price shall be agreed between both parties. The price 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 the Group 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.

We note that 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.

In addition, the Company 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.

We have reviewed (i) Supplies Procurement Services Framework Agreements entered into between the Company and China Telecom; and (ii) sample contracts (the "**Supplies Procurement Sample Contracts**") previously entered into (a) between the Group and China Telecom Group under the Supplies Procurement Services Framework Agreement; and (b) between the Group and independent third parties in respect of both provision of supplies procurement services by the Group and purchase of supplies procurement services by the Group. We note that save for the fee quotes, other principal terms specified in the Supplies Procurement Sample Contracts entered into with China Telecom Group by the Group were no less favorable to the Company than those specified in the Supplies Procurement Sample Contracts entered into with independent third parties by the Group. We accordingly further discussed with the Management and understood that as each transaction under the Supplies Procurement Services Framework Agreement involved highly customized combination of services specifically required by each certain customer, the fee quotes offered by the Group 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 was on commercial terms and was 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 Group under the 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 Group and China Telecom Group under the 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 Supplies Procurement Services Framework Agreement, we also examined other independent information by reviewing the letter issued by the Auditors to the Board and note that the Auditors had performed procedures in accordance with Hong Kong Standard on Assurance Engagements 3000 and with reference to Practice Note 740 and confirmed that they had performed sample checks on the continuing connected transactions entered into between the Group and China Telecom Group during the year ended 31 December 2017 and had not found that the continuing connected transactions were not, in all material respects, 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 and its supplemental agreement is on normal commercial terms or better and is fair and reasonable so far as the Independent Shareholders are concerned.

(c) *Historical amounts and the 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				
	2016		2017		2018		2019	2020	2021
Supplies Procurement Services Framework Agreement	**Existing Annual Cap**	**Actual amounts**	**Existing Annual Cap**	**Actual amounts**	**Existing Annual Cap**	**Actual amounts (up to 30 June 2018)**	**New Annual Cap**	**New Annual Cap**	**New Annual Cap**
Revenue	6,700	5,196	8,100	4,094	10,000	1,508	6,000	6,500	7,000
% of utilization		77.5%		50.5%		15.1%			
% of increase			20.9%		23.5%		-40.0%	8.3%	7.7%
Expenditure	4,900	2,498	5,900	2,122	7,000	947	5,000	5,200	5,400
% of utilization		51.0%		36.0%		13.5%			
% of increase			20.4%		18.6%		-28.6%	4.0%	3.8%

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 Supplies Procurement Services Framework Agreement for the two years ended 31 December 2017 were approximately RMB5,196 million and RMB4,094 million, respectively, representing a utilization rate of approximately 77.5% and 50.5%, respectively. Based on the 2018 Interim Report, the actual amount for the services charge received by the Company from China Telecom Group under the Supplies Procurement Services Framework Agreement for the six months ended 30 June 2018 was approximately RMB1,508 million, representing a utilization rate of approximately 15.1%.

Besides, the actual amounts for the service charges paid by the Company to China Telecom Group under the Supplies Procurement Services Framework Agreement for the two years ended 31 December 2017 were approximately RMB2,498 million and RMB2,122 million, respectively, representing a utilization rate of approximately 51.0% and 36.0%, respectively. Based on the 2018 Interim Report, the actual amount for the service charges paid by the Company to China Telecom Group under the Supplies Procurement Services Framework Agreement for the six months ended 30 June 2018 was approximately RMB947 million, representing a utilization rate of approximately 13.5%.

We also prepared and reviewed the Historical Transaction Breakdown and note that actual transaction amounts in relation to provision of supplies procurement services by the Group to China Telecom Group under the Supplies Procurement Services Framework Agreement for each of the second half of 2016 and 2017 represented approximately 48.6% and 50.8% of the corresponding total actual annual transaction amount, respectively, and actual transaction amounts in relation to provision of supplies procurement services by China Telecom Group to the Group under the Supplies Procurement Services Framework Agreement for each of the second half of 2016 and 2017 represented approximately 51.9% and 60.2% of the corresponding total actual annual transaction amount, respectively. We further discussed with the Management and understood that the utilization rate of the revenue cap was relatively low in the first half of 2018 because China Telecom Group gradually switched to purchase its supplies and equipment directly from the suppliers. In addition, the utilization rate of the expense cap was relatively low in the first half of 2018 because China Telecom Group switched from a handset subsidy sales model to a usage subsidy sales model.

We also note that there would be an approximately 40.0% decrease in the 2019 New Annual Cap for the service charges receivable by the Company from China Telecom Group as compared to the 2018 Existing Annual Cap. However, the Management has also considered that the network infrastructure of China Telecom Group will continue to grow steadily in future, especially when China Telecom Group begins to construct its 5G network which will drive an increase in demand for supplies procurement services. Thus, there would be an approximately 8.3% increase in the 2020 New Annual Cap for the service charges receivable by the Company from China Telecom Group as compared to the 2019 New Annual Cap and an approximately 7.7% increase in the 2020 New Annual Cap for the service charges receivable by the Company from China Telecom Group as compared to the 2021 New Annual Cap.

Besides, there would be an approximately 28.6% decrease in the 2019 New Annual Cap for the service charges payable by the Company to China Telecom Group as compared to the 2018 Existing Annual Cap. However, the Management had considered that the business operation and subscriber base of China Telecom Group would continue to grow. It is therefore expected that the Group will increase its purchase of supplies procurement services in 2020 and 2021. Hence, there would be an approximately 4.0% increase in the 2020 New Annual Cap for the service charges payable as compared to the 2019 New Annual Cap and an approximately 3.8% increase in the 2021 New Annual Cap for the service charges payable as compared to the 2020 New Annual Cap.

As stated in the Letter from the Board, in determining the New Annual Caps, the Directors have also considered (1) the historical annual transaction amounts for 2016 and 2017 and the estimated transaction amount for 2018 under the Supplies Procurement Services Framework Agreement; (2) that with respect to the supplies procurement services provided to China Telecom Group, China Telecom Group has gradually changed its suppliers procurement model to direct procurement from equipment and raw material suppliers in recent years, resulting in a decrease in China Telecom Group's demand of supplies procurement services provided by the Group in 2016 and 2017. Therefore, the relevant utilization rates of the Existing Annual Caps were approximately 78% and 51% in 2016 and 2017, respectively. However, considering the network expansion of China Telecom Group and its 5G network construction (including but not limited to the expected growth in the number of 5G users), it is expected that its demand for supplies procurement (including but not limited to handsets, modem and equipment) will increase in the next three years; (3) that with respect to the supplies procurement services provided by China Telecom Group, as China Telecom Group's marketing model has focused on providing subsidy to its customers in the form of phone charges rather than handsets in recent years, the Group's demand for telecommunications supplies in the related business was decreased in recent years, resulting in a lower utilization rates of the Existing Annual Caps in 2016 and 2017, being approximately 51% and 36%, respectively. From the industry perspective, the sales volume of mobile phones in the domestic handset market for the nine months ended 30 September 2018 amounted to 305 million units, representing a decrease of approximately 17% compared to the corresponding period of 2017. But it is expected that the change in the form of subsidy by China Telecom Group as well as the industry downtrend would not have further material impact on the Group's related business. With the development of 5G network and the upgrade of mobile terminals, it is expected that the Group's demand for telecommunications supplies will increase steadily in the coming years; and (4) the Group's overall operation and development in related business fields.

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

(i) we had reviewed the 2017 annual report of the China Telecom Corporation and note that China Telecom Corporation Group purchased of telecommunications equipment and materials through related party transactions with its parent group dropped by 18.3% in 2017 as compared to 2016. In addition, we note from the 2018 interim report of the China Telecom Corporation that China Telecom

Corporation Group purchased of telecommunications equipment and materials through related party transactions with its parent group dropped by 17.8% in the first half of 2018 as compared to the same period in 2017;

(ii) as we were advised by the Management, the Group's actual amount of expense through the Supplies Procurement Services Framework Agreement dropped by 15.1% in 2017 as compared to 2016, and its utilization rate also drop from 51.0% in 2016 to 36.0% in 2017; and

(iii) in an Ernst & Young report called "China is poised to win the 5G race" published on 13 June this year, Ernst & Young expects China will spend around RMB1.5 trillion in 5G capital expenditure between 2019 and 2025.

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

LISTING RULES' IMPLICATIONS

The Non-exempt Continuing Connected Transactions, 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 2017 Annual Report, the independent non-executive Directors have confirmed that the Non-exempt Continuing Connected Transactions for the year ended 31 December 2017:

- had been entered into by the Group in the ordinary and usual course of business;
- had been entered into on normal commercial terms or better; and
- had been entered into according to the agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Furthermore, according to the 2017 Annual Report, the Company's auditors have issued a letter to the Board confirming that:

- nothing has come to their attention that causes them to believe that the Non-exempt Continuing Connected Transactions have not been approved by the Board;

- for transactions involving the provision of goods or services by the Group, nothing has come to their attention that causes them to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Company;

- nothing has come to their attention that causes them to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions;

- with respect to the actual amounts of the Non-exempt Continuing Connected Transactions, nothing has come to their attention that causes them to believe that those actual amounts have exceeded the annual caps disclosed in the previous announcement dated 29 September 2015 of the Company which were approved by the independent shareholders of the Company on 11 December 2015.

Given the above, we consider that the annual review requirements can provide appropriate measures to govern the Company in carrying out the Non-exempt Continuing Connected Transactions 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 Group and on normal commercial terms or better, which 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 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 Non-exempt Continuing Connected Transactions (together with the proposed New Annual Caps thereof).

Yours faithfully,
For and on behalf of
Pulsar Capital Limited
Sin Tak Keung
Executive Director

Mr. Sin is a licensed person registered with the Securities and Futures Commission as a responsible officer of Pulsar Capital Limited to carry out Type 6 (advising on corporate finance) regulated activities under the SFO. He has over 15 years of experience in corporate finance industry.

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 2017, 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. Zhang Zhiyong and Mr. Si Furong at China Telecom, the position held by Mr. Li Zhengmao at China Mobile Communications Corporation Group Co., Ltd. and the position held by Mr. Shao Guanglu at China United Network Communications Group Company Limited, as at the Latest Practicable Date, none of the Directors were a director or an employee of any shareholders of the Company or a company which has an interest or short position in shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO.

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

China Telecom and its associates, being Connected Persons to the Company, will abstain from voting at the EGM on the ordinary resolutions to approve 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.

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 2017, being the date of the latest published audited financial statements of the Company.

6. QUALIFICATION OF EXPERTS

The following are the qualifications of Pulsar Capital Limited who has given their advice, letters or reports for the inclusion in this circular:

Name	Qualification
Pulsar Capital Limited	a corporation licensed to carry out Type 1 (Dealing in Securities) and Type 6 (Advising on Corporate Finance) of the regulated activities under the SFO

7. CONSENT

(a) Pulsar Capital Limited issued a letter dated 19 November 2018 for the purpose of incorporation in this circular, in connection with its advice to the Independent Board Committee and the Independent Shareholders.

(b) Pulsar Capital 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, Pulsar Capital 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 2017 (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 and B, No. 2 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 2015 Agreements;

(c) the 2018 Supplemental 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.

PROPOSED DIRECTORS

Executive Directors

Mr. ZHANG Zhiyong, age 53, is the Chairman of our Board of Directors and an Executive Director of our Company in charge of our overall management. Mr. Zhang is also the Vice President of China Telecommunications Corporation, an Executive Vice President of China Telecom Corporation Limited and a Non-Executive Director of China Tower Corporation Limited. Mr. Zhang is a senior engineer and received a bachelor degree in Radio Engineering from the Changchun Institute of Posts and Telecommunications in 1986, a master degree in Control Engineering from the Yanshan University in 2002 and a master of management degree from the BI Norwegian School of Management in 2005. Mr. Zhang previously worked as the General Manager of Beijing branch of China Telecom Corporation Limited, the General Manager of Xinjiang branch of China Telecom Corporation Limited, the Managing Director of the Sideline Industrial Management Department of China Telecommunications Corporation, and also the President and an Executive Director of our Company. Mr. Zhang has over 30 years of operational and management experience in the telecommunications industry in China.

Mr. SI Furong, age 57, is the President and an Executive Director of our Company responsible for our daily operations and management. Mr. Si is also the Managing Director of the Sideline Industrial Management Department of China Telecommunications Corporation and the Chairman of China Communications Services International Limited, a wholly-owned subsidiary of the Company. Mr. Si graduated from Information Engineering University in 1982 with a bachelor degree in radio communications. He also received an EMBA degree from Peking University Guanghua School of Management in 2006. Mr. Si previously served as the Director of the Corporate Affairs Department of China Telecommunications Corporation, the Director of the Corporate Affairs Department of China Telecom Corporation Limited, the General Manager of Shaanxi Telecom Company Limited of China Telecommunications Corporation, the General Manager of Shaanxi branch of China Telecom Corporation Limited, the General Manager of China Telecommunications Corporation Shaanxi network asset branch and Chairman of Shaanxi Communication Services Company Limited and a Director of China Tower Corporation Limited. Prior to joining China Telecommunications Corporation, Mr. Si was the Deputy Director of the Personnel Department of the Ministry of Information Industry. Mr. Si has over 30 years of operational and management experience in the telecommunications industry in China.

Ms. ZHANG Xu, age 48, is an Executive Vice President and Chief Financial Officer of our Company. Ms. Zhang graduated from Beijing University of Posts and Telecommunications in 1992 with a bachelor degree in posts and telecommunications management engineering, and she also received a master degree in international commence from The University of New South Wales in 2003. Prior to joining the Company, Ms. Zhang was Divisional Director of General Finance Division of China Telecommunications Corporation's Finance Department. Prior to that, Ms. Zhang served as Divisional Director of Treasury Division of China Telecommunications Corporation's Finance Department, a Director and Vice President of China Telecom (Hong Kong) International

Limited and Divisional Director of Finance and Accounting Division of China Telecommunications Corporation's Finance Department. Ms. Zhang has over 20 years of experience in telecommunications industry and financial management.

Non-Executive Directors

Mr. LI Zhengmao, age 56, is a Non-Executive Director of our Company. Mr. Li is the Vice President of China Mobile Communications Group Co., Ltd., and the Director and Deputy General Manager of China Mobile Communication Company Limited. Mr. Li received a doctorate degree of radio engineering from the Southeast University. Mr. Li previously served as a professor of radio engineering, the Deputy Director of the Science and Technology Institute for the University of Electronic Science and Technology of China and the Director of national key laboratory. Mr. Li has held various positions in the China United Telecommunications Corporation, including the Deputy Head of the Network Technology Department, the Head of the Wireless Communication Department, the Head of the Technology Department and the Deputy Chief Engineer. He was also the Executive Director and Vice President of China Unicom Limited, the General Manager of the Yunnan branch of China United Telecommunications Corporation, and the Director and Deputy General Manager of China United Telecommunications Corporation. Mr. Li has extensive experience in telecommunications technology and business operations.

Mr. SHAO Guanglu, age 53, is a Non-Executive Director of our Company. Mr. Shao is an Executive Director and Senior Vice President of China Unicom (Hong Kong) Limited. He also is a Vice General Manager of China United Network Communications Group Company Limited, a Senior Vice President of China United Network Communications Limited and a Director and Senior Vice President of China United Network Communications Corporation Limited. He is also a Non-Executive Director of PCCW Ltd. and a Non-Executive Director of China Tower Corporation Limited. Mr. Shao is a professor-level senior engineer. He received a bachelor's degree from Harbin Institute of Technology in 1985, a master's degree in engineering and a master's degree in economics from Harbin Institute of Technology in 1988 and 1990, respectively, a master's degree in management from BI Norwegian Business School in 2002 and a doctor's degree in management from Nankai University in 2009. Mr. Shao joined China United Network Communications Group Company Limited in February 1995. He used to be Deputy General Manager of Tianjin Branch, Deputy General Manager of Henan Branch, General Manager of Guangxi Branch, as well as General Manager of Human Resource Department of China United Network Communications Group Company Limited. Mr. Shao has worked in the telecommunications industry for a long period of time and has extensive management experience.

Independent Non-Executive Directors

Mr. SIU Wai Keung, Francis, age 64, is an Independent Non-Executive Director of our Company. Mr. Siu is currently an Independent Non-Executive Director of the following listed companies, including GuocoLand Limited, CITIC Limited, CGN Power Co., Limited and China International Capital Corporation Limited. Mr. Siu is also an Independent Non-Executive Director of Beijing Gao Hua Securities Company Limited and BHG Retail Trust Management Pte. Ltd. Mr.

Siu graduated from the University of Sheffield, United Kingdom, with a Bachelor of Arts in Economics and Accounting and Financial Management in 1979. He is also a fellow member of the Institute of Chartered Accountants in England and Wales, and a fellow member of the Hong Kong Institute of Certified Public Accountants. He joined KPMG Manchester, UK in 1979, returned to Hong Kong in 1986 and became a partner of KPMG Hong Kong in 1993. He was previously a Senior Partner of KPMG Shanghai Office, a Senior Partner of KPMG Beijing Office as well as a Senior Partner of Northern Region, KPMG China. Mr. Siu has been in the accounting profession for over 30 years.

Mr. LV Tingjie, age 63, is an Independent Non-Executive Director of our Company. Mr. Lv graduated from Beijing University of Posts and Telecommunications with a master's degree, and obtained a doctorate degree from Kyoto University of Japan. Mr. Lv is now a professor and doctoral tutor at the School of Economics and Management of Beijing University of Posts and Telecommunications. Mr. Lv also serves as the Director of the Teaching and Research Centre for E-commerce in Beijing University of Posts and Telecommunications and the Director of the Academic Committee of "Information Management and Information Economics Key Laboratory" of the Ministry of Education. Mr. Lv is currently an Independent Non-executive Director of Beijing Digital Telecom Co., Ltd., and also an Independent Director of China United Network Communications Limited, Gohigh Data Networks Technology Co., Ltd., BOE Technology Group Co., Ltd. and Shenzhen Aisidi Co., Ltd. Mr. Lv is also a member of the Technology Committee and a member of Telecommunication Economics Expert Committee of the Ministry of Industry and Information Technology, a Deputy Director of the E-commerce Instruction Advisory Committee of the Ministry of Education, a member of the Technology Committee of China Post Group Corporation, a Standing Director of the International Telecommunications Society and a Standing Vice Chairman of China Information Economics Society. Mr. Lv used to serve as an Independent Non-executive Director of Global Link Communications Holdings Limited, and also a consultant for the business management and strategic development in many telecommunication enterprises and provide advice and solutions to their development and reform. Mr. Lv has a deep insight in the development of China's communication industry and the management of telecommunication enterprises with extensive management experience.

Mr. WU Taishi, age 71, is an Independent Non-Executive Director of our Company. Mr. Wu graduated from Department of Management of Fudan University with a bachelor degree in economics, majoring in Industrial Economics. Mr. Wu is a certified public accountant in the PRC and a senior accountant at researcher level. Mr. Wu used to serve as an External Director of China Energy Conservation and Environmental Protection Group, Deputy Chief Economist and Chief Accountant of Shanghai Carrier Rocket Assembly Plant, Director of Finance Bureau of Aviation Industry Corporation of China, General Manager of the Research & Development Department and Director of Postdoctoral work station of the Head Office of Bank of Communication, an Independent Non-executive Director of China Railway Construction Corporation Limited and an Independent Director of Power Construction Corporation of China, Ltd. Mr. Wu has extensive experience in financial management.

Mr. LIU Linfei, age 61, is an Independent Non-Executive Director of our Company. Mr. Liu is currently an attorney and a senior partner of Jun He Law Offices. He graduated from Heilongjiang University with a bachelor degree in 1982 and obtained a Master of Laws from the University of International Relations in Beijing in 1985, after which he served in the research office under the Standing Committee of the National People's Congress. He went to the United States in the autumn of 1987 and studied in the School of Advanced International Studies, Johns Hopkins University and served as an intern in the Congress of the United States. He enrolled in the School of Law of the University of Kansas in the United States in 1989 and graduated in 1992 with a Juris Doctor degree, after which he practiced in a law firm in the United States and was qualified as a practicing lawyer in the United States. He joined the Jun He Law Offices as a partner in early 1995. His practice primarily covers international legal affairs, in particular, foreign direct investment and mergers and acquisitions.

PROPOSED SUPERVISORS

Ms. HAN Fang, age 45, is the Chairperson of our Supervisory Committee. Ms. Han is the Vice President of the Audit Department of China Telecommunications Corporation. Ms. Han graduated from the Beijing University of Posts and Telecommunications with a bachelor's degree in engineering management in 1995. She obtained a master degree in business administration at the Norwegian School of Management in 2007. Ms. Han is an international internal auditor, a qualified accountant in PRC and a senior accountant. She worked as a Supervisor of the Supervisory Committee of China Telecom Corporation Limited, the Chief Accountant of China Telecom Global Limited and a Divisional Director of the General Audit Division of China Telecommunications Corporation's Audit Department. Ms. Han has over 20 years of finance and audit experience in the telecommunications industry.

Mr. HAI Liancheng, age 73, is an Independent Supervisor of our Company. Mr. Hai studied at the Civil Aviation College and Chinese Communist Party's (CPC) School, and obtained a college diploma. Mr. Hai served as Vice-Divisional Director and Divisional Director of the Financial Division of the Financial Department of Civil Aviation Administration of China ("CAAC"), Vice-Director and Director of the Financial Department of CAAC, General Manager of China Aviation Oil Supply Corporation and Vice General Manager of China Aviation Oil Holding Company. Mr. Hai served as the Chairman of South China BlueSky Aviation Oil Co., Ltd. and China Aviation Oil Corporation Ltd.. Mr. Hai has been the Director General of the CAAC Sub-association of the China Association of Chief Financial Officers and Chairman of the CAAC Training Centre for Accounting and Auditing since January 2006. Mr. Hai served as consultant of PICC Property and Casualty Co. Ltd., Chairman of Zhong Peng Certified Public Accountants Ltd. and senior advisor of China PnR Co., Ltd.

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)

SUPPLEMENTAL NOTICE OF EXTRAORDINARY GENERAL MEETING

We refer to the notice (the "**Previous Notice**") of the extraordinary general meeting (the "**EGM**") of China Communications Services Corporation Limited (the "**Company**") dated 29 October 2018, which set out the venue of the EGM and the resolutions to be tabled at the EGM for shareholders' approval.

SUPPLEMENTAL NOTICE IS HEREBY GIVEN that the EGM, which will be held as originally scheduled at 10:00 a.m. on Thursday, 13 December 2018 at No. 19, Chaoyangmen Beidajie, Dongcheng District, Beijing, PRC, will consider and, if thought fit, pass the following resolutions, which were submitted to the EGM by China Telecommunications Corporation (being a shareholder holding approximately 51.39% of the shares of the Company) in compliance with the laws and the Articles of Association, in addition to the resolutions set out in the Previous Notice:

ORDINARY RESOLUTIONS

6. To consider and approve, by way of separate ordinary resolutions, each of the following resolutions in relation to the re-election/election of the members of the fifth session of the Board:

   6.1 **THAT** the re-election of Mr. Zhang Zhiyong as an executive director of the Company be and is hereby considered and approved, with effect from date of this resolution for a term of three years;

   THAT any director of the Company be and is hereby authorized to sign on behalf of the Company the director's service contract with Mr. Zhang Zhiyong, and **THAT** the Board be and is hereby authorized to determine his remuneration.

6.2 **THAT** the re-election of Mr. Si Furong as an executive director of the Company be and is hereby considered and approved, with effect from date of this resolution for a term of three years;

THAT any director of the Company be and is hereby authorized to sign on behalf of the Company the director's service contract with Mr. Si Furong, and **THAT** the Board be and is hereby authorized to determine his remuneration.

6.3 **THAT** the election of Ms. Zhang Xu as an executive director of the Company be and is hereby considered and approved, with effect from date of this resolution for a term of three years;

THAT any director of the Company be and is hereby authorized to sign on behalf of the Company the director's service contract with Ms. Zhang Xu, and **THAT** the Board be and is hereby authorized to determine her remuneration.

6.4 **THAT** the re-election of Mr. Li Zhengmao as a non-executive director of the Company be and is hereby considered and approved, with effect from date of this resolution for a term of three years;

THAT any director of the Company be and is hereby authorized to sign on behalf of the Company the director's service contract with Mr. Li Zhengmao, and **THAT** the Board be and is hereby authorized to determine his remuneration.

6.5 **THAT** the re-election of Mr. Shao Guanglu as a non-executive director of the Company be and is hereby considered and approved, with effect from date of this resolution for a term of three years;

THAT any director of the Company be and is hereby authorized to sign on behalf of the Company the director's service contract with Mr. Shao Guanglu, and **THAT** the Board be and is hereby authorized to determine his remuneration.

6.6 **THAT** the re-election of Mr. Siu Wai Keung, Francis as an independent non-executive director of the Company be and is hereby considered and approved, with effect from date of this resolution for a term of three years;

THAT any director of the Company be and is hereby authorized to sign on behalf of the Company the director's service contract with Mr. Siu Wai Keung, Francis, and **THAT** the Board be and is hereby authorized to determine his remuneration.

6.7 **THAT** the re-election of Mr. Lv Tingjie as an independent non-executive director of the Company be and is hereby considered and approved, with effect from date of this resolution for a term of three years;

THAT any director of the Company be and is hereby authorized to sign on behalf of the Company the director's service contract with Mr. Lv Tingjie, and **THAT** the Board be and is hereby authorized to determine his remuneration.

6.8 **THAT** the re-election of Mr. Wu Taishi as an independent non-executive director of the Company be and is hereby considered and approved, with effect from date of this resolution for a term of three years;

THAT any director of the Company be and is hereby authorized to sign on behalf of the Company the director's service contract with Mr. Wu Taishi, and **THAT** the Board be and is hereby authorized to determine his remuneration.

6.9 **THAT** the re-election of Mr. Liu Linfei as an independent non-executive director of the Company be and is hereby considered and approved, with effect from date of this resolution for a term of three years;

THAT any director of the Company be and is hereby authorized to sign on behalf of the Company the director's service contract with Mr. Liu Linfei, and **THAT** the Board be and is hereby authorized to determine his remuneration.

7 To consider and approve, by way of separate ordinary resolutions, each of the following resolutions in relation to the re-election of the members of the fifth session of the supervisory committee of the Company (supervisors who represent the shareholders):

7.1 **THAT** the re-election of Ms. Han Fang as a supervisor of the Company be and is hereby considered and approved, with effect from date of this resolution for a term of three years;

THAT any director of the Company be and is hereby authorized to sign on behalf of the Company the supervisor's service contract with Ms. Han Fang, and **THAT** the supervisory committee of the Company be and is hereby authorized to determine her remuneration.

7.2 **THAT** the re-election of Mr. Hai Liancheng as a supervisor of the Company be and is hereby considered and approved, with effect from date of this resolution for a term of three years;

THAT any director of the Company be and is hereby authorized to sign on behalf of the Company the supervisor's service contract with Mr. Hai Liancheng, and **THAT** the supervisory committee of the Company be and is hereby authorized to determine his remuneration.

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

Beijing, PRC
19 November 2018

Notes:

(1) Profile of the Nominees are set out on pages 78 to 81 of this circular.

(2) The Supplemental Form of Proxy in respect of the ordinary resolutions numbered 6 and 7 mentioned above is enclosed with this Supplemental Notice. The Supplemental Form of Proxy will not affect the validity of any form of proxy duly completed by you in respect of the resolutions set out in the Previous Notice. If you have validly appointed a proxy to attend and act for you at the EGM but do not complete and deliver the Supplemental Form of Proxy, your proxy will be entitled to vote at his discretion on the ordinary resolutions numbered 6 and 7 mentioned above.

(3) Shareholders are entitled to appoint one or more proxies to attend the EGM, but only one of the proxies can be designated to vote at the EGM. If the proxy being appointed to attend the EGM under the Supplemental Form of Proxy is different from the proxy appointed under the previous form of proxy and both proxies attended the EGM, the proxy validly appointed under the previous form of proxy shall be designated to vote at the EGM.

(4) Please refer to the Previous Notice issued on 29 October 2018 for details in respect of other resolutions to be passed at the EGM, eligibility for attending the EGM, proxy, registration procedures, closure of register of members, and other relevant matters in relation to the EGM.