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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.

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中国通信服务
CHINA COMSERVICE

中國通信服務股份有限公司

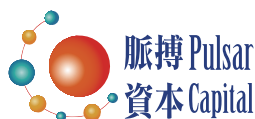
CHINA COMMUNICATIONS SERVICES CORPORATION LIMITED

(A joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock Code: 552)

**RENEWAL OF CONTINUING CONNECTED TRANSACTIONS
CONTINUING CONNECTED TRANSACTIONS AND
MAJOR TRANSACTIONS
UNDER THE FINANCIAL SERVICES FRAMEWORK AGREEMENT
PROPOSED ADOPTION OF SHARE APPRECIATION RIGHTS
INCENTIVE SCHEME AND PROPOSED INITIAL GRANT
AND
NOTICE OF THE EGM**

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



A letter from the Board is set out on pages 6 to 62 of this circular. A letter from the Independent Board Committee is set out on pages 63 to 64 of this circular. A letter from the Independent Financial Adviser is set out on pages 65 to 130 of this circular.

A notice convening an extraordinary general meeting (“EGM”) of the Company to be held at 10:00 a.m. on Wednesday, 22 December 2021, at Block No.1, Compound No.1, Fenghuangzui Street, Fengtai District, Beijing, the PRC, is set out on pages 164 to 166 of this circular. A form of proxy for use at the EGM is enclosed with this circular. Whether or not you are able to attend the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same as soon as possible and in any event not less than 24 hours before the time designated for holding the EGM (i.e. on 21 December 2021, 10:00 a.m.) or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the EGM or any adjourned meeting should you so wish.

1 December 2021

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DEFINITIONS

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

“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
“2018 Agreements”	2015 Agreements and 2018 Supplemental Agreements
“2019 Financial Services Framework Agreement”	the CCS financial services framework agreement entered into between the Company and China Telecom Finance on 1 February 2019 in connection with the provision of a range of financial services for a period ending 31 December 2021
“2021 Supplemental Agreements”	the supplemental agreements of the 2018 Agreements entered into between the Company and China Telecom on 22 October 2021 in respect of, among other things, the renewal of the terms of each of the 2018 Agreements to 31 December 2024
“2021 Financial Services Framework Agreement”	the CCS financial services framework agreement entered into between the Company and China Telecom Finance on 22 October 2021 in connection with the provision of a range of financial services for a period ending 31 December 2024
“Ancillary Telecommunications Services Framework Agreement”	the ancillary telecommunications services framework agreement entered into between the Company and China Telecom on 29 September 2015
“Articles of Association”	the articles of association of the Company
“Board”	the board of Directors of the Company
“CBIRC”	China Banking and Insurance Regulatory Commission
“Centralized Services Agreement”	the centralized services agreement entered into between the Company and China Telecom on 29 September 2015

DEFINITIONS

“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”	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
“China Telecom Corporation”	China Telecom Corporation Limited (中國電信股份有限公司), a joint stock limited company incorporated in the PRC with limited liability on 10 September 2002, with its issued H shares and A shares listed on the Stock Exchange and the Shanghai Stock Exchange, respectively. Its principal business is the provision of fundamental telecommunications services including comprehensive wireline telecommunications services and mobile telecommunications services, and value-added telecommunications services such as Internet access services and information services, as well as other related services
“China Telecom Finance”	China Telecom Group Finance Co., Ltd. (中國電信集團財務有限公司), a non-banking financial institution legally established in the PRC on 8 January 2019 with the approval by the CBIRC, is a limited liability company approved by the relevant PRC government authorities (including but not limited to the CBIRC) to provide funds and financial management services to the member companies of China Telecom
“China Telecom Group”	China Telecom and its subsidiaries (excluding the Group where applicable)
“Company” or “CCS”	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
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be held on 22 December 2021
“Engineering Framework Agreement”	the engineering framework agreement entered into between the Company and China Telecom on 29 September 2015

DEFINITIONS

“Existing Annual Caps”	the existing annual caps applicable to the transactions under each of the 2018 Agreements and the 2019 Financial Services Framework Agreement for the applicable period ending 31 December 2021
“Group”	the Company and its subsidiaries
“H Share(s)”	overseas listed foreign invested share(s) in the Company’s issued share capital with a nominal value of RMB1.00 each which has been listed on the Stock Exchange
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“IT Application Services Framework Agreement”	the IT application services framework agreement entered into between the Company and China Telecom on 29 September 2015
“Incentive Recipients”	persons proposed to be granted the Share Appreciation Rights under the Scheme
“Independent Board Committee”	an independent board committee, consisting of 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) regulated activities under the SFO
“Independent Shareholders”	Shareholders other than China Telecom and its associates
“Initial Grant”	the initial grant under the Scheme
“Latest Practicable Date”	24 November 2021, 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

DEFINITIONS

“member companies”	has the meaning as defined in Article 3 of the Administrative Measures for Finance Companies of Enterprise Groups (企業集團財務公司管理辦法, the Order No. 8 of the China Banking Regulatory Commission in 2006), and with respect to China Telecom, including China Telecom and its subsidiaries (in which China Telecom holds more than 51% equity interests), any company in which China Telecom and/or its subsidiaries individually or jointly holds more than 20% equity interest, or a company in which China Telecom and/or its subsidiaries individually or jointly holds less than 20% of the equity interests but is the largest shareholder
“New Annual Caps”	the new annual caps proposed for the transactions under each of the 2018 Agreements, the 2021 Supplemental Agreements and the 2021 Financial Services Framework Agreement for the three years ending 31 December 2022, 2023 and 2024, 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 their supplemental agreements (other than those under the Centralized Services Agreement and the Property Leasing Framework Agreement), and the deposit services under the 2021 Financial Services Framework Agreement
“Operation Support Services Framework Agreement”	the operation support services framework agreement entered into between the Company and China Telecom on 29 September 2015
“Property Leasing Framework Agreement”	the property leasing framework agreement entered into between the Company and China Telecom on 29 September 2015
“RMB”	Renminbi, the lawful currency of the PRC
“SASAC”	State-owned Assets Supervision and Administration Commission of the State Council
“Scheme” or “Share Appreciation Rights Incentive Scheme”	Share Appreciation Rights Incentive Scheme of China Communications Services Corporation Limited to be proposed and adopted at the EGM, pursuant to which, the Share Appreciation Rights will be granted by the Company to the Incentive Recipients

DEFINITIONS

“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share Appreciation Rights”	the share appreciation rights granted under the Scheme, which entitle the Incentive Recipients to obtain gains from the appreciation of stipulated number of H Shares during a certain period and under certain conditions
“Shareholders”	shareholders of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supplies Procurement Services Framework Agreement”	the supplies procurement services framework agreement entered into between the Company and China Telecom on 29 September 2015

In addition, the terms “associate”, “connected person”, “connected transaction”, “continuing connected transaction”, “controlling shareholder”, “percentage ratio”, “substantial shareholder” and “subsidiary” shall have the meanings ascribed to them under the Listing Rules.

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, among others, the change of macroeconomic environment, natural disaster, the growth of the relevant industries 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.

LETTER FROM THE BOARD



中國通信服務
CHINA COMSERVICE

中國通信服務股份有限公司

CHINA COMMUNICATIONS SERVICES CORPORATION LIMITED

(A joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock Code: 552)

Executive Directors

Huang Xiaoqing
Zhang Xu

Non-executive Directors

Gao Tongqing
Mai Yanzhou

Independent Non-executive Directors

Siu Wai Keung, Francis
Lv Tingjie
Wu Taishi
Liu Linfei

Registered office

Block No.1, Compound No.1
Fenghuangzui Street
Fengtai District
Beijing
PRC

Place of business in Hong Kong

Room 1101–1102, 11/F
Great Eagle Centre
23 Harbour Road Wanchai
Hong Kong

1 December 2021

To the Shareholders

Dear Sir or Madam,

**RENEWAL OF CONTINUING CONNECTED TRANSACTIONS
CONTINUING CONNECTED TRANSACTIONS AND
MAJOR TRANSACTIONS
UNDER THE FINANCIAL SERVICES FRAMEWORK AGREEMENT
PROPOSED ADOPTION OF SHARE APPRECIATION RIGHTS
INCENTIVE SCHEME AND PROPOSED INITIAL GRANT
AND
NOTICE OF THE EGM**

LETTER FROM THE BOARD

I. INTRODUCTION

We refer to the announcement dated 22 October 2021 in relation to (i) the renewal of the continuing connected transactions under the 2018 Agreements entered into with China Telecom and (ii) the continuing connected transactions and major transactions under the 2021 Financial Services Framework Agreement entered into with China Telecom Finance.

Besides, we refer to the announcement dated 22 November 2021 in relation to the proposed adoption of Share Appreciation Rights Incentive Scheme and proposed Initial Grant.

The purpose of this circular is to provide, among other things, further information about (i) the continuing connected transactions, letters from the Independent Board Committee and from the Independent Financial Adviser, (ii) the Share Appreciation Rights Incentive Scheme and proposed Initial Grant and (iii) a notice to Shareholders convening the EGM, 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.

II. CONTINUING CONNECTED TRANSACTIONS WITH CHINA TELECOM AND CHINA TELECOM FINANCE

On 22 October 2021, the Company entered into (i) the 2021 Supplemental Agreements with China Telecom based on the 2018 Agreements to renew each of the 2018 Agreements for a term of three years from 1 January 2022 to 31 December 2024; and (ii) the 2021 Financial Services Framework Agreement with China Telecom Finance, pursuant to which China Telecom Finance has agreed to provide financial services to the Group for a term of three years from 1 January 2022 to 31 December 2024.

As at the Latest Practicable Date, China Telecom is a substantial shareholder of the Company holding approximately 51.39% of the issued share capital of the Company. Therefore, each of China Telecom and its associates is a connected person of the Company under Rule 14A.07 of the Listing Rules. Accordingly, the transactions under the 2018 Agreements and the 2021 Supplemental Agreements (together with the proposed New Annual Caps) constitute continuing connected transactions of the Company.

As at the Latest Practicable Date, China Telecom Finance is held as to 15% and 70% by China Telecom and China Telecom Corporation, a non-wholly owned subsidiary of China Telecom, and is thus an associate of China Telecom and a connected person of the Company under Rule 14A.07 of the Listing Rules. Accordingly, the transactions under the 2021 Financial Services Framework Agreement (together with the proposed New Annual Caps) constitute continuing connected transactions of the Company.

As all the applicable percentage ratios of the proposed New Annual Caps for the transactions under (i) the Centralized Services Agreement and its supplemental agreements, and (ii) the Property Leasing Framework Agreement and its supplemental agreements exceed 0.1% but are less than 5%, the transactions under (i) the Centralized Services Agreement and its supplemental agreements, and

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(ii) the Property Leasing Framework Agreement and its supplemental agreements (together with the respective proposed New Annual Caps thereof) are subject to the reporting, announcement, annual review requirements but are exempt from the circular (including independent financial advice) and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios of the proposed New Annual Caps for the deposit services provided by China Telecom Finance to the Group under the 2021 Financial Services Framework Agreement exceed 25% but are less than 75%, the relevant deposit services constitute major transactions and are subject to the reporting, announcement, circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

As the loan and bill discounting services provided by China Telecom Finance to the Group under the 2021 Financial Services Framework Agreement are financial assistance provided to the Group on normal commercial terms or better, and will not be secured by the Group's assets, such loan and bill discounting services will be fully exempted from all reporting, announcement, annual review and Independent Shareholders' approval requirements pursuant to Rule 14A.90 of the Listing Rules.

As all the applicable percentage ratios of the proposed New Annual Caps for the transactions under the other financial services provided by China Telecom Finance to the Group under the 2021 Financial Services Framework Agreement are less than 0.1% and the terms are on normal commercial terms or better, such transactions will be fully exempted from all reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios of the proposed New Annual Caps for each of the Non-exempt Continuing Connected Transactions exceed 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 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.

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1. Continuing Connected Transactions with China Telecom

(1) *Background*

We refer to the announcement dated 28 September 2018 and the circular dated 19 November 2018 of the Company, in relation to the renewal of the continuing connected transactions between the Group and China Telecom and/or its associates which are governed by the 2015 Agreements as below and the 2018 Supplemental Agreements:

- (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.

The above 2015 Agreements were entered into between the Company and China Telecom on 29 September 2015 and were then amended and renewed by way of the 2018 Supplemental Agreements. The 2018 Supplemental Agreements also adjusted the terms related to tender process of the Engineering Framework Agreement pursuant to the applicable PRC regulations. The Existing Annual Caps (to the extent they were subject to Independent Shareholders' approval under Chapter 14A of the Listing Rules) for the transactions under the 2018 Agreements were approved by the Independent Shareholders at the extraordinary general meeting of the Company convened on 13 December 2018.

As each of the 2018 Agreements will expire on 31 December 2021, the Company entered into the 2021 Supplemental Agreements with China Telecom on 22 October 2021 to, among other things, extend the term for three years from 1 January 2022 to 31 December 2024 and change contact information of the parties. Other key terms of each of the 2018 Agreements remain unchanged.

According to internal estimates and historical transaction amounts, the Directors also propose the New Annual Caps for the transactions under the 2015 Agreements and their supplemental agreements, details of which are set out below.

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(2) *Principal Terms of the 2015 Agreements and their Supplemental Agreements*

(a) *Engineering Framework Agreement and its supplemental agreements*

Content of Services

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.

Pricing Policies

The charges for engineering 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 thresholds which the project must be determined through tender process under the Engineering Framework Agreement include: 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 other related laws and regulations. In determining the market price, the business and financial department of the relevant subsidiary of the Company shall collect the relevant market information (including but not limited to the change in price for the same or similar type of services), review and compare the costs and profits of transactions conducted in the most recent year of the same or similar type entered into with China Telecom Group or independent third parties, and prepare fee quotes for review by the marketing department of the relevant subsidiary of the Company. 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 at least three comparable transactions of the same or similar type of services provided to China Telecom Group by other service providers in the market; (iii) prices of at least three comparable transactions of the same or similar type of services provided to China Telecom Group and independent third parties previously by the Company.

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The Company will be given priority by China Telecom Group in the provision of the engineering 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 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.

Historical Transaction Amounts

The Existing Annual Caps for the service charges receivable by the Company from China Telecom Group under the Engineering Framework Agreement for each of the three years of 2019, 2020 and 2021 are RMB26,000 million, RMB33,000 million and RMB35,000 million, respectively. 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 2019 and 2020 were RMB16,386 million and RMB17,668 million, respectively. Based on the Company's unaudited 2021 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 2021 was RMB6,896 million.

Proposed Annual Caps and Basis for Determination

The Directors proposed the New Annual Caps for the Engineering Framework Agreement in respect of the three years ending 31 December 2022, 2023 and 2024 to be RMB24,000 million, RMB26,000 million and RMB28,000 million, respectively. In determining the New Annual Caps, the Directors have considered:

- (a) the historical annual transaction amounts for 2019 and 2020 and the estimated annual transaction amount for 2021 under the Engineering Framework Agreement;
- (b) that the demand for engineering services are subject to seasonal fluctuations to a certain extent. According to the financial reports of China Telecom Corporation, from 2018 to 2020, its capital expenditures mainly incurred in the second half of such years; according to the 2021 interim report of China Telecom Corporation, while maintaining its full year budget of capital expenditure unchanged, its capital expenditure in the first half of 2021 only

LETTER FROM THE BOARD

accounted for approximately 31% of its annual plan. Accordingly, the Company's revenue from engineering services was recognized mainly in the second half of years. For the Company's revenue from China Telecom Group's telecommunications infrastructure services in the past three years, the proportion of such revenue in the second half of the year accounted for approximately 53% to 62% of such revenue of the full year;

- (c) that China Telecom Group proposed the "Cloudification and Digital Transformation" strategy to further promote internal and external digital transformation. According to prospectus of the A-share listing of China Telecom Corporation dated 6 August 2021, its proceeds will be used in expanding its 5G industrial Internet construction and new information infrastructure of cloud-network integration. It is expected that China Telecom Group will maintain the scale of its capital expenditure, which is subject to evolving technologies and technology-driven market conditions, and that the transactions under the Engineering Framework Agreement with the Group may increase for the coming three years;
- (d) due to the relatively low utilization rates of the Existing Annual Caps with respect to the engineering services for the years ended 31 December 2019 and 2020, being approximately 63% and 54%, respectively, the New Annual Cap for the year ending 31 December 2022 was adjusted downward to RMB24,000 million from the Existing Annual Cap of RMB35,000 million for the year ending 31 December 2021, with a year-on-year increase of approximately 8.3% and 7.7% for each of the two years ending 31 December 2024. In determining the New Annual Caps, the Company considered (i) the expected increasing demand from China Telecom for engineering services in the coming three years; (ii) the expected development of emerging businesses of China Telecom such as 5G network, Industrial IoT and new information infrastructure constructions; and (iii) a degree of buffer is built in, which allows the Group to be flexible in case of unforeseen events in the future and caters for the possible inflations in the coming three years; and
- (e) 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 agreements exceeds 5%, the Engineering Framework Agreement together with

LETTER FROM THE BOARD

its supplemental agreements as well as 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.

- (b) *Ancillary Telecommunications Services Framework Agreement and its supplemental agreements*

Content of Services

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.

Pricing Policies

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

- (a) 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 at least three comparable transactions of the same or similar type of services provided to China Telecom Group by other service providers in the market; (iii) prices of at least three comparable transactions of the same or similar type of services provided to China Telecom Group and independent third parties previously by the Company;

LETTER FROM THE BOARD

- (b) 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 cost and profits, the business and financial department 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.

Historical Transaction Amounts

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 2019, 2020 and 2021 are RMB20,000 million, RMB24,000 million and RMB27,000 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 31 December 2019 and 2020 were RMB14,758 million and RMB14,888 million, respectively. Based on the Company's unaudited 2021 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 2021 was RMB7,996 million.

LETTER FROM THE BOARD

Proposed Annual Caps and Basis for Determination

The Directors proposed the New Annual Caps for the Ancillary Telecommunications Services Framework Agreement in respect of the three years ending 31 December 2022, 2023 and 2024 to be RMB23,000 million, RMB26,000 million and RMB28,000 million, respectively. In determining the New Annual Caps, the Directors have considered:

- (a) the historical annual transaction amounts for 2019 and 2020 and the estimated annual transaction amount for 2021 under the Ancillary Telecommunications Services Framework Agreement;
- (b) that the Group has identified the related ancillary telecommunication services such as network maintenance, among others, as one of its major measures to expand the domestic telecommunications operator market, and persisted in the “CAPEX and OPEX + Smart Applications” development strategy to help customers maintain infrastructure network with 5G and cloud as core technologies and further develop OPEX business of domestic telecommunications operators. For the six months ended 30 June 2021, the Group’s revenue from China Telecom Group’s network maintenance business increased by approximately 13.9% year-on-year;
- (c) that China Telecom Group continues to improve the quality and capability building of its network to support the rapid development of 5G and industrial digitalization. According to the 2021 interim report of China Telecom Corporation, its network operations and support expenses for the six months ended 30 June 2021 increased by approximately 10.8% year-on-year;
- (d) the number of mobile users as well as other service users has increased continuously and users base of China Telecom Group is expected to grow continuously in the coming years. As disclosed in prospectus of the A-share listing of China Telecom Corporation dated 6 August 2021, the net addition of its mobile users has maintained its leading position in the industry from 2018 to 2020, which the cumulative net addition of users over the 3 years reached 100 million. According to the *5G Application “Sailing” Action Plan (2021–2023)* (《5G應用 “揚帆” 行動計劃(2021–2023年)》) issued by the relevant government authorities in 2021, the number of 5G users in China is expected to exceed 560 million by 2023. In order to provide reliable services to its growing customers, China Telecom Group’s demand for ancillary telecommunications services is also expected to grow;

LETTER FROM THE BOARD

- (e) due to the relatively low utilization rates of the Existing Annual Caps with respect to ancillary telecommunications services for the years ended 31 December 2019 and 2020, being approximately 74% and 62%, respectively, the New Annual Cap for the year ending 31 December 2022 was adjusted downward to RMB23,000 million from the Existing Annual Cap of RMB27,000 million for the year ending 31 December 2021, with a year-on-year increase of approximately 13.0% and 7.7% for each of the two years ending 31 December 2024. In determining the New Annual Caps, the Company considered (i) the expected increasing demand from China Telecom for ancillary telecommunications services in the coming three years; (ii) the steady growth of the historical transaction amounts for the years ended 31 December 2019 and 2020; (iii) the expected development of emerging businesses of China Telecom such as 5G network, Industrial IoT and new information infrastructure constructions and development of “CAPEX and OPEX + Smart Applications” strategy of the Company, which will bring business opportunities for the expansion of scale of the ancillary telecommunications business; and (iv) a degree of buffer is built in, which allows the Group to be flexible in case of unforeseen events in the future, and caters for the possible inflations in the coming three years; and
- (f) 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 agreements exceeds 5%, the Ancillary Telecommunications Services Framework Agreement together with its supplement agreements as well as 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.

- (c) *Operation Support Services Framework Agreement and its supplemental agreements*

Content of Services

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

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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.

Pricing Policies

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 at least two comparable transactions of the same or similar type of services provided to the Company by other service providers in the market; (ii) prices of at least two comparable transactions 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.

Historical Transaction Amounts

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 2019, 2020 and 2021 are RMB3,800 million, RMB4,000 million and RMB4,200 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 2019 and 2020 were RMB3,568 million and RMB3,422 million, respectively. Based on the Company's

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unaudited 2021 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 2021 was RMB1,489 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 2019, 2020 and 2021 are RMB1,600 million, RMB2,000 million and RMB2,400 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 2019 and 2020 were RMB736 million and RMB878 million, respectively. Based on the Company's unaudited 2021 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 2021 was RMB372 million.

Proposed Annual Caps and Basis for Determination

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 2022, 2023 and 2024 to be RMB5,000 million, RMB5,500 million and RMB6,000 million, respectively. The Directors proposed the New Annual Caps for the service charges payable by the Company to China Telecom Group under the Operation Support Services Framework Agreement in respect of the three years ending 31 December 2022, 2023 and 2024 to be RMB1,000 million, RMB1,100 million and RMB1,200 million, respectively. In determining the New Annual Caps, the Directors have considered:

- (a) the historical annual transaction amounts for 2019 and 2020 and the estimated annual transaction amount for 2021 under the Operation Support Services Framework Agreement;
- (b) that with respect to the operation support services provided to China Telecom Group, the New Annual Cap for the year ending 31 December 2022 was adjusted upward to RMB5,000 million from the Existing Annual Cap of RMB4,200 million for the year ending 31 December 2021, with a year-on-year increase of approximately 10.0% and 9.1% for each of the two years ending 31 December 2024. In determining the New Annual Caps, the Company considered (i) the utilization rates of the Existing Annual Caps for operation support services provided by the Group were relatively high, being approximately 94% and 86% for the year ended 31

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December 2019 and 2020, respectively; (ii) along with its business development, China Telecom Group's demand for operation support services, such as property management, conference and training, has maintained a steady upward trend; (iii) at the same time, the Group possesses fine resources and service capability in respect of the abovementioned aspects, which are adaptive to meet the business needs of China Telecom Group; and (iv) a degree of buffer is built in when determining the New Annual Caps, which allows the Group to be flexible in case of unforeseen events in the future and caters for the possible inflations in the coming three years;

- (c) that with respect to the operation support services provided by China Telecom Group, as the utilization rates of the Existing Annual Caps were relatively low, being approximately 46% and 44% for the year ended 31 December 2019 and 2020, respectively, the New Annual Cap for the year ending 31 December 2022 was adjusted downward to RMB1,000 million from the Existing Annual Cap of RMB2,400 million for the year ending 31 December 2021, with a year-on-year increase of approximately 10.0% and 9.1% for each of the two years ending 31 December 2024. In determining the New Annual Caps, the Company considered (i) along with its business development, the Group's demand for operation support services, such as exhibition and training, has maintained a steady upward trend; (ii) China Telecom Group possesses fine resources in respect of the abovementioned aspects, which are adaptive to meet the business needs of the Group; and (iii) a degree of buffer is built in when determining the New Annual Caps, which allows the Group to be flexible in case of unforeseen events in the future and caters for the possible inflations in the coming three years; and
- (d) 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 agreements exceeds 5%, the Operation Support Services Framework Agreement together with its supplemental agreements 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.

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- (d) *IT Application Services Framework Agreement and its supplemental agreements*

Content of Services

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.

Pricing Policies

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 at least three comparable transactions of the same or similar type of services provided to the Company by other service providers in the market; (ii) prices of at least three comparable transactions 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.

Historical Transaction Amounts

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 2019, 2020 and 2021 are

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RMB3,600 million, RMB4,300 million and RMB5,000 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 2019 and 2020 were RMB3,095 million and RMB3,052 million, respectively. Based on the Company's unaudited 2021 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 2021 was RMB1,514 million.

The Existing Annual Caps for the service charges payable by the Company to China Telecom Group under the IT Application Services Framework Agreement for each of the three years of 2019, 2020 and 2021 is RMB500 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 2019 and 2020 were RMB154 million and RMB148 million, respectively. Based on the Company's unaudited 2021 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 2021 was RMB23 million.

Proposed Annual Caps and Basis for Determination

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 2022, 2023 and 2024 to be RMB6,500 million, RMB8,000 million and RMB9,500 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 the three years ending 31 December 2022, 2023 and 2024 to be RMB1,000 million, RMB1,500 million and RMB2,000 million, respectively. In determining the New Annual Caps, the Directors have considered:

- (a) the historical annual transaction amounts for 2019 and 2020 and the estimated annual transaction amount for 2021 under the IT Application Services Framework Agreement;
- (b) that with respect to the IT application services provided to China Telecom Group, the New Annual Cap for the year ending 31 December 2022 was adjusted upward to RMB6,500 million from the Existing Annual Cap of RMB5,000 million for the year ending 31 December 2021, with a year-on-year increase of approximately

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23.1% and 18.8% for each of the two years ending 31 December 2024. In determining the New Annual Caps, the Company considered (i) that there had been a high utilization rate of the Existing Annual Cap for the IT application services provided to China Telecom Group, being approximately 86% and 71% for the years ended 31 December 2019 and 2020, respectively; (ii) the demand from China Telecom Group's IT system construction and provision of technology application services for its customers is expected to be further increased due to its commitment to the development of communications for governments and enterprises and informatization services (industrial digitalization); (iii) the Group has pressed on with the technological innovation and continued to step up investment in research and development. Through the adoption of the "Synergistic + Dispersed" mechanism for research and development, the Group has accelerated the construction and implementation of core platforms and products, which facilitated business expansion and digital transformation. The Group has gained increasing industry recognition and brand influence that it continued to rank 5th in "100 Most Competitive Software & IT Service Enterprises 2020". For the six months ended 30 June 2021, the Group's revenue from applications, content and other services increased by more than 24% year-on-year. It is expected that scale effect will take place in the Group's business segment of IT application services in the future, and thereby the business volume will increase significantly; and (iv) a degree of buffer is built in when determining the New Annual Caps, which allows the Group to be flexible in case of unforeseen events in the future and caters for the possible inflations in the coming three years;

- (c) that with respect to IT application services provided by China Telecom Group, the New Annual Cap for the year ending 31 December 2022 was adjusted upward to RMB1,000 million from the Existing Annual Cap of RMB500 million for the year ending 31 December 2021, with a year-on-year increase of approximately 50.0% and 33.3% for each of the two years ending 31 December 2024. In determining the New Annual Caps in relation to IT application services provided by China Telecom Group, the Company considered (i) the expected increasing demand from the Company for IT application services in the coming three years; (ii) along with the continuous enhancement of China Telecom Group's cloud network and platform capabilities, launching a wealth of cloud solutions for various users and diversified scenarios, since the adoption of its "Cloudification and Digital Transformation" strategy

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in 2020, and its service capability to build network dedicated line, the Group is expected to procure more ICT application services of China Telecom Group, including but not limited to circuit, network, and cloud platform service capabilities, to satisfy the growing needs of its customers in this area, which is conducive to improving the Group's integrated service capabilities and is expected to drive the substantial growth of the Group's IT application-related services; and (iii) a degree of buffer is built in when determining the New Annual Caps, which allows the Group to be flexible in case of unforeseen events in the future and caters for the possible inflations in the coming three years; and

- (d) 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 agreements exceeds 5%, the IT Application Services Framework Agreement together with its supplemental agreements 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 its supplemental agreements*

Content of Services

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

- (a) 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
- (b) 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.

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Pricing Policies

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.

Historical Transaction Amounts

The Existing Annual Caps for the management fees (in the form of reimbursed apportioned cost received) of the Company for the centralized services provided to China Telecom Group under the Centralized Services Agreement for the three years of 2019, 2020 and 2021 are RMB450 million. 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 2019 and 2020 were RMB370 million and RMB382 million, respectively. Based on the Company's unaudited 2021 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 2021 was RMB153 million.

Proposed Annual Caps and Basis for Determination

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 2022, 2023 and 2024 to be RMB550 million. In determining the New Annual Caps, the Directors have considered:

- (a) the historical annual transaction amounts for 2019 and 2020 and the estimated annual transaction amount for 2021 under the Centralized Services Agreement;
- (b) that there had been a high utilization rate of the Existing Annual Cap for the centralized services provided to China Telecom Group. In particular, the utilization rates were approximately 82% for 2019 and 85% for 2020, respectively. In order to seize future business opportunities and maintain flexibility for development, a degree of buffer is built in when determining the New Annual Caps in relation to the centralized services provided to China Telecom Group, which

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allows the Group to be flexible in case of unforeseen events in the future, and caters for the possible inflations in the coming three years; and

- (c) that as the future demand of China Telecom Group for centralized services from the Group is expected to maintain stable, the New Annual Caps in relation to centralized services are the same for the years ending 31 December 2022, 2023 and 2024.

As all the applicable percentage ratios of the proposed New Annual Caps under the Centralized Services Agreement and its supplemental agreements are more than 0.1% but less than 5%, the Centralized Services Agreement together with its supplemental agreements as well as 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.

- (f) *Property Leasing Framework Agreement and its supplemental agreements*

Content of Services

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.

Pricing Policies

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

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relevant subsidiary of the Company shall primarily consider the following factors: (1) cost of property depreciation; (2) rental charges of at least three comparable transactions 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 at least three comparable transactions 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.

Historical Transaction Amounts

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 2019, 2020 and 2021 are RMB230 million, RMB240 million and RMB250 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 2019 and 2020 were RMB129 million and RMB138 million, respectively. Based on the Company's unaudited 2021 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 2021 was RMB52 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 2019, 2020 and 2021 are RMB270 million, RMB300 million and RMB330 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 2019 and 2020 were RMB203 million and RMB158 million, respectively. Based on the Company's unaudited 2021 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 2021 was RMB57 million.

According to International Financial Reporting Standard No. 16 — Leases (the “**New Lease Standards**”) adopted by the Group since 1 January 2019, the Group is required to recognise right-of-use assets and lease liabilities where the Group acts as a lessee. For the years ended 31 December 2019 and 2020, the Group recognised additional right-of-use assets under the Property Leasing Framework Agreement of RMB226 million and RMB250

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million, respectively. Based on the Company's unaudited 2021 interim financial report, the Group recognised additional right-of-use assets under the Property Leasing Framework Agreement for the six months ended 30 June 2021 was RMB496 million.

Proposed Annual Caps and Basis for Determination

According to the New Lease Standards, the Group is required to recognise right-of-use assets and lease liabilities where the Group acts as a lessee. Correspondingly, the Company is required to set annual caps for the value of right-of-use assets relating to leases to be entered into by the Group as a lessee for each of the respective period(s) in each year under the Property Leasing Framework Agreement. In addition, the Group applies recognition exemptions to short-term leases¹ and low-value asset leases in accordance with the New Lease Standards, and recognizes them as expenses of the group. The Company will set the annual caps for the rents of short-term leases and low-value asset leases recorded as expenses.

The Directors proposed the New Annual Caps in respect of the three years ending 31 December 2022, 2023 and 2024 for the leases entered into by the Group as lessor under the Property Leasing Framework Agreement to be as follows:

	For the year ending 31 December		
	2022	2023	2024
	<i>(in RMB million)</i>		
Leasing Revenue	330	350	370

The Directors proposed the New Annual Caps in respect of the three years ending 31 December 2022, 2023 and 2024 for the leases entered into by the Group as lessees under the Property Leasing Framework Agreement to be as follows:

	For the year ending 31 December		
	2022	2023	2024
	<i>(in RMB million)</i>		
Right-of-use			
Assets	650	650	650
Leasing Charges	350	350	350

¹ "short-term leases" refers to those which have a lease term of 12 months or less from the commencement date and do not contain a purchase option. For details of the New Lease Standard adopted by the Company, please refer to the Company's 2020 annual report.

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In determining the New Annual Caps, the Directors have considered:

- (a) the historical annual transaction amounts for 2019 and 2020 and the estimated annual transaction amount for 2021 under the Property Leasing Framework Agreement;
- (b) that the New Annual Caps in relation to property leasing services provided by the Group for the year ending 31 December 2022 was adjusted upward to RMB330 million from the Existing Annual Cap of RMB250 million for the year ending 31 December 2021, with a year-on-year increase of approximately 6.1% and 5.7% for each of the two years ending 31 December 2024; the New Annual Caps for leasing charges in relation to property leasing services provided by China Telecom Group for the year ending 31 December 2022 was adjusted upward to RMB350 million from the Existing Annual Caps of RMB330 for the year ending 31 December 2021 and remain the same for each of the two years ending 31 December 2024; and the New Annual Caps for the value of right-of-use assets in relation to property leasing services provided by China Telecom Group are set at RMB650 million for the year ending 31 December 2022 and remain the same for each of the two years ending 31 December 2024. In determining the New Annual Caps, the Company considered (i) the business expansion and the rental rate is expected to increase; and (ii) that the demand for leased properties of the Group and China Telecom Group is expected to increase. In particular, it is expected that the China Telecom Group's demand for work place will increase and the Group could satisfy such demand with its new property purchased in 2020; and
- (c) that the right-of-use assets is calculated by discounting the total annual rent in the future, using the incremental borrowing rate as discount rate. As disclosed in the 2020 annual report of the Company, the weighted average lessee's incremental borrowing rate applied to lease liabilities of the Company was 3.6% in 2020.

As the Property Leasing Framework Agreement is a framework agreement governing the specific lease agreements with China Telecom Group, and has no fixed terms (such as amount of rent, payment method, location and area of the leased properties and lease period), pursuant to the Frequently Asked Questions No. 047-2018 issued by the Stock Exchange, the transactions under the Property Leasing Framework Agreement and its supplemental agreements constitute continuing connected transactions of the Company. As all the applicable percentage ratios of the proposed New Annual Caps under the Property Leasing Framework Agreement and its supplemental agreements are more than 0.1% but less than 5%, the Property Leasing Framework Agreement together with its supplemental agreements as well as

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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.

(g) *Supplies Procurement Services Framework Agreement and its supplemental agreements*

Content of Services

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.

Pricing Policies

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

- (a) 1% of the contract value at the maximum for procurement services relating to imported telecommunications supplies;
- (b) 3% of the contract value at the maximum for procurement services relating to domestic telecommunications supplies and other domestic non-telecommunications materials;

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- (c) 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 at least three comparable transactions 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 at least three comparable transactions of the same or similar type of services provided to China Telecom Group and independent third parties by the Company, or prices of at least three comparable transactions 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

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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.

Historical Transaction Amounts

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 2019, 2020 and 2021 are RMB6,000 million, RMB6,500 million and RMB7,000 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 2019 and 2020 were RMB2,697 million and RMB2,609 million, respectively. Based on the Company's unaudited 2021 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 2021 was RMB1,173 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 2019, 2020 and 2021 are RMB5,000 million, RMB5,200 million and RMB5,400 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 2019 and 2020 were RMB1,121 million and RMB1,027 million, respectively. Based on the Company's unaudited 2021 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 2021 was RMB988 million.

Proposed Annual Caps and Basis for Determination

The Directors proposed the New Annual Caps for the service charges receivable by the Company from China Telecom Group under the Supplies Procurement Services Framework Agreement in respect of three years ending 31 December 2022, 2023 and 2024 to be RMB6,800 million, RMB7,500 million and RMB8,500 million, respectively. The Directors proposed the New

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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 2022, 2023 and 2024 to be RMB4,000 million, RMB5,000 million and RMB6,000 million, respectively. In determining the New Annual Caps, the Directors have considered:

- (a) the historical annual transaction amounts for 2019 and 2020 and the estimated transaction amount for 2021 under the Supplies Procurement Services Framework Agreement;
- (b) that with respect to the supplies procurement services provided to China Telecom Group, as the utilization rates of the Existing Annual Caps were relatively low, being approximately 45% and 40% for the year ended 31 December 2019 and 2020, respectively, the New Annual Cap for the year ending 31 December 2022 was adjusted downward to RMB6,800 million from the Existing Annual Cap of RMB7,000 million for the year ending 31 December 2021, with a year-on-year increase of approximately 10.3% and 13.3% for each of the two years ending 31 December 2024. In determining the New Annual Caps, the Company considered (i) the expected increasing demand from China Telecom for supplies procurement services in the coming three years; (ii) China Comservice Supply Chain Management Company Ltd., a subsidiary of the Group, is the only enterprise with “5A” logistics qualification certificate in the domestic telecommunications industry. It introduced strategic investors with synergistic effect in 2021 and the Group expects that its capabilities for professional operations in the supply chain business will be enhanced; (iii) as mentioned above, it is expected that China Telecom Group’s demand for the IT application services of the Group will increase and the demand for supplies procurement services that are related to the IT application services will also increase accordingly; and (iv) a degree of buffer is built in when determining the New Annual Caps, which allows the Group to be flexible in case of unforeseen events in the future and caters for the possible inflations in the coming three years;
- (c) that with respect to the supplies procurement services provided by China Telecom Group, as the utilization rates of the Existing Annual Caps were relatively low, being approximately 22% and 20% for the year ended 31 December 2019 and 2020, respectively, the New Annual Cap for the year ending 31 December 2022 was adjusted downward to RMB4,000 million from the Existing Annual Cap of RMB5,400 million for the year ending 31 December 2021,

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with a year-on-year increase of approximately 25.0% and 20.0% for each of the two years ending 31 December 2024. In determining the New Annual Caps, the Company considered (i) along with the development of 5G network and the upgrade of mobile terminals, it is expected that the scale of the Group's 5G-related product distribution business will increase in line with market demand, and the Group's demand for 5G-related product procurement services will continue to increase in the coming years. The procurement volume will increase with the expansion of the business scale, and the Group's demand for procurement services of 5G-related products will continue to grow in the coming years; (ii) the Group also spends more efforts on expanding the domestic non-telecom operator customers, and the Group's revenue from such customers in the first half of 2021 increased by approximately 34% year-on-year. Hence, the Group expects its procurement of mobile phone terminals, other mobile terminal devices and Internet of Things devices will increase; (iii) the Group expects to undertake more general contracting projects and continue to upgrade its capability and enlarge the business scope of the general contracting projects, which will lead to a continuously increasing needs for engineering equipment supplies procurement; (iv) by virtue of the centralized procurement with China Telecom Group, the Group could enjoy preferential pricing in the centralized procurement and so it will be purchasing more engineering equipment supplies through China Telecom Group to reduce the relevant costs and enhance efficiency; (v) with the change in business model of in the development of government and enterprise customers, the Group will take the opportunities and deeply involve in different cooperation scenarios and will purchase more mobile phones, fixed-line terminals and other equipment from China Telecom Group to provide them to government and enterprise customers; and (vi) a degree of buffer is built in when determining the New Annual Caps, which allows the Group to be flexible in case of unforeseen events in the future and caters for the possible inflations in the coming three years; and

- (d) 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 agreements exceeds 5%, the Supplies Procurement Services Framework Agreement together with its supplemental agreements as well as

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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 for and Benefits of the Continuing Connected Transactions with 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 2021 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.

2. Continuing Connected Transactions with China Telecom Finance

(1) *Background*

On 1 February 2019, the Company and China Telecom Finance entered into the 2019 Financial Services Framework Agreement, pursuant to which China Telecom Finance agreed to provide financial services to the Group, including (i) deposit services, (ii) loan services and (iii) other financial services. The Existing Annual Caps (to the extent they were subject to Independent Shareholders' approval under Chapter 14A of the Listing Rules) for the 2019 Financial Services Framework Agreement were approved by the Independent Shareholders at the extraordinary general meeting of the Company convened on 18 April 2019.

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As the 2019 Financial Services Framework Agreement will expire on 31 December 2021, the Company entered into the 2021 Financial Services Framework Agreement with China Telecom Finance on 22 October 2021 to extend the term of 2019 Financial Services Framework Agreement for three years from 1 January 2022 to 31 December 2024. Based on internal estimates and historical transaction amounts, the Directors also propose the New Annual Caps for the 2021 Financial Services Framework Agreement, details of which are set out below.

(2) *Principal Terms of the 2021 Financial Services Framework Agreement*

Content of Services

Pursuant to the 2021 Financial Services Framework Agreement, China Telecom Finance will provide the following financial services to the Group:

- (a) financial and financing advice, credit authentication and relevant consulting and agency services;
- (b) assist in the collection and payment of transaction funds;
- (c) bill acceptance and discounting services;
- (d) entrusted loans;
- (e) internal fund transfer and settlement designs of relevant settlement and clearance arrangement proposals among member companies;
- (f) acceptance of deposits;
- (g) provision of loans and financial leasing;
- (h) approved insurance agency business;
- (i) underwriting services for the Group's corporate bonds;
- (j) consumer credit, buyer credit and financial leasing services for the products of the Group; and
- (k) other businesses approved by the CBIRC.

Upon the 2021 Financial Services Framework Agreement becoming effective, the above services, except the deposit services numbered (f) above, can be provided by China Telecom Finance to the Group immediately in accordance with the business scope of China Telecom Finance as approved by the CBIRC. The deposit services numbered (f) above shall be provided after obtaining the approval from the Independent Shareholders at the EGM.

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Major Terms

- (a) The Group and China Telecom Finance will cooperate on a non-exclusive basis, and the Group may select at its discretion other financial institutions to provide the relevant financial services.
- (b) The terms of the financial services offered to the Group by China Telecom Finance shall be equivalent to or more favorable than those offered to the Group by the major cooperative commercial banks of the Group for the financial services in the same period and of the same type.
- (c) China Telecom Finance shall provide the following financial services to the Group in accordance with the major terms set out above, with relevant pricing policies as below:

- i. Deposit Services

The deposit interest rates offered by China Telecom Finance to the Group shall comply with the relevant requirements of the People's Bank of China and be with reference to the deposit benchmark interest rates promulgated by the People's Bank of China from time to time (if any) and the deposit interest rates offered by the major cooperative commercial banks of the Group for the deposit services in the same period and of the same type, and the deposit services shall be conducted on normal commercial terms or better. The deposit interest rates offered by China Telecom Finance shall be equivalent to or higher than those provided by the major cooperative commercial banks of the Group. Under the same conditions, the interest rates of the deposits services provided by China Telecom Finance to the Group shall be the same as those offered by China Telecom Finance to other member companies of China Telecom for the deposit services in the same period and of the same type.

- ii. Loan and Bill Discounting Services

The interest rates for loan and bill discounting offered by China Telecom Finance to the Group shall comply with the relevant requirements of the People's Bank of China and be with reference to the loan benchmark interest rates promulgated by the People's Bank of China from time to time (if any) and the interest rates offered by the major cooperative commercial banks of the Group for the loan services in the same period and of the same type and bill discounting services in the same period and of the same type and amount, and the loan and bill discounting services shall be conducted on normal commercial terms or better. The interest rates for loan and bill discounting offered by China Telecom Finance shall be equivalent to or lower than those provided by the major cooperative commercial banks of the Group. Under the same conditions, the interest rates for loan and bill discounting provided by

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China Telecom Finance to the Group shall be the same as those offered by China Telecom Finance to other member companies of China Telecom for the loan services in the same period and of the same type and bill discounting services in the same period and of same type and amount.

China Telecom Finance offers loan and bill discounting services conducted on normal commercial terms or better to the Group. The Group will not be required by China Telecom Finance to provide guarantee by any of the Group's assets or through other means for the loan and bill discounting services provided to the Group.

iii. Other Financial Services

Save as the deposit, loan and bill discounting services, China Telecom Finance will provide other financial services, including financial and financing advice, credit authentication, bill acceptance, fund transfer and settlement and designs of relevant settlement and clearance arrangement to the Group under the 2021 Financial Services Framework Agreement.

The fees charged for providing the other financial services mentioned above by China Telecom Finance to the Group shall comply with the fees standard promulgated by regulatory authorities including the People's Bank of China or the CBIRC (if applicable), and with reference to the handling fees standard charged by the major cooperative commercial banks of the Group for the other financial services of the same type, and the other financial services shall be conducted on normal commercial terms or better. The handling fees standard shall be equivalent to or lower than those charged by the major cooperative commercial banks of the Group. Under the same conditions, the fees standard charged to the Group by China Telecom Finance shall be the same as those charged to other member companies of China Telecom by China Telecom Finance for the other financial services of the same type.

For each of the specific transactions with China Telecom Finance under the 2021 Financial Services Framework Agreement, China Telecom Finance has been appointed as one of the financial institutions to provide financial services to the Group under the terms and conditions of the 2021 Financial Services Framework Agreement. Prior to entering into any specific agreements with China Telecom Finance in respect of the transactions under the 2021 Financial Services Framework Agreement, the Group will compare the rates or fees and the other relevant transaction terms (e.g. transaction approval conditions, procedures or time limit) offered by China Telecom Finance with those offered by the major cooperative commercial banks of the Group for the deposits, loans or other financial services in the same period and of the same type. Only when the rates or fees or the other relevant transaction terms offered by China Telecom Finance are equivalent to or more favorable than those offered by the major cooperative commercial banks of the Group, the Group may enter into transactions with China

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Telecom Finance at its discretion. Under the circumstances which the Group considers appropriate, the Group may engage additional or other financial institutions other than China Telecom Finance to provide financial services.

(3) *Historical Transaction Amounts*

The actual amounts and Existing Annual Caps in respect of the deposit services (including the interest accrued thereon) provided by China Telecom Finance to the Group under the 2019 Financial Services Framework Agreement are set out below:

	Existing Annual Caps for the Year ending 31 December			Actual Amount for the Year ended 31 December		Actual Amount for the Six Months ended 30 June
	2019	2020	2021	2019	2020	2021
	<i>(in RMB million)</i>					
Maximum daily balance of deposits (including the interest accrued thereon)	7,500	8,000	8,500	2,148	4,003	4,003

(4) *Proposed Annual Caps and Basis for Determination*

Deposit Services

The proposed New Annual Caps in respect of the deposit services (including the interest accrued thereon) provided by China Telecom Finance to the Group under the 2021 Financial Services Framework Agreement for the three years ending 31 December 2022, 2023 and 2024 are as follows:

	Proposed New Annual Caps for the Year ending 31 December		
	2022	2023	2024
	<i>(in RMB million)</i>		
Maximum daily balance of deposits (including the interest accrued thereon)	8,500	8,500	8,500

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The proposed New Annual Caps above in respect of the maximum daily balance of the Group's deposits (including the interest accrued thereon) with China Telecom Finance are arrived at after mainly considering the following factors:

- (a) the Group's amounts of cash and cash equivalent as well as restricted deposits for the three years ended 31 December 2018, 2019 and 2020, which amounted to approximately RMB18.2 billion, RMB21.7 billion and RMB23.9 billion, respectively;
- (b) the Group's business development in the previous years, and the expected growth of operating cash flows as driven by the continuing development of business in the future. The Group's business development opportunities will include, but without limitation to: (i) the 5G-related infrastructure network construction by the telecommunications operators in the PRC in the coming years, which will also bring along spending related to the network operation maintenance and other daily business operations, such as supply chain and facility management; and (ii) the increased demand for informatization services driven by the development of digital economy, smart society, etc. in the PRC;
- (c) as China Telecom Finance has strengthened its system function construction and improved relevant technologies, the Group will strengthen cross-province and cross-bank centralized fund management among its subsidiaries and branches. At the same time, the transaction amounts are expected to grow in line with the further deepened cooperation with China Telecom Finance in the future. The Group will increase the use of its settlement account with China Telecom Finance to speed up the settlement and collection of transaction funds with its major customers (being China Telecom and its subsidiaries), and increase deposits by strengthening the effective use of working capital, thereby improving its fund utilization efficiency;
- (d) the Group has also considered the potential impact on the Group's collection and payment settlement brought by the macroeconomic changes in the future; and
- (e) the Group's historical interest rates for deposits, and the increase in the interest income from the increase in deposits as a result of the Group's business growth.

As one or more of the applicable percentage ratios of the proposed New Annual Caps for the deposit services provided by China Telecom Finance to the Group under the 2021 Financial Services Framework Agreement exceed 25% but are less than 75%, the relevant deposit services constitute major transactions and non-exempt continuing connected transactions of the Company and are subject to

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the reporting, announcement, circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules and the reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Loan and Bill Discounting Services

As the loan and bill discounting services provided by China Telecom Finance to the Group under the 2021 Financial Services Framework Agreement are financial assistance provided to the Group on normal commercial terms or better and will not be secured by the Group's assets, such loan and bill discounting services will be fully exempted from all reporting, announcement, annual review and Independent Shareholders' approval requirements under Rule 14A.90 of the Listing Rules.

The proposed New Annual Caps in respect of the maximum daily balance (including interest accrued thereon) of the loan and bill discounting services to be provided by China Telecom Finance to the Group under the 2021 Financial Services Framework Agreement for each of the three years ending 31 December 2022, 2023 and 2024 is RMB1.0 billion.

Other Financial Services

As each of the applicable percentage ratios of the proposed New Annual Caps for the service charges in respect of other financial services provided by China Telecom Finance to the Group under the 2021 Financial Services Framework Agreement is less than 0.1% and the terms are on normal commercial terms or better, such other financial services will be fully exempted from all reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

(5) *Reasons for and Benefits of the Continuing Connected Transactions with China Telecom Finance*

- (a) **Realizing more comprehensive and centralized fund management to improve fund management efficiency of the Group:** The Group opened a settlement account at China Telecom Finance acting in its capacity as a platform for internal settlement, fund-raising and financing, and fund management between the Group and the members companies of China Telecom. The provision of deposit, loan, bill discounting and other financial services by China Telecom Finance to the Group will facilitate the settlement between the Group and China Telecom and other member companies (some of which are the Group's customers) to reduce the time required for remittance and receipt of funds. With the assistance of the account management system

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and the capability as a deposit financial institution of China Telecom Finance, the Group can strengthen centralized management of its subsidiaries' funds previously deposited with different commercial banks.

- (b) **Bolstering the Group to reduce costs and enhance operating efficiency:** China Telecom Finance will offer customized proposals for centralized deposit and management of funds in line with the management needs of the Group, enabling the Group to satisfy its flexible needs of funds through timely withdrawals. China Telecom Finance will help speed up the fund turnover of the Group, achieving a more efficient fund clearing and settlement with less bank charges. China Telecom Finance will enhance internal settlement efficiency and reduce fund costs of the Group.
- (c) **China Telecom Finance fully understands and is familiar with the Group's business needs:** As China Telecom Finance only provides financial services to China Telecom and its member companies, it has more direct and deep knowledge of the industries including telecommunication operation and communication services. China Telecom Finance is familiar with the capital structure, business operations, funding needs and cash flow pattern of the Group, and therefore can better foresee the funding needs of the Group. As such, China Telecom Finance is able to offer flexible, convenient, customized and cost-effective services to the Group. China Telecom Finance, as an internal professional financial institution serving member companies of the China Telecom, exposes to lower client risks as compared to external institutions that serve many different clients in the market.
- (d) **The Group will use the services from China Telecom Finance on a voluntary and non-exclusive basis:** The 2021 Financial Services Framework Agreement is non-exclusive with no restrictions on the Group's options to appoint any other commercial banks or financial institutions to meet its needs for financial services, and China Telecom Finance is only one of the several financial institutions which offer financial services to the Group. Only when the rates or fees or the other relevant transaction terms offered by China Telecom Finance are equivalent to or more favorable than those offered by the major cooperative commercial banks of the Group, the Group may enter into transactions with China Telecom Finance at its discretion. Under the circumstances which the Group considers appropriate, the Group may engage additional or other financial institutions other than China Telecom Finance to provide financial services.
- (e) **The Group's independence will not be influenced by the use of services from China Telecom Finance:** The Group may re-allocate its funds to other banks based on its business needs, and decide at its absolute discretion to make deposits with China Telecom Finance or other commercial banks. As

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such, entering into the 2021 Financial Services Framework Agreement will enable the Group to have access to one more financial service provider, and encourage other financial service providers to offer more competitive terms to the Group. The Group's independence will not be influenced by, nor its overall interests will be prejudiced by, the use of services from China Telecom Finance.

- (f) **The favorable commercial terms provided by China Telecom Finance will be beneficial to the increase in the Group's return on funds:** As a professional platform for centralized fund management, China Telecom Finance is generally able to provide the Group with the same or more favorable terms, such as interest rates and charges, than those offered by the major cooperative commercial banks of the Group. In general, the deposit interest rates offered by China Telecom Finance to the Group will not be lower than those offered by the major cooperative commercial banks of the Group for the deposits in the same period and of the same type, and the loan interest rates will not be higher than those offered by the major cooperative commercial banks of the Group for the loans in the same period and of the same type. The fees charged by China Telecom Finance in respect of the other financial services provided to the Group will be equivalent to or more favorable than those charged by the major cooperative commercial banks of the Group in respect of similar services. In addition, the Company holds 15% equity interest in China Telecom Finance, and is therefore entitled to the relevant returns such as dividends from China Telecom Finance.
- (g) **China Telecom Finance has adopted internal control and risk management measures:** China Telecom Finance is regulated by the People's Bank of China and the CBIRC, and shall provide services in accordance with and in compliance with the rules and operational requirements of such regulatory authorities. China Telecom Finance has adopted internal control and risk management measures to mitigate fund risks and guarantee fund safety, thereby protecting the overall interests of the Group.
- (6) ***Capital Risk Control, Internal Control and Risk Management Measures Adopted by China Telecom Finance***
- (a) **Regulated and supervised by regulatory authorities:** As a non-banking financial institution established with the approval of the CBIRC, China Telecom Finance is subject to the direct routine supervision by the CBIRC Beijing Branch, and shall abide by all applicable regulatory provisions, including the restrictions on capital adequacy ratio, liquidity ratio and the ratio of borrowing balance and the amount of outstanding guarantees to total capital, as well as the ratio of short-term investment in securities and long-

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term investment to total capital. Meanwhile, China Telecom Finance is directly regulated by the People's Bank of China to pay deposit reserve in full and in a timely manner.

- (b) **Undertaking by China Telecom:** Pursuant to the regulatory requirements of the CBIRC, China Telecom undertakes to increase the capital of China Telecom Finance based on the actual needs of resolving payment difficulty upon the emergency of such difficulty, particularly including but not limited to, providing liquidity support to China Telecom Finance when China Telecom Finance has difficulty in making payment, and replenish the capital of China Telecom Finance in a timely manner upon the occurrence of capital erosion as a result of operating losses of China Telecom Finance.
- (c) **Establishment of a core business system with safe and stable operation:** China Telecom Finance is a subsidiary of China Telecom Corporation which is responsible for supervising the establishment of a core business system with safe and stable operation by China Telecom Finance. Currently, such system has passed the safety test for connecting online commercial banks, and has met the national safety standard for commercial banks, which assures fund safety by providing requisite facilities in respect of information technology and assuring functions and performance of the system.
- (d) **Adoption and optimization of information technology measures:** China Telecom Finance will adopt information technology measures to supervise the transactions conducted under the 2021 Financial Services Framework Agreement. China Telecom Finance will set alert values and notification rules in the core business system corresponding to the annual caps for the relevant transactions, and the core business system will collect the information on the relevant transaction scales timely, compare with the alert values automatically, and issue system notification and order to control the transaction behaviors according to the preset rules. Such system design will ensure that the actual transaction amount will not exceed the relevant annual caps under the 2021 Financial Services Framework Agreement.
- (e) **Regulated under China Telecom Corporation's management system for connected transactions:** China Telecom Finance is a subsidiary of China Telecom Corporation. On the basis of the existing well-established management system for connected transactions of China Telecom Corporation, China Telecom Corporation and China Telecom Finance have developed supplemental regulations covering relevant measures for risk control and risk management. The continuing connected transactions in relation to financial services among China Telecom Finance and each of the Group, China Telecom and China Telecom Corporation will be conducted under effective control and regulation via China Telecom Corporation's connected transaction management

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systems. China Telecom Corporation has existing internal control regulations covering fund management business, financing business and monetary fund management business, which could effectively regulate the relevant business activities on the commencement of financial services by leveraging on the extensive experience of financial management personnel of China Telecom Corporation in fund management sector for years.

- (f) **China Telecom Finance has set up a sound corporate governance structure:** Through shareholders' meeting, the board, the supervisory committee and the management as well as the special committees under the board and the management, China Telecom Finance would be able to ensure its stable operation and effective supervision. China Telecom Finance has developed an internal control system with dynamic update mechanism covering all business sectors. Through strengthening measures such as audit and review, China Telecom Finance would be able to ensure the effectiveness of its internal control and strict implementation of its rules and regulations. Moreover, it has also set up relatively sound risk management organizational structures.

(7) *Internal Control and Risks Management Measures of the Company*

- (a) **Effective connected transactions management system:** The Company has formulated and strictly implemented the *Administrative Measures of Connected Transactions of China Communications Services Corporation Limited*, the *Internal Control Guidance of China Communications Services Corporation Limited* and the *Administrative Measures of Connected Transactions on Financial Services of China Communications Services Corporation Limited* to make regular assessment on the effectiveness of the related internal control systems for connected transactions, thereby ensuring that the connected transactions are conducted on a regulated basis under fair and reasonable pricing principles and transaction methods and in the interests of the Company and the Shareholders as a whole, and that the continuing connected transactions under the 2021 Financial Services Framework Agreement will be conducted under effective control and regulation via the Company's connected transaction management systems.
- (b) **Day-to-day management by the Finance Department:** The Group determines reasonable annual caps for each of the financial service connected transactions with reference to the historical similar transaction data, strategic development plans and fund management objectives. The finance department of the Company (the "**Finance Department**") is responsible for the day-to-day management of financial service connected transactions, including:
- i. formulating administrative measures and fundamental procedures for financial service connected transactions;

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- ii. determining the caps in respect of the relevant transactions;
- iii. leading the preparation, adjustment and dissemination of the budget for financial service connected transactions;
- iv. organizing accounting, checking, analysis and report of financial service connected transactions; and
- v. supervising, reviewing and assessing the execution of financial service connected transactions.

The Finance Department will conduct transactions under the pricing principles and transaction methods under the 2021 Financial Services Framework Agreement, and procure all subsidiaries of the Company to timely check with China Telecom Finance the types and amounts of connected transactions on a monthly basis, to ensure the consistency in the types of connected transactions and transaction data. In addition, the Finance Department will set cap alert for the transactions. The cap alert will usually be set at 80% of the annual caps for the connected transactions, so as to effectively avoid the risk of exceeding the annual caps for connected transactions. The core business system of China Telecom Finance also facilitates and supports the Company to monitor relevant transaction information, thereby ensuring the transaction amounts will not exceed the relevant annual caps. The Finance Department will closely monitor the transaction status under the 2021 Financial Services Framework Agreement, review the monthly budgets of the subsidiaries of the Company under the 2021 Financial Services Framework Agreement, as well as check the implementation status of the cap alert on a daily basis.

- (c) **Comparison with the terms offered by the major cooperative commercial banks to the Group:** The Company will select three major cooperative state-owned commercial banks or national joint-stock commercial banks as comparable banks, for comparison with the deposit interest rates, loan interest rates and fees for other financial services offered by China Telecom Finance. For the same type of deposit, loan or other financial services under the same conditions, the Company may choose to make deposits, borrowing, or receive other financial services with China Telecom Finance only when the terms offered by China Telecom Finance are equivalent to or more favorable than those offered by the three comparable banks and no less favorable than those offered by China Telecom Finance to other member companies of China Telecom. In the event of any changes in the regulations on interest rates published by the People's Bank of China, the Finance Department will contact and discuss with China Telecom Finance to ensure that any corresponding adjustment to deposit interest rate or loan interest rate made by China Telecom Finance will be in line with the relevant new regulations on interest rates published by the People's Bank of China as well as the pricing policies set out in the 2021 Financial Services Framework Agreement.

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- (d) **Comparison with the terms offered to China Telecom and China Telecom Corporation:** The Finance Department will check on a monthly basis relevant rates and charges, and compare the interest rates for deposits, interest rates for loans and service fees charged in respect of the deposit services, loan services and other financial services by China Telecom Finance to the Group, China Telecom and China Telecom Corporation, to make sure that the transactions are conducted in accordance with the pricing policies under the 2021 Financial Services Framework Agreement.
- (e) **Board and management review on risk management and internal control:** The Finance Department reports to the audit committee of the Board on the execution of relevant connected transactions on a regular basis. The internal audit division of the Company incorporates connected transactions into the scope of annual internal evaluation, and reports to the management. The Board supervises the Company's risk management and internal control system (including the internal control system for connected transactions) on an ongoing basis, and carries out annual review on the Company's risk management and internal control system during the year via the audit committee, and will confirm that the Company's risk management and internal control system is stable, sound, effective and adequate after listening to the report by the internal audit division and obtaining the confirmation on the effectiveness of the system from the management to the Board.
- (f) **Annual review by the independent non-executive Directors:** The independent non-executive Directors of the Company will carry out annual review on the continuing connected transaction agreements and the transactions thereunder, and confirm that such transactions are (a) entered into in the ordinary course of business of the Group; (b) on normal commercial terms or better; and (c) according to the agreements governing such connected transactions on terms that are fair and reasonable and in the interests of the Shareholders as a whole.
- (g) **Annual review and confirmation by the auditor:** The auditor of the Company will review the continuing connected transactions of the Company annually and confirm to the Board that nothing has come to its attention that causes it to believe that such transactions (a) have not been approved by the Board; (b) were not, in all material respects, in accordance with the pricing policies provided in the agreements governing such transactions; (c) were not entered into, in all material respects, in accordance with the agreements governing such transactions; and (d) have exceeded the applicable respective annual caps.

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- (h) **Reflection of the Company's legitimate interests in China Telecom Finance through various means, such as the shareholders' meeting of China Telecom Finance:** The Company holds 15% equity interest in China Telecom Finance and it can propose director and supervisor of China Telecom Finance pursuant to the Company Law of the PRC and other relevant laws and regulations, so as to facilitate the effective governance of China Telecom Finance. The Company has recommended one director and one supervisor at the board of directors and the supervisory committee of China Telecom Finance, respectively, so China Telecom Finance would be able to better understand the business development and funding needs of the Group, enabling it to have a more comprehensive consideration of the Group's funding and operating needs and arrangement in its business operations.

(8) Board Opinion

The internal control and risk management measures of China Telecom Finance and the Company set out above are to minimize to the extent possible the risks relating to the use of financial services provided by China Telecom Finance that the Group may be exposed to and to safeguard the interests of the Company and the Shareholders as a whole. The Directors are of the view that the above measures are able to assist the Company in monitoring, in a reasonable and effective manner, the transactions under the 2021 Financial Services Framework Agreement in material aspects.

The Board has considered that, the risks relating to the use of financial services provided by China Telecom Finance mainly include: (i) the risks faced by the banking industry in general; and (ii) the risks resulting from the fact that China Telecom Finance is a group finance company controlled by China Telecom Corporation. After taking into account all the factors disclosed above, the Directors believe that the Company will not face higher risks than the risks faced by the banking industry in general in respect of the use of financial services provided by China Telecom Finance. As to the risks resulting from the fact that the China Telecom Finance is a financial institution controlled by China Telecom Corporation, the Directors believe that the risks can be minimized or avoided through the internal control and risk management measures disclosed above. After considering all the relevant factors, including the benefits on the use financial services provided by China Telecom Finance, the risks that possibly exist, and the risks management measures and internal control system of China Telecom Finance and the Company, the Directors are of the opinion that the use of such financial services is in the interests of the Company and the Shareholders as a whole.

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3. Listing Rules Implications

As at the Latest Practicable Date, China Telecom is a substantial shareholder of the Company holding approximately 51.39% of the issued share capital of the Company. Therefore, each of China Telecom and its associates is a connected person of the Company under Rule 14A.07 of the Listing Rules. Accordingly, the transactions under the 2018 Agreements and the 2021 Supplemental Agreements (together with the proposed New Annual Caps) constitute continuing connected transactions of the Company.

As at the Latest Practicable Date, China Telecom Finance is held as to 15% and 70% by China Telecom and China Telecom Corporation, a non-wholly owned subsidiary of China Telecom, and is thus an associate of China Telecom and a connected person of the Company under Rule 14A.07 of the Listing Rules. Accordingly, the transactions under the 2021 Financial Services Framework Agreement (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 2018 Agreements and 2019 Financial Services Framework Agreement and the proposed New Annual Caps for the aforementioned agreements, the 2021 Supplemental Agreements and the 2021 Financial Services Framework Agreement.

LETTER FROM THE BOARD

	Year ended 31 December						Year ending 31 December		
	2019		2020		2021		2022	2023	2024
	Existing Annual Cap	Actual Amounts ¹	Existing Annual Cap	Actual Amounts ¹	Existing Annual Cap	Actual Amounts (up to 30 June) ¹	New Annual Cap	New Annual Cap	New Annual Cap
Transactions	<i>(in RMB million)</i>								
Transactions with China Telecom Group									
Engineering services provided to China Telecom Group	26,000	16,386	33,000	17,668	35,000	6,896	24,000	26,000	28,000
Ancillary telecommunications services provided to China Telecom Group	20,000	14,758	24,000	14,888	27,000	7,996	23,000	26,000	28,000
Operation support services provided to/by China Telecom Group									
Revenue	3,800	3,568	4,000	3,422	4,200	1,489	5,000	5,500	6,000
Expenditure	1,600	736	2,000	878	2,400	372	1,000	1,100	1,200
IT application services provided to/by China Telecom Group									
Revenue	3,600	3,095	4,300	3,052	5,000	1,514	6,500	8,000	9,500
Expenditure	500	154	500	148	500	23	1,000	1,500	2,000
Centralized services provided to China Telecom Group	450	370	450	382	450	153	550	550	550
Property leasing provided to/by China Telecom Group									
Revenue	230	129	240	138	250	52	330	350	370
Expenditure									
Right-of-use Assets	N/A	226	N/A	250	N/A	496	650	650	650
Leasing Charges	270	203	300	158	330	57	350	350	350
Supplies procurement services provided to/by China Telecom Group									
Revenue	6,000	2,697	6,500	2,609	7,000	1,173	6,800	7,500	8,500
Expenditure	5,000	1,121	5,200	1,027	5,400	988	4,000	5,000	6,000
Transactions with China Telecom Finance									
Maximum daily balance of deposits under the deposit services provided by China Telecom Finance (including the interest accrued thereon)	7,500	2,148	8,000	4,003	8,500	4,003	8,500	8,500	8,500

Note 1: The actual amounts for the year ended 31 December 2019 and 2020 are from the Company's 2019 annual report and 2020 annual report, respectively and the actual amounts for the six months ended 30 June 2021 are from the Company's unaudited 2021 interim financial report. Most of the transactions under the 2018 Agreements are subject to seasonality as they are usually commenced in the first half of the year and completed with revenue recognized generally in the second half (especially in the fourth quarter) of the year.

As far as the Company is aware, none of the Existing Annual Caps has been exceeded as at the Latest Practicable Date. The Board is of the view that the proposed 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.

LETTER FROM THE BOARD

As all the applicable percentage ratios of the proposed New Annual Caps for the transactions under (i) the Centralized Services Agreement and its supplemental agreements, and (ii) the Property Leasing Framework Agreement and its supplemental agreements, exceed 0.1% but are less than 5%, the transactions under (i) the Centralized Services Agreement and its supplemental agreements, and (ii) the Property Leasing Framework Agreement and its supplemental agreements (together with the respective proposed New Annual Caps thereof) are subject to the reporting, announcement, annual review requirements but are exempt from the circular (including independent financial advice) and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios of the proposed New Annual Caps for the deposit services provided by China Telecom Finance to the Group under the 2021 Financial Services Framework Agreement exceed 25% but are less than 75%, the relevant deposit services constitute major transactions and are subject to the reporting, announcement, circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

As the loan and bill discounting services provided by China Telecom Finance to the Group under the 2021 Financial Services Framework Agreement are financial assistance provided to the Group on normal commercial terms or better, and will not be secured by the Group's assets, such loan and bill discounting services will be fully exempted from all reporting, announcement, annual review and Independent Shareholders' approval requirements pursuant to Rule 14A.90 of the Listing Rules.

As all the applicable percentage ratios of the proposed New Annual Caps for the transactions under the other financial services provided by China Telecom Finance to the Group under the 2021 Financial Services Framework Agreement are less than 0.1% and the terms are on normal commercial terms or better, such transactions will be fully exempted from all reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios of the proposed New Annual Caps for each of the Non-exempt Continuing Connected Transactions exceed 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 (including the independent non-executive Directors) is of the opinion that, the Centralized Services Agreement and the Property Leasing Framework Agreement and their supplemental agreements 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 and their supplemental agreements are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

The Board (including the independent non-executive Directors) is of the opinion that, the loan and bill discounting services as well as other financial services contemplated under the 2021 Financial Services Framework Agreement are 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 applicable to the loan and bill discounting services as well as other financial services are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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 and in the interests of the Company and the Shareholders as a whole.

The Company confirms that none of the Directors has any material interests in the continuing connected transactions under the 2018 Agreements, the 2021 Supplemental Agreements and the 2021 Financial Services Framework Agreement.

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 2018 Agreements, the 2021 Supplemental Agreements and the 2021 Financial Services Framework Agreement.

LETTER FROM THE BOARD

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.

4. General Information

Information of the Company

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

Information of 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 holds approximately 51.39% of the issued share capital of the Company.

Information of China Telecom Finance

China Telecom Finance, a non-banking financial institution legally established in the PRC on 8 January 2019 with the approval of the CBIRC, is a limited liability company approved by the relevant PRC government authorities (including but not limited to the CBIRC) to provide funds and financial management services to the member companies of China Telecom.

As at the Latest Practicable Date, China Telecom Finance is held as to 15%, 15% and 70% by the Company, China Telecom and China Telecom Corporation, respectively.

III. PROPOSED ADOPTION OF SHARE APPRECIATION RIGHTS INCENTIVE SCHEME AND PROPOSED INITIAL GRANT

We refer to the announcement dated 22 November 2021 in relation to the proposed adoption of Share Appreciation Rights Incentive Scheme and proposed Initial Grant.

1. Background

The Board has considered and approved the adoption of the Share Appreciation Rights Incentive Scheme and approved the Initial Grant. The Scheme and the Initial Grant have been submitted to SASAC for approval and the Shareholders' consideration and approval at the

LETTER FROM THE BOARD

EGM. The Scheme and the Initial Grant can only be implemented upon the approvals from SASAC and the Shareholders at the EGM. The terms of the Scheme and the Initial Grant may be amended by the Company at the request of SASAC and other regulatory authorities. In respect of the Directors attending the board meeting, Mr. Huang Xiaoqing and Ms. Zhang Xu, were considered to have material interests by virtue of being the Incentive Recipients and had thus abstained from voting on the relevant board resolution(s).

The Scheme would not involve the grant of share options in respect of new shares or other new securities to be issued by the Company (or any of its subsidiaries) and therefore, it does not fall within the ambit of, and is not subject to the requirements under Chapter 17 of the Listing Rules.

2. Main Contents of the Scheme

A summary of the major terms of the proposed Share Appreciation Rights Incentive Scheme is set out below.

Incentive Instruments:	The Share Appreciation Rights are used as the incentive instruments for the Scheme. Each Share Appreciation Right granted under the Scheme entitles the Incentive Recipients to obtain the gains from the appreciation (which is the excess of the closing price on the exercise date over the exercise price) of one H Share during the effective period of the Scheme, provided that conditions and arrangements for taking effect are met. The gains will be paid by the Company in cash.
Effective Conditions of the Scheme:	The Scheme shall take effect based on the fulfillment of the following conditions: (1) being granted approval by relevant regulatory authorities; and (2) being approved at the EGM.
Effective Date and Effective Period of the Scheme:	The effective date of the Scheme shall be the date on which all the above conditions are fulfilled. Unless early terminated according to relevant rules, the Scheme shall be valid for a period of ten years commencing from the effective date.

LETTER FROM THE BOARD

- Frequency of Grant: Unless otherwise arranged by the Board, the Board shall, at an interval of every two years in principle, decide on whether to grant the Share Appreciation Rights to qualified persons, and also on the specific arrangements for grant. The Board shall determine the number of Share Appreciation Rights to be granted to the Incentive Recipients with reference to his/her duty and performance appraisal.
- Incentive Recipients: The management of the Company, the operational management of provincial companies and professional companies of the Group, as well as professional talents, and core management, technical and business personnel, etc. who contributed prominently to the Company's operating results and sustainable development. The Incentive Recipients do not include independent non-executive Directors and supervisors of the Company. The scope of the Incentive Recipients shall be conclusively determined by the Board in accordance with the relevant requirements in the Scheme.
- Limit of the Share Appreciation Rights to be Granted:
- (1) The total number of the Share Appreciation Rights to be granted within the effective period of the Scheme shall not in aggregate exceed 10% of the total issued share capital of the Company, subject to the approval of the regulatory authorities;
 - (2) If the cumulative total number of the Share Appreciation Rights (including exercised and unexercised rights) granted to any single Incentive Recipients within the effective period reaches 1% of the total issued share capital of the Company, the Company will not further grant Share Appreciation Rights under the Scheme to such recipient pursuant to the Scheme.

LETTER FROM THE BOARD

Effective Period Arrangement
for the Share Appreciation
Rights:

All the Share Appreciation Rights granted to the Incentive Recipients under the Scheme shall not be effective within two years (24 months) from the date of grant, nor shall be exercised prior to becoming effective. In principle, the Share Appreciation Rights shall become effective in the following manner:

- (1) by the end of the second anniversary (24 months) from the date of grant, 33% of the Share Appreciation Rights granted to each Incentive Recipient under such grant shall become effective (the “**Taking effect of First Batch**”);
- (2) by the end of the third anniversary (36 months) from the date of grant, another 33% of the Share Appreciation Rights granted to each Incentive Recipient under such grant shall become effective (the “**Taking effect of Second Batch**”);
- (3) by the end of the fourth anniversary (48 months) from the date of grant, the remaining 34% of the Share Appreciation Rights granted to each Incentive Recipient under such grant shall become effective (the “**Taking effect of Third Batch**”).

Only the Share Appreciation Rights which have become effective can be exercised. The portion which has not become effective shall not be exercised.

Grant Conditions for the Share
Appreciation Rights:

None of the following circumstances has occurred to the Company:

- (1) issuance of an audit report containing an adverse opinion or a disclaimer of opinion by a certified public accountant in the financial and accounting report for the most recent accounting year;
- (2) prohibition from implementation of equity-based incentives by laws and regulations;

LETTER FROM THE BOARD

- (3) other circumstances under which SASAC, securities regulatory authorities and the Company's general meeting would consider the Share Appreciation Rights Incentive Scheme could not be implemented.

None of the following circumstances has occurred to the Incentive Recipients:

- (1) having been publicly reprimanded or declared as unqualified Incentive Recipients by the Stock Exchange in the last three years;
- (2) being imposed of any administrative penalty by regulatory authorities due to material non-compliance with laws and regulations in the last three years;
- (3) serious misconduct or malpractice;
- (4) violation of state laws and regulations and the Articles of Association;
- (5) any act that breaches the laws and regulations, including accepting or soliciting bribes, corruption and theft, leaking the Company's commercial and technical secrets, prejudicing the Company's interests, causing significant impact on the Company's reputation and image, etc., during their tenure of office;
- (6) any other serious breach of the Company's provisions as determined by the Board.

LETTER FROM THE BOARD

Effective Conditions for the
Share Appreciation Rights:

- (1) When the Share Appreciation Rights under the Scheme become effective by batch, performance-based conditions (including the requirements of the performance indicators of the Company and performance appraisal for the Incentive Recipients) shall be set for each batch of the effective Share Appreciation Rights. Specific conditions shall be made by the Board and approved at the Company's general meeting. The Share Appreciation Rights can be exercised only when all performance-based conditions meet the target value set for the period.
- (2) The Company and the Incentive Recipients satisfy the above grant conditions for the Share Appreciation Rights.

Exercise Price:

The exercise price of the Share Appreciation Rights shall be determined with reference to the fair market price. The exercise price shall be the highest of the following:

- (1) the closing price of the H Shares as stated in the Stock Exchange's daily quotation sheet as at the date of grant of the Share Appreciation Rights;
- (2) the average closing price of the H Shares as stated in the Stock Exchange's daily quotation sheets for five consecutive trading days prior to the date of grant of the Share Appreciation Rights;
- (3) the nominal value of the H Shares.

LETTER FROM THE BOARD

Grant Procedures: The remuneration committee of the Board is responsible for the formulation of the grant proposal under the Scheme. The Board will consider and approve each grant proposal and determine the date of grant. The Incentive Recipients will sign the Grant Agreement of the Share Appreciation Rights with the Company. The Incentive Recipients who do not sign such agreements shall be deemed to have waived the grant.

Exercise Procedures:

- (1) During the effective period, upon the satisfaction of the exercise conditions, the Company will centrally process the exercise of Share Appreciation Rights that satisfy the exercise conditions upon the confirmation from the Board.
- (2) If the exercise conditions have not been satisfied during any financial year within the effective period, such portion of the Share Appreciation Rights shall be revoked.

3. Proposed Initial Grant

A summary of the major terms of the Initial Grant is set out below. The Company will make further announcement upon the official grant of Share Appreciation Rights.

Total Number of Granted Personnel and Share Appreciation Rights	Upon fulfilment of the conditions of the Initial Grant, approximately 207.27 million shares of Share Appreciation Rights in aggregate are proposed to be granted to an anticipated total of 981 Incentive Recipients. The corresponding number of H Shares represents approximately 2.993% of the total issued share capital of the Company as at the date of this announcement. Among that, no more than 4.16 million shares of Share Appreciation Rights are proposed to be reserved, representing approximately 2% of the total number of Share Appreciation Rights under the Initial Grant. Such reserved Share Appreciation Rights are proposed to be granted to other core talent and will be determined and granted within 12 months.
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LETTER FROM THE BOARD

Performance-based

Conditions of the
Company under

Effective Conditions for
the Share Appreciation
Rights

Performance Indicator	Taking effect of First Batch under Initial Grant	Taking effect of Second Batch under Initial Grant	Taking effect of Third Batch under Initial Grant
Average Return on Equity Attributable to the Owners of the Company (ROE)	The ROE of the Company for 2022 shall not be lower than 8.25% and 75-percentile of that of peer benchmark companies for 2022.	The ROE of the Company for 2023 shall not be lower than 8.40% and 75-percentile of that of peer benchmark companies for 2023.	The ROE of the Company for 2024 shall not be lower than 8.65% and 75-percentile of that of peer benchmark companies for 2024.
Growth Rate of the Service Revenue	As compared with 2020, the growth rate of the service revenue of the Company for 2022 shall not be lower than 15.0% and 75-percentile of that of peer benchmark companies for 2022; and the annual growth rate shall be positive.	As compared with 2020, the growth rate of the service revenue of the Company for 2023 shall not be lower than 25.4% and 75-percentile of that of peer benchmark companies for 2023; and the annual growth rate shall be positive.	As compared with 2020, the growth rate of the service revenue of the Company for 2024 shall not be lower than 37.9% and 75-percentile of that of peer benchmark companies for 2024; and the annual growth rate shall be positive.
Total Assets Turnover Ratio (time)	The total assets turnover ratio (time) of the Company for 2022 shall not be lower than 1.15 and 75-percentile of that of peer benchmark companies for 2022.	The total assets turnover ratio (time) of the Company for 2023 shall not be lower than 1.15 and 75-percentile of that of peer benchmark companies for 2023.	The total assets turnover ratio (time) of the Company for 2024 shall not be lower than 1.15 and 75-percentile of that of peer benchmark companies for 2024.

LETTER FROM THE BOARD

4. Reasons for the Adoption of the Scheme

The Board is of the opinion that the Scheme can further improve the corporate governance structure of the Company, refine the establishment of the mid- to long-term incentive mechanism of the Company, optimize the remuneration system of the Company as a whole, and cope with the fierce industry competition and support the Company's long-term development. In addition, the Scheme is beneficial for the Company to attract, retain and motivate outstanding management and core technical personnel, promote the concept of joint sustainable development between the Company and employees, fully motivate the core management and key personnel of the Company, and support the realization of the corporate strategy. The Board and the remuneration committee of the Board consider that the proposed terms and conditions of the Scheme and Initial Grant are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

5. General Information

According to the Scheme, each of the Share Appreciation Rights is relevant to one H Share and will be settled by cash. Therefore, it will not affect the total number of issued H Shares of the Company, neither will have diluted influence on the Company's shares.

The Scheme would not involve the grant of share options in respect of new shares or other new securities to be issued by the Company (or any of its subsidiaries) and therefore, it does not fall within the ambit of, and is not subject to the requirements under Chapter 17 of the Listing Rules.

The Incentive Recipients do not own any shares, nor do they have voting rights or placing rights as the Shareholders. The Incentive Recipients shall not deal with the Share Appreciation Rights granted without permissions (including but not limited to transfer, disposal, exchange, pledge, guarantee and repaying debts).

Authorization to the Board to Deal with Matters relating to the Scheme

In order to complete the matters relating to the Share Appreciation Rights Incentive Scheme, the Board recommends that Shareholders authorize the Board to deal with matters relating to the Scheme as follows:

1. to amend the terms of the Scheme in accordance with the SASAC's comments (if any);
2. to determine dates of grant and exercise prices according to the grant proposals under the Scheme;
3. to grant Share Appreciation Rights to Incentive Recipients upon the satisfaction of the conditions of grant, and to deal with all matters such as the effective arrangements and exercise of the Share Appreciation Rights in accordance with the effective arrangements and performance conditions;

LETTER FROM THE BOARD

4. to consider other various proposals for the grant in line with the Scheme, including but not limited to determining the scope of grant, number of grants, date of grant, effective arrangements and effective performance conditions; and
5. to implement other matters necessary for the Scheme, including but not limited to the modification of the administrative measures of the Scheme, other than the rights which are explicitly required by the relevant laws, regulations and regulatory documents to be exercised at the shareholders' general meeting.

Further details of the Scheme and its administrative measures are set out in Appendix II and Appendix III, respectively.

IV. 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 carried out in the ordinary and usual course of business of the Group and 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 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 in respect of the Non-exempt Continuing Connected Transactions 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 carried out in the ordinary and usual course of business of the Group and 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 (including Independent Shareholders) as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favor of each 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 63 to 64 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).

LETTER FROM THE BOARD

The Board and the remuneration committee of the Board consider that the proposed terms and conditions of the Scheme and Initial Grant are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Board considers that each of the above resolutions is 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.

V. EXTRAORDINARY GENERAL MEETING

A notice convening the EGM to be held at 10:00 a.m. on Wednesday, 22 December 2021, at Block No.1, Compound No.1, Fenghuangzui Street, Fengtai District, Beijing, the PRC, is set out on pages 164 to 166 of this circular.

A form of proxy for use at the EGM is enclosed with this circular. Whether or not Shareholders are able to attend the EGM, they are requested to complete and return the enclosed form of proxy to (i) for domestic share Shareholders, the Office of the Board of the Company, at Block No.1, Compound No.1, Fenghuangzui Street, Fengtai District, Beijing, the PRC; and (ii) for H share Shareholders, 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 by no later than 24 hours before the time designated for holding the EGM (i.e. on 21 December 2021, 10:00 a.m.). Completion and return of the form of proxy will not preclude Shareholders from attending and voting in person at the EGM should they so wish.

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). No Shareholder is required to abstain from voting in respect of the relevant resolution to approve the proposed adoption of Share Appreciation Rights Incentive Scheme and proposed Initial Grant. Any voting by the Shareholders at the EGM will be taken by poll.

VI. OTHER INFORMATION OF THE NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

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

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



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)

1 December 2021

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 1 December 2021 (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 22 October 2021, the Board announced that the Company has entered into (i) the 2021 Supplemental Agreements with China Telecom based on the 2018 Agreements to renew each of the 2018 Agreements for a term of three years from 1 January 2022 to 31 December 2024; and (ii) the 2021 Financial Services Framework Agreement with China Telecom Finance, pursuant to which China Telecom Finance has agreed to provide financial services to the Group for a term of three years from 1 January 2022 to 31 December 2024. Further details are contained in the letter from the Board set out on pages 6 to 62 of the Circular.

The Independent Board Committee has been 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 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)

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

as described in the Circular. The text of the letter 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 65 to 130 of the Circular.

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

As your Independent Board Committee, we have discussed with the management of the Company the reasons for the Non-exempt Continuing Connected Transactions and the basis for the New Annual Caps. We have also considered the key factors taken into account by the Independent Financial Adviser in arriving at its opinion regarding the 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 have been carried out in the ordinary and usual course of business of the Group and 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 (including 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 in respect of the Non-exempt Continuing Connected Transactions set out in the notice of the EGM at the end of the Circular.

Yours faithfully,
For and on behalf of
Independent Board Committee

**Siu Wai Keung,
Francis**

Lv Tingjie

Wu Taishi

Liu Linfei

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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.



1 December 2021

*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 in relation to (a) the 2021 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 (b) the deposit services provided by China Telecom Finance to the Group under the 2021 Financial Services Framework Agreement, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular dated 1 December 2021 (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 was a substantial shareholder of the Company holding approximately 51.39% of the total issued share capital of the Company. Therefore, each of China Telecom and its associates is a connected person of the Company under Rule 14A.07 of the Listing Rules. Accordingly, the transactions under the 2018 Agreements and the 2021 Supplemental Agreements (together with the proposed New Annual Caps) constitute continuing connected transactions of the Company. As one or more of the applicable percentage ratios of the proposed New Annual Caps for each of the Non-exempt Continuing Connected Transactions exceed 5%, the Non-exempt Continuing Connected Transactions (together with the

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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 at the Latest Practicable Date, China Telecom Finance was held as to 15% and 70% by China Telecom and China Telecom Corporation, a non-wholly owned subsidiary of China Telecom, and is thus an associate of China Telecom and a connected person of the Company under Rule 14A.07 of the Listing Rules. Accordingly, the transactions under the 2021 Financial Services Framework Agreement (together with the proposed New Annual Caps) constitute continuing connected transactions of the Company. As one or more of the applicable percentage ratios of the proposed New Annual Caps for the deposit services provided by China Telecom Finance to the Group under the 2021 Financial Services Framework Agreement exceed 25% but are less than 75%, the relevant deposit services constitute major transactions and are subject to the reporting, announcement, circular and Shareholders' approval requirements under Chapter 14 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 by the Independent Shareholders at the EGM will be taken by poll. The Company confirms that none of the Directors has any material interests in the continuing connected transactions under the 2018 Agreements, the 2021 Supplemental Agreements and the 2021 Financial Services Framework Agreement.

INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising all of the independent non-executive Directors (namely, 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 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 have been carried out 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.

As at the Latest Practicable Date, we were not connected with the Directors, chief executive and substantial shareholders of the Company or any of its subsidiaries or their respective associates and are therefore considered suitable to give independent advice to the Independent Board Committee and the Independent Shareholders. During the last two years, we were not engaged as an independent financial adviser to the Company. Apart from normal professional fees payable to us by the Company in connection with the current appointment, no arrangement exists whereby we have received or will receive any fees or benefits from the Company or the Directors, chief

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executive and substantial shareholders of the Company or any of its subsidiaries or their respective associates or any other parties that could reasonably be regarded as relevant to our independence. Accordingly, we consider that we are independent pursuant to Rule 13.84 of the Listing Rules.

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 reviewed documents including, among other things, (i) the Engineering Framework Agreement and its supplemental agreements; (ii) the Ancillary Telecommunications Services Framework Agreement and its supplemental agreements; (iii) the Operation Support Services Framework Agreement and its supplemental agreements; (iv) the IT Application Services Framework Agreement and its supplemental agreements; (v) the Supplies Procurement Services Framework Agreement and its supplemental agreements; (vi) the 2019 Financial Services Framework Agreement; (vii) the 2021 Financial Services Framework Agreement; (viii) the annual reports of the Company for the years ended 31 December 2018, 2019 and 2020 and the interim report of the Company for the six months ended 30 June 2021; (ix) the annual reports of China Telecom Corporation for the years ended 31 December 2018, 2019 and 2020 and the interim report of China Telecom Corporation for the six months ended 30 June 2021; (x) the prospectus of the A-share listing of China Telecom Corporation (the “**A-share Prospectus**”) dated 6 August 2021; and (xi) the Circular and the information as set out in 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 opinion.

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

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conducted any independent in-depth investigation into the business, affairs, financial position or prospects of the Group nor have we 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 of 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 smart solutions for the informatization and digitalization sectors, including telecommunications infrastructure services, business process outsourcing services and applications, content and other services.

Set out below is certain audited financial information of the Group for the three years ended 31 December 2018, 2019 and 2020 as extracted from the 2018, 2019 and 2020 annual reports of the Company and certain unaudited financial information of the Group for the six months ended 30 June 2021 as extracted from the 2021 interim report of the Company (the “2021 Interim Report”):

	For the year ended/As at 31 December			For the six months ended/ As at 30 June
	2018 <i>(RMB million)</i> (audited)	2019 <i>(RMB million)</i> (audited)	2020 <i>(RMB million)</i> (audited)	2021 <i>(RMB million)</i> (unaudited)
Total revenue	106,177	117,413	122,649	64,099
— Revenue from China	41,279	40,633	41,777	19,121
Telecom Group	(38.9%)	(34.6%)	(34.1%)	(29.8%)
— Revenue from domestic non-telecom operator customers and domestic telecommunications operator customers other than China	61,743	73,514	77,777	43,601
Telecom Group	(58.1%)	(62.6%)	(63.4%)	(68.0%)
— Revenue from overseas customers	3,155	3,266	3,095	1,377
	(3.0%)	(2.8%)	(2.5%)	(2.2%)

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	<u>For the year ended/As at 31 December</u>			For the six months ended/ As at 30 June
	2018 <i>(RMB million)</i> (audited)	2019 <i>(RMB million)</i> (audited)	2020 <i>(RMB million)</i> (audited)	2021 <i>(RMB million)</i> (unaudited)
Profit for the year or period	2,928	3,030	3,089	1,822
Interest income	182	245	290	164
Interest income/Profit for the year or period	6.2%	8.1%	9.4%	9.0%
Cash and cash equivalent	16,106	19,221	21,008	17,842
Total assets	80,926	87,541	94,489	99,430
Cash and cash equivalent/ Total assets	19.9%	22.0%	22.2%	17.9%

The total revenue of the Group increased from approximately RMB106.2 billion for the year ended 31 December 2018 to approximately RMB122.6 billion for the year ended 31 December 2020. With the Company's continuing efforts, the proportion of revenue from China Telecom Group 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 Group continued to increase. For the three years ended 31 December 2018, 2019 and 2020 and the six months ended 30 June 2021, the proportion of the Company's revenue from China Telecom Group was approximately 38.9%, 34.6%, 34.1% and 29.8%, respectively. Profit for the year of the Group increased from approximately RMB2.9 billion for the year ended 31 December 2018 to approximately RMB3.1 billion for the year ended 31 December 2020. Interest income also increased from approximately RMB182 million for the year ended 31 December 2018 to approximately RMB290 million for the year ended 31 December 2020. The proportion of the interest income as compared to the profit for the year increased from approximately 6.2% for the year ended 31 December 2018 to approximately 9.4% for the year ended 31 December 2020.

The cash and cash equivalent of the Group increased from approximately RMB16.1 billion as at 31 December 2018 to approximately RMB21.0 billion as at 31 December 2020 before decreasing to approximately RMB17.8 billion as at 30 June 2021. The total assets of the Group increased from approximately RMB80.9 billion as at 31 December 2018 to approximately RMB94.5 billion as at 31 December 2020 and approximately RMB99.4 billion as at 30 June 2021. The proportion of cash and cash equivalent as compared to the total assets of the Group continued to increase in recent years from approximately 19.9% as at 31 December 2018 to approximately 22.2% as at 31 December 2020 before decreasing to approximately 17.9% as at 30 June 2021.

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Information of 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.

Information of China Telecom Finance

As stated in the Letter from the Board, China Telecom Finance, a non-banking financial institution legally established in the PRC on 8 January 2019 with the approval of the CBIRC, is a limited liability company approved by the relevant PRC government authorities (including but not limited to the CBIRC) to provide funds and financial management services to the member companies of China Telecom. As at the Latest Practicable Date, China Telecom Finance was held as to 15%, 15% and 70% by the Company, China Telecom and China Telecom Corporation, respectively.

Background of the Non-exempt Continuing Connected Transactions

Continuing Connected Transactions with China Telecom

The 2015 Agreements were entered into between the Company and China Telecom on 29 September 2015 and were then amended and renewed by way of the 2018 Supplemental Agreements. The 2018 Supplemental Agreements also adjusted the terms related to tender process of the Engineering Framework Agreement pursuant to the applicable PRC regulations. The Existing Annual Caps (to the extent they were subject to Independent Shareholders' approval under Chapter 14A of the Listing Rules) for the transactions under the 2018 Agreements were approved by the Independent Shareholders at the extraordinary general meeting of the Company convened on 13 December 2018.

As each of the 2018 Agreements will expire on 31 December 2021, the Company entered into the 2021 Supplemental Agreements with China Telecom on 22 October 2021 to, among other things, extend the term for three years from 1 January 2022 to 31 December 2024 and change contact information of the parties. Other key terms of each of the 2018 Agreements remain unchanged.

According to internal estimates and historical transaction amounts, the Directors also proposed the New Annual Caps for the transactions under the 2015 Agreements and their supplemental agreements.

Continuing Connected Transactions with China Telecom Finance

On 1 February 2019, the Company and China Telecom Finance entered into the 2019 Financial Services Framework Agreement, pursuant to which China Telecom Finance agreed to provide financial services to the Group, including (i) deposit services, (ii) loan services and

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(iii) other financial services. The Existing Annual Caps (to the extent they were subject to Independent Shareholders' approval under Chapter 14A of the Listing Rules) for the 2019 Financial Services Framework Agreement were approved by the Independent Shareholders at the extraordinary general meeting of the Company convened on 18 April 2019.

As the 2019 Financial Services Framework Agreement will expire on 31 December 2021, the Company entered into the 2021 Financial Services Framework Agreement with China Telecom Finance on 22 October 2021 to extend the term of the 2019 Financial Services Framework Agreement for three years from 1 January 2022 to 31 December 2024. Based on internal estimates and historical transaction amounts, the Directors also propose the New Annual Caps for the 2021 Financial Services Framework Agreement.

Reasons for and benefits of Non-exempt Continuing Connected Transactions

Continuing Connected Transactions with China Telecom

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 2021 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. The Board considers that all the continuing connected transactions have been entered into 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.

Continuing Connected Transactions with China Telecom Finance

As stated in the Letter from the Board, the reasons for and benefits of entering the 2021 Financial Services Framework Agreement are as follows:

- (a) **Realizing more comprehensive and centralized fund management to improve fund management efficiency of the Group:** The Group opened a settlement account at China Telecom Finance acting in its capacity as a platform for internal settlement, fund-raising and financing, and fund management between the Group and the member companies of China Telecom. The provision of deposit, loan, bill

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discounting and other financial services by China Telecom Finance to the Group will facilitate the settlement between the Group and China Telecom and other member companies (some of which are the Group's customers) to reduce the time required for remittance and receipt of funds. With the assistance of the account management system and the capability as a deposit financial institution of China Telecom Finance, the Group can strengthen centralized management of its subsidiaries' funds previously deposited with different commercial banks.

- (b) **Bolstering the Group to reduce costs and enhance operating efficiency:** China Telecom Finance will offer customized proposals for centralized deposit and management of funds in line with the management needs of the Group, enabling the Group to satisfy its flexible needs of funds through timely withdrawals. China Telecom Finance will help speed up the fund turnover of the Group, achieving a more efficient fund clearing and settlement with less bank charges. China Telecom Finance will enhance internal settlement efficiency and reduce fund costs of the Group.
- (c) **China Telecom Finance fully understands and is familiar with the Group's business needs:** As China Telecom Finance only provides financial services to China Telecom and its member companies, it has more direct and deep knowledge of the industries including telecommunication operation and communication services. China Telecom Finance is familiar with the capital structure, business operations, funding needs and cash flow pattern of the Group, and therefore can better foresee the funding needs of the Group. As such, China Telecom Finance is able to offer flexible, convenient, customized and cost-effective services to the Group. China Telecom Finance, as an internal professional financial institution serving member companies of China Telecom, exposes to lower client risks as compared to external institutions that serve many different clients in the market.
- (d) **The Group will use the services from China Telecom Finance on a voluntary and non-exclusive basis:** The 2021 Financial Services Framework Agreement is non-exclusive with no restrictions on the Group's options to appoint any other commercial banks or financial institutions to meet its needs for financial services, and China Telecom Finance is only one of the several financial institutions which offer financial services to the Group. Only when the rates or fees or the other relevant transaction terms offered by China Telecom Finance are equivalent to or more favorable than those offered by the major cooperative commercial banks of the Group, the Group may enter into transactions with China Telecom Finance at its discretion. Under the circumstances which the Group considers appropriate, the Group may engage additional or other financial institutions other than China Telecom Finance to provide financial services.

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- (e) **The Group's independence will not be influenced by the use of services from China Telecom Finance:** The Group may re-allocate its funds to other banks based on its business needs, and decide at its absolute discretion to make deposits with China Telecom Finance or other commercial banks. As such, entering into the 2021 Financial Services Framework Agreement will enable the Group to have access to one more financial service provider, and encourage other financial service providers to offer more competitive terms to the Group. The Group's independence will not be influenced by, nor its overall interests will be prejudiced by, the use of services from China Telecom Finance.
- (f) **The favorable commercial terms provided by China Telecom Finance will be beneficial to the increase in the Group's return on funds:** As a professional platform for centralized fund management, China Telecom Finance is generally able to provide the Group with the same or more favorable terms, such as interest rates and charges, than those offered by the major cooperative commercial banks of the Group. In general, the deposit interest rates offered by China Telecom Finance to the Group will not be lower than those offered by the major cooperative commercial banks of the Group for the deposits in the same period and of the same type, and the loan interest rates will not be higher than those offered by the major cooperative commercial banks of the Group for the loans in the same period and of the same type. The fees charged by China Telecom Finance in respect of the other financial services provided to the Group will be equivalent to or more favorable than those charged by the major cooperative commercial banks of the Group in respect of similar services. In addition, the Company holds 15% equity interest in China Telecom Finance, and is therefore entitled to the relevant returns such as dividends from China Telecom Finance.
- (g) **China Telecom Finance has adopted internal control and risk management measures:** China Telecom Finance is regulated by the People's Bank of China and the CBIRC, and shall provide services in accordance with and in compliance with the rules and operational requirements of such regulatory authorities. China Telecom Finance has adopted internal control and risk management measures to mitigate fund risks and guarantee fund safety, thereby protecting the overall interests of the Group.

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 and China Telecom Finance, 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 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.

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Details of the Non-exempt Continuing Connected Transactions contemplated under the 2018 Agreements, the 2021 Supplemental Agreements and the 2021 Financial Services Framework Agreement are set out below:

1. *Engineering Framework Agreement and its supplemental agreements*

(a) *Subject matter and terms of the Engineering Framework Agreement and its supplemental agreements*

Pursuant to the Engineering Framework Agreement, the Company agreed to provide certain engineering 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.

(b) *Pricing policies of the Engineering Framework Agreement and its supplemental agreements*

The charges for engineering 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 thresholds which the project must be determined through tender process under the Engineering Framework Agreement include: 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 other related laws and regulations. In determining the market price, the business and financial department of the relevant subsidiary of the Company shall collect the relevant market information (including but not limited to the change in price for the same or similar type of services), review and compare the costs and profits of transactions conducted in the most recent year of the same or similar type entered into with China Telecom Group or independent third parties, and prepare fee quotes for review by the marketing department of the relevant subsidiary of the Company. 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 at least three comparable transactions of the same or similar type of services provided to China Telecom Group by other service providers in the market; (iii) prices of at least three comparable transactions of the same or similar type of services provided to China Telecom Group and independent third parties previously by the Company.

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The Company will be given priority by China Telecom Group in the provision of the engineering 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 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. 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 during the last three years, we have reviewed ten sample contracts (the "**Engineering Sample Contracts**"), on a non-exhaustive and random basis, 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 services by the Group. We noted 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.

Accordingly, we 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

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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.

We have also reviewed (i) the *Administrative Measures 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 letters issued by the auditors of the Company (the “**Auditors**”), to the Board and noted 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 years ended 31 December 2018, 2019 and 2020 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 agreements is on normal commercial terms or better and is fair and reasonable so far as the Independent Shareholders are concerned.

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(c) *Historical transaction 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 ended 31 December		
	2019		2020		2021		2022	2023	2024
	Actual amounts								
Engineering Framework Agreement	Existing Annual Cap	Actual amounts	Existing Annual Cap	Actual amounts	Existing Annual Cap	Actual amounts (up to 30 June 2021)	New Annual Cap	New Annual Cap	New Annual Cap
Revenue	26,000	16,386	33,000	17,668	35,000	6,896	24,000	26,000	28,000
% of utilization		63.0%		53.5%		19.7%			
% of increase/(decrease)			26.9%		6.1%		(31.4)%	8.3%	7.7%

As calculated from the table above, we noted 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 2020 were approximately RMB16,386 million and RMB17,668 million, respectively, representing a utilization rate of approximately 63.0% and 53.5%, respectively. Based on the 2021 Interim Report of the Company, 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 2021 was approximately RMB6,896 million, representing a utilization rate of approximately 19.7%.

We also noted that there would be an approximately 31.4% decrease in the 2022 New Annual Cap as compared to the 2021 Existing Annual Cap and approximately 8.3% increase in the 2023 New Annual Cap as compared to the 2022 New Annual Cap and approximately 7.7% increase in the 2024 New Annual Cap as compared to the 2023 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 2019 and 2020 and the estimated annual transaction amount for 2021 under the Engineering Framework Agreement; (2) that the demand for engineering services are subject to seasonal fluctuations to a certain extent. According to the financial reports of China Telecom Corporation, from 2018 to 2020, its capital expenditures mainly incurred in the second half of such years; according to the 2021 interim report of China Telecom Corporation, while maintaining its full year budget of capital expenditure unchanged, its capital expenditure in the first half of 2021 only accounted for approximately 31% of its annual plan. Accordingly, the Company's

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revenue from engineering services was recognized mainly in the second half of the years. For the Company's revenue from China Telecom Group's telecommunications infrastructure services in the past three years, the proportion of such revenue in the second half of the year accounted for approximately 53% to 62% of such revenue of the full year; (3) that China Telecom Group proposes the "Cloudification and Digital Transformation" strategy to further promote internal and external digital transformation. According to the A-share Prospectus of China Telecom Corporation dated 6 August 2021, its proceeds will be used in expanding its 5G industrial Internet construction and new information infrastructure of cloud-network integration. It is expected that China Telecom Group will maintain the scale of its capital expenditure, which is subject to evolving technologies and technology-driven market conditions, and that the transactions under the Engineering Framework Agreement with the Group may increase for the coming three years; (4) due to the relatively low utilization rates of the Existing Annual Caps with respect to the engineering services for the years ended 31 December 2019 and 2020, being approximately 63% and 54%, respectively, the New Annual Cap for the year ending 31 December 2022 was adjusted downward to RMB24,000 million from the Existing Annual Cap of RMB35,000 million for the year ending 31 December 2021, with a year-on-year increase of approximately 8.3% and 7.7% for each of the two years ending 31 December 2024. In determining the New Annual Caps, the Company considered (i) the expected increasing demand from China Telecom for engineering services in the coming three years; (ii) the expected development of emerging businesses of China Telecom such as 5G network, Industrial IoT and new information infrastructure constructions; and (iii) a degree of buffer is built in, which allows the Group to be flexible in case of unforeseen events in the future and caters for the possible inflation in the coming three years; and (5) 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 agreements, 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 2020 in respect of the Non-exempt Continuing Connected Transactions (the "**Historical Transaction Breakdown**") and noted that actual transaction amounts under the Engineering Framework Agreement for each of the second half of 2019 and 2020 represented approximately 55.8% and 61.5% of the corresponding total actual annual transaction amount, respectively. Thus, the estimated transaction amount for the second half of 2021 is

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expected to be higher than the actual transaction amount for the first half of 2021 under the Engineering Framework Agreement due to the seasonality as mentioned above.

We have also discussed with the Management and reviewed (i) the annual report for the year ended 31 December 2020 of China Telecom Corporation, together with its subsidiaries, collectively “**China Telecom Corporation Group**”; (ii) the interim report for the six months ended 30 June 2021 of China Telecom Corporation Group; (iii) the annual report of the Company for the year ended 31 December 2020; (iv) the interim report of the Company for the six months ended 30 June 2021; and (v) the A-share Prospectus of China Telecom Corporation dated 6 August 2021 in relation to the use of proceeds of capital expenditure as one of the considerations taken into account by us. 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 services in the near future.

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) we noted that the historical utilization rates of the 2019, 2020 and 2021 Existing Annual Caps was approximately 63.0%, 53.5% and 19.7% respectively. As discussed with the Management, the above Existing Annual Caps had not been fully utilized mainly due to the lower than expected increase in the transaction amounts during 2019 to 2021 under the Engineering Framework Agreement and a degree of buffer was built in the Existing Annual Caps to allow the Group’s flexibility to respond to any unforeseen events. Accordingly, we concur with the Management that it is reasonable for the Company to set the 2022 New Annual Cap at a level lower than the 2021 Existing Annual Cap;
- (ii) we noted from the government news in relation to “The Fourteenth Five-Year Plan for the national economic and social development of the PRC and the outline of the long term goals for 2035” published on the website of the PRC Government on 13 March 2021 (http://www.gov.cn/xinwen/2021-03/13/content_5592681.htm) (“**The Fourteenth Five-Year Plan**”) which mentioned that the PRC Government aims to accelerate the large scale development of 5G networks, increase the user penetration rate to 56%, promote the upgrade of gigabit optical fibre network, forward-looking layout of 6G network technology reserves, expand backbone network interconnection nodes, establish new batch of international communication entrances and exits and to promote the

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commercial deployment of internet protocol version 6 (IPv6). We noted that China Telecom Corporation was the first to achieve large-scale commercial use of 5G standalone networks and the coming two to three years will be an important stage for China Telecom Corporation Group on 5G digital transformation and upgrade as well as carry out new development principles and build new development models; and

- (iii) according to the A-share Prospectus, China Telecom Corporation Group proposes the “Cloudification and Digital Transformation” strategy to further promote internal and external digital transformation and to expand its 5G and cloud integrated information services. As stated in the use of proceeds section of the A-share Prospectus, China Telecom Corporation Group is planning to invest approximately RMB21.4 billion in expanding its 5G infrastructure and approximately RMB50.7 billion in expanding its cloud infrastructure. China Telecom Corporation Group will therefore be required to maintain necessary capital expenditure. 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, the Group will capture the opportunities brought by the increase in capital expenditure by telecommunication operators, and fully support the 5G network and cloud infrastructure construction. Accordingly, it is expected that China Telecom Group will upgrade its 5G network and cloud infrastructure and networks and both the capital expenditure of China Telecom Group and the transactions under the Engineering Framework Agreement may increase for the two years ending 31 December 2024.

Based on the above, we are of the view that the New Annual Caps under the Engineering Framework Agreement and its supplemental agreements 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 its supplemental agreements*

- (a) *Subject matter and terms of the Ancillary Telecommunications Services Framework Agreement and its supplemental agreements*

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

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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.

(b) *Pricing policies of the Ancillary Telecommunications Services Framework Agreement and its supplemental Agreement*

Pursuant to the Ancillary Telecommunications Services Framework Agreement, the pricing policies 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 at least three comparable transactions of the same or similar type of services provided to China Telecom Group by other service providers in the market; (iii) prices of at least three comparable transactions 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 cost and profits, the business and financial department 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,

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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 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.

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 ten sample contracts (the “**Ancillary Sample Contracts**”), on a non-exhaustive and random basis, 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 noted 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.

Accordingly, we 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. 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

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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 letters issued by the Auditors to the Board and noted 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 years ended 31 December 2018, 2019 and 2020 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 transaction 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

Transactions	Year ended 31 December					Year ended 31 December			
	2019		2020		2021	2022	2023	2024	
Ancillary Telecommunications Services Framework Agreement	Existing Annual Cap	Actual amounts	Existing Annual Cap	Actual amounts	Existing Annual Cap	Actual amounts (up to 30 June 2021)	New Annual Cap	New Annual Cap	New Annual Cap
Revenue	20,000	14,758	24,000	14,888	27,000	7,996	23,000	26,000	28,000
% of utilization		73.8%		62.0%		29.6%			
% of increase/(decrease)			20.0%		12.5%		(14.8)%	13.0%	7.7%

As calculated from the table above, we noted 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

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ended 31 December 2020 were approximately RMB14,758 million and RMB14,888 million, respectively, representing a utilization rate of approximately 73.8% and 62.0%, respectively. Based on the 2021 Interim Report of the Company, 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 2021 was approximately RMB7,996 million, representing a utilization rate of approximately 29.6%. We prepared and reviewed the Historical Transaction Breakdown and noted that actual transaction amounts under the Ancillary Telecommunications Services Framework Agreement for each of the second half of 2019 and 2020 represented approximately 51.2% and 55.6% 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 2021 is expected to be higher than the actual transaction amount for the first half of 2021 under the Ancillary Telecommunications Services Framework Agreement. We also noted that there would be an approximately 14.8% decrease in the 2022 New Annual Cap as compared to the 2021 Existing Annual Cap, an approximately 13.0% increase in the 2023 New Annual Cap as compared to the 2022 New Annual Cap and an approximately 7.7% increase in the 2024 New Annual Cap as compared to the 2023 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 2019 and 2020 and the estimated annual transaction amount for 2021 under the Ancillary Telecommunications Services Framework Agreement; (2) that the Group has identified the related ancillary telecommunication services such as network maintenance, among others, as one of its major measures to expand the domestic telecommunications operator market and persisted in the “CAPEX and OPEX + Smart Applications” development strategy to help customers maintain infrastructure network with 5G and cloud as core technologies and further develop OPEX business of domestic telecommunications operators. For the six months ended 30 June 2021, the Group’s revenue from China Telecom Group’s network maintenance business increased by approximately 13.9% year-on-year; (3) that China Telecom Group continues to improve the quality and capability building of its network to support the rapid development of 5G and industrial digitalization. According to the 2021 interim report of China Telecom Corporation, its network operations and support expenses for the six months ended 30 June 2021 increased by approximately 10.8% year-on-year; (4) the number of mobile users as well as other service users has increased continuously and users base of China Telecom Group is expected to grow continuously in the coming years. As disclosed in the A-share Prospectus of China Telecom Corporation dated 6 August 2021, the net addition of its mobile users has maintained its leading position in the industry from 2018 to 2020, which the cumulative net addition of users over the 3 years reached 100

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million. According to the *5G Application “Sailing” Action Plan (2021–2023)* 《5G應用“揚帆”行動計劃(2021–2023年)》 issued by the relevant government authorities in 2021, the number of 5G users in China is expected to exceed 560 million by 2023. In order to provide reliable services to its growing customers, China Telecom Group’s demand for ancillary telecommunications services is also expected to grow; (5) due to the relatively low utilization rates of the Existing Annual Caps with respect to ancillary telecommunications services for the years ended 31 December 2019 and 2020, being approximately 74% and 62%, respectively, the New Annual Cap for the year ending 31 December 2022 was adjusted downward to RMB23,000 million from the Existing Annual Cap of RMB27,000 million for the year ending 31 December 2021, with a year-on-year increase of approximately 13.0% and 7.7% for each of the two years ending 31 December 2024. In determining the New Annual Caps, the Company considered (i) the expected increasing demand from China Telecom for ancillary telecommunications services in the coming three years; (ii) the steady growth of the historical transaction amounts for the years ended 31 December 2019 and 2020; (iii) the expected development of emerging businesses of China Telecom such as 5G network, Industrial IoT and new information infrastructure constructions and development of “CAPEX and OPEX + Smart Applications” strategy of the Company, which will bring business opportunities for the expansion of scale of the ancillary telecommunications business; and (iv) a degree of buffer is built in, which allows the Group to be flexible in case of unforeseen events in the future, and caters for the possible inflations in the coming three years; and (6) 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 Directors, we have taken into consideration the following:

- (i) we noted that the historical utilization rates of the 2019, 2020 and 2021 Existing Annual Caps was approximately 73.8%, 62.0% and 29.6% respectively. As discussed with the Management, the above Existing Annual Caps had not been fully utilized mainly due to the lower than expected increase in the transaction amounts during 2019 to 2021 under the Ancillary Telecommunications Services Framework Agreement and a degree of buffer was built in the Existing Annual Caps to allow the Group’s flexibility to respond to any unexpected future demand. Accordingly, we concur with the Management that it is reasonable for the Company to set the 2022 New Annual Cap at a level which is lower than the 2021 Existing Annual Cap but approximately close to the average of the 2019, 2020 and 2021 Existing Annual Cap;

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- (ii) based on our review of the interim report of China Telecom Corporation for the six months ended 30 June 2021, we noted that network operations and support expenses of China Telecom Corporation Group for the six-month period ended 30 June 2021 amounted to RMB63,909 million, representing an increase of approximately 10.8% as compared to the same period last year. China Telecom Corporation Group persistently enhanced the development of network quality and capabilities to improve customer perceptions and support the rapid development of 5G and industrial digitalization;
- (iii) based on our review of the 2020 Annual Report and the 2021 Interim Report of the Company, we noted that the revenue from the Group's network maintenance business for the six-month period ended 30 June 2021 increased by approximately 8.1% as compared to the same period last year. The Group adheres to "CAPEX and OPEX + Smart Applications" development strategy, seizes 5G, big data, cloud and network integration opportunities, vigorously develop its traditional businesses and will further develop its OPEX business of domestic telecommunications operators by supporting the maintenance of new information infrastructure network with 5G and cloud as the core technologies;
- (iv) we noted from the annual reports of China Telecom Corporation that the number of mobile subscribers of China Telecom Corporation Group increased from approximately 250.0 million in 2017 to approximately 351.0 million in 2020, representing a CAGR of approximately 12.0%. In addition, the number of 5G users increased from approximately 4.61 million in 2019 to approximately 86.5 million in 2020, representing an increase of approximately 1,776.4%, and penetration rate reaching 24.6%. China Telecom Corporation expects its 5G users base will continue to grow in the next three 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 for the two years ending 31 December 2024; and
- (v) according to the A-share Prospectus, China Telecom Corporation Group believes that 2021–2023 will be the introductory phase for 5G industry applications. According to estimates of the "China 5G Development and Social Impact White Paper (2020)" 《中國5G發展和經濟社會影響白皮書(2020年)》 and "5G Industry Economic Contributions" 《5G產業經濟貢獻》 issued by the China Academy of Information and Communications

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Technology, it is expected that China's 5G network will drive total accumulated economic output of RMB10.6 trillion during 2020–2025. China Telecom Corporation Group will actively develop industry customer business to seize market opportunities. It is expected that after the project in the A-share Prospectus is implemented, it will be able to build a 5G network base to empower digital transformation and industrial upgrades; promote 5G application innovation and practice; accelerate scale of 5G applications and better meet the business development needs of vertical industry customers; comply with the national new infrastructure industry policy and its strategic transformation requirements; improve social economic benefits and corporate governance capabilities. At the same time, it will be able to expand its 5G business penetration rate and operating income, thereby increasing its market share and influence.

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

(a) *Subject matter and terms of the Operation Support Services Framework Agreement and its supplemental agreements*

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 Company (and its subsidiaries) and China Telecom (and its subsidiaries but excluding the Group), as may be applicable from time to time.

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(b) *Pricing policies of the Operation Support Services Framework Agreement and its supplemental agreements*

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

We have reviewed (i) the Operation Support Services Framework Agreement entered into between the Company and China Telecom; and (ii) fifteen sample contracts (the “**Operation Support Sample Contracts**”), on a non-exhaustive and random basis, 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 noted that save for the fee quotes, other principal terms specified in the Operation Support Sample Contracts entered into with China Telecom Group by the Group were no less favorable to the Company than those specified in the Operation Support Sample Contracts entered into with independent third parties by the Group.

Accordingly, we 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

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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. 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 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 letters issued by the Auditors to the Board and noted 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 years ended 31 December 2018, 2019 and 2020 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.

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

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

Unit: RMB million

Transactions	Year ended 31 December			Year ended 31 December					
	2019	2020	2021	2022	2023	2024			
				Actual amounts					
Operation Support Services Framework Agreement	Existing Annual Cap	Existing Annual Cap	Existing Annual Cap	Actual (up to 30 June 2021)	New Annual Cap	New Annual Cap	New Annual Cap		
Revenue	3,800	3,568	4,000	3,422	4,200	1,489	5,000	5,500	6,000
% of utilization		93.9%		85.6%		35.5%			
% of increase			5.3%		5.0%		19.0%	10.0%	9.1%
Expenditure	1,600	736	2,000	878	2,400	372	1,000	1,100	1,200
% of utilization		46.0%		43.9%		15.5%			
% of increase/(decrease)			25.0%		20.0%		(58.3)%	10.0%	9.1%

As calculated from the table above, we noted 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 2020 were approximately RMB3,568 million and RMB3,422 million, respectively, representing a utilization rate of approximately 93.9% and 85.6%, respectively. Based on the 2021 Interim Report of the Company, 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 2021 was approximately RMB1,489 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 2020 were approximately RMB736 million and RMB878 million, respectively, representing a utilization rate of approximately 46.0% and 43.9%, respectively. Based on the 2021 Interim Report of the Company, 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 2021 was approximately RMB372 million, representing a utilization rate of approximately 15.5%.

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We prepared and reviewed the Historical Transaction Breakdown and noted 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 2019 and 2020 represented approximately 59.9% and 59.3% 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 2019 and 2020 represented approximately 81.6% and 77.0% of the corresponding total actual annual transaction amount, respectively. We further discussed with the Management and understood that the estimated transaction amounts for the service charges receivable and payable by the Company for the second half of 2021 are expected to be higher than the actual transaction amounts for the services charges received and paid by the Company for the first half of 2021 under the Operation Support Services Framework Agreement due to the seasonality as mentioned above.

We also noted that there would be an approximately 19.0% increase in the 2022 New Annual Cap for the service charges receivable by the Company from China Telecom Group as compared to the 2021 Existing Annual Cap, an approximately 10.0% increase in the 2023 New Annual Cap for the service charges receivable by the Company from China Telecom Group as compared to the 2022 New Annual Cap and an approximately 9.1% increase in the 2024 New Annual Cap for the service charges receivable by the Company from China Telecom Group as compared to the 2023 New Annual Cap.

Besides, there would be an approximately 58.3% decrease in the 2022 New Annual Cap for the service charges payable by the Company to China Telecom Group as compared to the 2021 Existing Annual Cap, an approximately 10.0% increase in the 2023 New Annual Cap for the service charges payable by the Company to China Telecom Group as compared to the 2022 New Annual Cap and an approximately 9.1% increase in the 2024 New Annual Cap for the service charges payable by the Company to China Telecom Group as compared to the 2023 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 2019 and 2020 and the estimated annual transaction amount for 2021 under the Operation Support Services Framework Agreement; (2) that with respect to the operation support services provided to China Telecom Group, the New Annual Cap for the year ending 31 December 2022 was adjusted upward to RMB5,000 million from the Existing Annual Cap of RMB4,200 million for the year ending 31 December 2021, with a year-on-year increase of approximately 10.0% and 9.1% for each of the two years ending 31 December 2024. In determining the New Annual Caps, the

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Company considered (i) the utilization rates of the Existing Annual Caps for operation support services provided by the Group were relatively high, being approximately 94% and 86% for the year ended 31 December 2019 and 2020, respectively; (ii) along with its business development, China Telecom Group's demand for operation support services such as property management, conference and training has maintained a steady upward trend; (iii) at the same time, the Group possess fine resources and service capability in respect of the abovementioned aspects, which are adaptive to meet the business needs of China Telecom Group, and (iv) a degree of buffer is built in when determining the New Annual Caps, which allows the Group to be flexible in case of unforeseen events in the future and caters for the possible inflations in the coming three years; (3) that with respect to the operation support services provided by China Telecom Group, as the utilization rates of the Existing Annual Caps were relatively low, being approximately 46% and 44% for the year ended 31 December 2019 and 2020, respectively, the New Annual Cap for the year ending 31 December 2022 was adjusted downward to RMB1,000 million from the Existing Annual Cap of RMB2,400 million for the year ending 31 December 2021, with a year-on-year increase of approximately 10.0% and 9.1% for each of the two years ending 31 December 2024. In determining the New Annual Caps, the Company considered (i) along with its business development, the Group's demand for operation support services such as exhibition and training has maintained a steady upward trend; (ii) China Telecom Group possesses fine resources in respect of the abovementioned aspects, which are adaptive to meet the business needs of the Group; and (iii) a degree of buffer is built in when determining the New Annual Caps, which allows the Group to be flexible in case of unforeseen events in the future and caters for the possible inflations in the coming three 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 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 (such as property management and conferencing and training) by China Telecom Group would stabilize in the future. Taken into account the historical high utilization rates of approximately 93.9% and 85.6% for the two years ended 31 December 2020 in respect of the provision of operations support services by the Group to China Telecom Group under the Operation Support Services Framework Agreement, a sufficient buffer is built in determining the relevant proposed New Annual Cap so as to

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ensure that a sufficient degree of flexibility is allowed for the Group to respond to any unforeseen events and to satisfy additional demand for operation support services by China Telecom Group in the future;

- (ii) as further advised by the Management, that given the Group will further enhance its service capability and has clear advantages over other third-party service providers in the industry in providing operational support services to China Telecom Group to cater for the planned increase in capital expenditure of China Telecom Group as mentioned above, China Telecom Group is expected to have a higher demand for the Group's operation related services in the future;
- (iii) we noted that the historical utilization rates of the 2019, 2020 and 2021 Existing Annual Caps for the service charges paid by the Company to China Telecom Group under the Operation Support Services Framework Agreement was approximately 46.0%, 43.9% and 15.5% respectively. As discussed with the Management, the above Existing Annual Caps had not been fully utilized mainly due to the lower than expected demand for China Telecom Group's operation support services during 2019 to 2021 under the Operation Support Services Framework Agreement and a degree of buffer was built in the Existing Annual Caps to allow the Group's flexibility to cater for unforeseen events. Accordingly, we concur with the Management that it is reasonable for the Company to set the 2022 New Annual Cap for the service charges paid by the Company to China Telecom Group under the Operation Support Services Framework Agreement at a much lower level than the 2021 Existing Annual Cap; and
- (iv) based on our review of the interim report of the Company for the six months ended 30 June 2021, we noted that operation support service expenses of the Group for the six-month period ended 30 June 2021 amounted to approximately RMB372.5 million, representing an increase of approximately 84.1% as compared to the same period last year. As analyzed under the section headed "Engineering Framework Agreement and its supplemental agreements" above, China Telecom Group will upgrade its 5G network infrastructure and networks and therefore related capital expenditure is expected to increase as promulgated by The Fourteenth Five-Year Plan by the PRC Government. Therefore, it is expected that the Group will have a higher demand for China Telecom Group's operation support services for the two years ending 31 December 2024.

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

(a) Subject matter and terms of the IT Application Services Framework Agreement and its supplemental agreements

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 Company (and its subsidiaries) and China Telecom (and its subsidiaries but excluding the Group), as may be applicable from time to time.

(b) Pricing policies of the IT Application Services Framework Agreement and its supplemental agreements

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 at least three comparable transactions of the same or similar type of services provided to the Company by other service providers in the market; (ii) prices of at least three comparable transactions 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.

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We have reviewed (i) the IT Application Services Framework Agreement entered into between the Company and China Telecom; and (ii) sixteen sample contracts (the “**IT Application Sample Contracts**”), on a non-exclusive and random basis, 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. We noted that save for the fee quotes, other principal terms specified in the IT Application Sample Contracts entered into with China Telecom Group by the 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.

Accordingly, we 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.

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 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 letters issued by the Auditors to the Board and noted 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 years ended 31 December 2018, 2019 and 2020 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.

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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 transaction amounts and the proposed New Annual Caps*

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

Unit: RMB million

Transactions	Year ended 31 December						Year ended 31 December		
	2019		2020		2021	2022	2023	2024	
	Actual amounts								
	Existing Annual Cap	Actual amounts	Existing Annual Cap	Actual amounts	Existing Annual Cap	Actual amounts (up to 30 June 2021)	New Annual Cap	New Annual Cap	New Annual Cap
IT Application Services Framework Agreement									
Revenue	3,600	3,095	4,300	3,052	5,000	1,514	6,500	8,000	9,500
% of utilization		86.0%		71.0%		30.3%			
% of increase			19.4%		16.3%		30.0%	23.1%	18.8%
Expenditure	500	154	500	148	500	23	1,000	1,500	2,000
% of utilization		30.8%		29.6%		4.6%			
% of increase			0%		0%		100.0%	50.0%	33.3%

As calculated from the table above, we noted 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 2020 were approximately RMB3,095 million and RMB3,052 million, respectively, representing a utilization rate of approximately 86.0% and 71.0%, respectively. Based on the 2021 Interim Report of the Company, 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 2021 was approximately RMB1,514 million, representing a utilization rate of approximately 30.3%.

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 2020 were approximately RMB154 million and RMB148 million, respectively, representing a utilization rate of approximately 30.8% and 29.6%, respectively. Based on the 2021 Interim Report of the Company, 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

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ended 30 June 2021 was approximately RMB23 million, representing a utilization rate of approximately 4.6%. We noticed 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 noted 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 2019 and 2020 represented approximately 64.8% and 60.0% 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 the second half of 2019 and 2020 represented approximately 55.2% and 69.0% of the total actual annual transaction amount, respectively. We further discussed with the Management and understood that the estimated transaction amounts for the service charges receivable and payable by the Company for the second half of 2021 are expected to be higher than the actual transaction amounts for the services charges received and paid by the Company for the first half of 2021 under the IT Application Services Framework Agreement.

We also noted that there would be an approximately 30.0% increase in the 2022 New Annual Cap for the IT application service charges receivable by the Company from China Telecom Group as compared to the 2021 Existing Annual Cap, an approximately 23.1% increase in the 2023 New Annual Cap for the IT application service charges receivable by the Company from China Telecom Group as compared to the 2022 New Annual Cap and an approximately 18.8% increase in the 2024 New Annual Cap for the IT application service charges receivable by the Company from China Telecom Group as compared to the 2023 New Annual Cap.

Besides, there would be an approximately 100.0% increase in the 2022 New Annual Cap for the IT application service charges payable by the Company to China Telecom Group as compared to the 2021 Existing Annual Cap, an approximately 50.0% increase in the 2023 New Annual Cap for the IT application service charges payable by the Company to China Telecom Group as compared to the 2022 Existing Annual Cap and an approximately 33.3% increase in the 2024 New Annual Cap for the IT application service charges payable by the Company to China Telecom Group as compared to the 2023 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 2019 and 2020 and the estimated annual transaction amount for 2021 under the IT Application Services Framework Agreement; (2) that with respect to the IT application services provided to China Telecom Group, the New Annual Cap for the

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year ending 31 December 2022 was adjusted upward to RMB6,500 million from the Existing Annual Cap of RMB5,000 million for the year ending 31 December 2021, with a year-on-year increase of approximately 23.1% and 18.8% for each of the two years ending 31 December 2024. In determining the New Annual Caps, the Company considered (i) that there had been a high utilization rate of the Existing Annual Cap for the IT application services provided to China Telecom Group, being approximately 86% and 71% for the years ended 31 December 2019 and 2020, respectively; (ii) the demand from China Telecom Group's IT system construction and provision of technology application services for its customers is expected to be further increased due to its commitment to the development of communications for governments and enterprises and informatization services (industrial digitalization); (iii) the Group has pressed on with the technological innovation and continued to step up investment in research and development. Through the adoption of the "Synergistic + Dispersed" mechanism for research and development, the Group has accelerated the construction and implementation of core platforms and products, which facilitated business expansion and digital transformation. The Group has gained increasing industry recognition and brand influence that it continued to rank 5th in "100 Most Competitive Software & IT Service Enterprises 2020". For the six months ended 30 June 2021, the Group's revenue from applications, content and other services increased by more than 24% year-on-year. It is expected that scale effect will take place in the Group's business segment of IT application services in the future, and thereby the business volume will increase significantly; and (iv) a degree of buffer is built in when determining the New Annual Caps, which allows the Group to be flexible in case of unforeseen events in the future and caters for the possible inflations in the coming three years; (3) that with respect to IT application services provided by China Telecom Group, the New Annual Cap for the year ending 31 December 2022 was adjusted upward to RMB1,000 million from the Existing Annual Cap of RMB500 million for the year ending 31 December 2021, with a year-on-year increase of approximately 50.0% and 33.3% for each of the two years ending 31 December 2024. In determining the New Annual Caps in relation to IT application services provided by China Telecom Group, the Company considered (i) the expected increasing demand from the Company for IT application services in the coming three years; (ii) along with the continuous enhancement of China Telecom Group's cloud network and platform capabilities, launching a wealth of cloud solutions for various users and diversified scenarios, since the adoption of its "Cloudification and Digital Transformation" strategy in 2020 and its service capability to build network dedicated line, the Group is expected to procure more ICT application services of China Telecom Group, including but not limited to circuit, network, and cloud platform service capabilities to satisfy the growing needs of its customers in this area, which is conducive to improving the Group's integrated service capabilities and is expected to drive the substantial growth of the Group's IT application-related services; and (iii) a degree of buffer is built in when determining the New Annual Caps, which allows the Group to be flexible in case of

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unforeseen events in the future and caters for the possible inflations in the coming three 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 IT Application Services Framework Agreement and its supplemental agreements, in addition to the foregoing factors considered by the Directors, we have taken into consideration of the following:

- (i) we have discussed with the Management and understood that it is anticipated that the demand for the Company's IT application services by China Telecom Group will increase in the future. Taken into account the historical high utilization rates of approximately 86.0% and 71.0% for the two years ended 31 December 2020 in respect of the provision of IT application services by the Group to China Telecom Group under the IT Application Services Framework Agreement, a sufficient buffer is built in determining the relevant proposed New Annual Cap so as to ensure that a sufficient degree of flexibility is allowed for the Group to respond to any unforeseen events and to satisfy additional demand for IT application services by China Telecom Group in the future;
- (ii) China Telecom Corporation Group continues the digital transformation 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 ICT application services to its customers. Taken into account the historical high utilization rates of approximately 86.0% and 71.0% for the two years ended 31 December 2020, 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;
- (iii) according to the A-share Prospectus, in addition to the investment in 5G and cloud infrastructure, China Telecom Corporation Group will invest approximately RMB30 billion in new development projects including self-developed cloud capability platform, cloud network integration operation system, cloud network security capability platform, 5G edge service, digital service platform and advanced technology to support its existing business development, cultivate new growth points for business, satisfy customers' high-quality needs and upgrade demand pull intelligently. It is expected that all these new projects will likely to increase demand for the Group's IT application services in future; and

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- (iv) we were advised by the Management that, based on the current business operation and future development needs, the Company will expand its development in ToB market and demand for future IT applications services provided by China Telecom Group to the Company is expected to increase in the next three years. We noted from the Company's 2020 Annual Report that the Group focused on cultivating its service and product capabilities in "Cloud + 5G + DICT" and has explored new markets such as 5G industrial application, ToB business of operators, network information security and cloud-network integration. Therefore, it is expected that IT application service charges payable by the Company to China Telecom Group will increase in the future.

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

- (a) *Subject matter and terms of the Supplies Procurement Services Framework Agreement and its supplemental agreements*

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.

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(b) *Pricing policies of the Supplies Procurement Services Framework Agreement and its supplemental agreements*

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 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 at least three comparable transactions 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 at least three comparable transactions of the same or similar type of services provided to China Telecom Group and independent third parties by the Company, or prices of at least three comparable transactions of the same or similar type of services provided to the Company 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, 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, taken into account factors such as historical price, transaction size, average

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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.

We noted 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.

We have reviewed (i) Supplies Procurement Services Framework Agreement entered into between the Company and China Telecom; and (ii) sixteen sample contracts (the “**Supplies Procurement Sample Contracts**”), on a non-exhaustive and random basis, 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 noted that save for the fee quotes, other principal terms specified in the Supplies Procurement Sample Contracts entered into with China Telecom Group by the 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.

Accordingly, we 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.

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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 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 letters issued by the Auditors to the Board and noted 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 years ended 31 December 2018, 2019 and 2020 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 Procurement 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.

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

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

Unit: RMB million

Transactions	Year ended 31 December						Year ended 31 December		
	2019		2020		2021		2022	2023	2024
	Actual amounts								
Supplies Procurement Services Framework Agreement	Existing Annual Cap	Actual amounts	Existing Annual Cap	Actual amounts	Existing Annual Cap	Actual amounts (up to 30 June 2021)	New Annual Cap	New Annual Cap	New Annual Cap
Revenue	6,000	2,697	6,500	2,609	7,000	1,173	6,800	7,500	8,500
% of utilization		45.0%		40.1%		16.8%			
% of increase/(decrease)			8.3%		7.7%		(2.9)%	10.3%	13.3%
Expenditure	5,000	1,121	5,200	1,027	5,400	988	4,000	5,000	6,000
% of utilization		22.4%		19.8%		18.3%			
% of increase/(decrease)			4.0%		3.8%		(25.9)%	25.0%	20.0%

As calculated from the table above, we noted 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 2020 were approximately RMB2,697 million and RMB2,609 million, respectively, representing a utilization rate of approximately 45.0% and 40.1%, respectively. Based on the 2021 Interim Report of the Company, 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 2021 was approximately RMB1,173 million, representing a utilization rate of approximately 16.8%.

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 2020 were approximately RMB1,121 million and RMB1,027 million, respectively, representing a utilization rate of approximately 22.4% and 19.8%, respectively. Based on the 2021 Interim Report of the Company, 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 2021 was approximately RMB988 million, representing a utilization rate of approximately 18.3%.

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We also prepared and reviewed the Historical Transaction Breakdown and noted 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 2019 and 2020 represented approximately 50.2% and 57.9% 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 2019 and 2020 represented approximately 48.5% and 70.9% of the corresponding total actual annual transaction amount, respectively.

We also noted that there would be an approximately 2.9% decrease in the 2022 New Annual Cap for the service charges receivable by the Company from China Telecom Group as compared to the 2021 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 continues to develop its 5G network and digital transformation which will drive an increase in demand for supplies procurement services. Thus, there would be an approximately 10.3% increase in the 2023 New Annual Cap for the service charges receivable by the Company from China Telecom Group as compared to the 2022 New Annual Cap and an approximately 13.3% increase in the 2024 New Annual Cap for the service charges receivable by the Company from China Telecom Group as compared to the 2023 New Annual Cap.

Besides, there would be an approximately 25.9% decrease in the 2022 New Annual Cap for the service charges payable by the Company to China Telecom Group as compared to the 2021 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 2023 and 2024. Hence, there would be an approximately 25.0% increase in the 2023 New Annual Cap for the service charges payable as compared to the 2022 New Annual Cap and an approximately 20.0% increase in the 2024 New Annual Cap for the service charges payable as compared to the 2023 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 2019 and 2020 and the estimated transaction amount for 2021 under the Supplies Procurement Services Framework Agreement; (2) that with respect to the supplies procurement services provided to China Telecom Group, as the utilization rates of the Existing Annual Caps were relatively low, being approximately 45% and 40% for the year ended 31 December 2019 and 2020, respectively, the New Annual Cap for the year ending 31 December 2022 was adjusted downward to RMB6,800 million from the Existing Annual Cap of RMB7,000 million for the year ending 31

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December 2021, with a year-on-year increase of approximately 10.3% and 13.3% for each of the two years ending 31 December 2024. In determining the New Annual Caps, the Company considered (i) the expected increasing demand from China Telecom for supplies procurement services in the coming three years; (ii) China Comservice Supply Chain Management Company Ltd., a subsidiary of the Group, is the only enterprise with “5A” logistics qualification certificate in the domestic telecommunications industry. It introduced strategic investors with synergistic effect in 2021 and the Group expects that its capabilities for professional operations in the supply chain business will be enhanced; (iii) as mentioned above, it is expected that China Telecom Group’s demand for the IT application services of the Group will increase and the demand for supplies procurement services that are related to the IT application services will also increase accordingly; and (iv) a degree of buffer is built in when determining the New Annual Caps, which allows the Group to be flexible in case of unforeseen events in the future and caters for the possible inflations in the coming three years; (3) that with respect to the supplies procurement services provided by China Telecom Group, as the utilization rates of the Existing Annual Caps were relatively low, being approximately 22% and 20% for the year ended 31 December 2019 and 2020, respectively, the New Annual Cap for the year ending 31 December 2022 was adjusted downward to RMB4,000 million from the Existing Annual Cap of RMB5,400 million for the year ending 31 December 2021, with a year-on-year increase of approximately 25.0% and 20.0% for each of the two years ending 31 December 2024. In determining the New Annual Caps, the Company considered (i) along with the development of 5G network and the upgrade of mobile terminals, it is expected that the scale of the Group’s 5G-related product distribution business will increase in line with market demand, and the Group’s demand for 5G-related product procurement services will continue to increase in the coming years. The procurement volume will increase with the expansion of the business scale, and the Group’s demand for procurement services of 5G-related products will continue to grow in the coming years; (ii) the Group also spends more efforts on expanding the domestic non-telecom operator customers, and the Group’s revenue from such customers in the first half of 2021 increased by approximately 34% year-on-year. Hence, the Group expects its procurement of mobile phone terminals, other mobile terminal devices and Internet of Things devices will increase; (iii) the Group expects to undertake more general contracting projects and continue to upgrade its capability and enlarge the business scope of the general contracting projects, which will lead to a continuously increasing needs for engineering equipment supplies procurement; (iv) by virtue of the centralized procurement with China Telecom Group, the Group could enjoy preferential pricing in the centralized procurement and so it will be purchasing more engineering equipment supplies through China Telecom Group to reduce the relevant costs and enhance efficiency; (v) with the change in business model of in the development of government and enterprise customers, the Group will take the opportunities and deeply involve in different cooperation scenarios and will purchase more mobile phones, fixed-line terminals

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and other equipment from China Telecom Group to provide them to government and enterprise customers and (vi) a degree of buffer is built in when determining the New Annual Caps, which allows the Group to be flexible in case of unforeseen events in the future and caters for the possible inflations in the coming three 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 Directors, we have taken into consideration of the following:

- (i) we noted that the historical utilization rates of the 2019, 2020 and 2021 Existing Annual Caps for the service charges received by the Company from China Telecom Group under the Supplies Procurement Services Framework Agreement was approximately 45.0%, 40.1% and 16.8% respectively. As discussed with the Management, the above Existing Annual Caps had not been fully utilized mainly due to the lower than expected level of related business of China Telecom Group. Accordingly, we concur with the Management that it is reasonable for the Company to set the 2022 New Annual Cap for the service charges receivable by the Company from China Telecom Group under the Supplies Procurement Services Framework Agreement at a lower level than the 2021 Existing Annual Cap;
- (ii) based on our review of the interim report of the Company and China Telecom Corporation for the six months ended 30 June 2021, we noted that (1) supplies procurement services revenue of the Group for the six months ended 30 June 2021 amounted to approximately RMB1,173 million, representing an increase of approximately 6.8% as compared to the same period last year; and (2) the amount of China Telecom Corporation Group's purchase of telecommunications equipment and materials through related party transactions with its parent group was RMB1,441 million, representing an increase of approximately 5.3% as compared to the same period last year. As China Telecom Corporation focused on 5G digital transformation and upgrade, it is expected that its demand for the Group's supplies procurement services will increase for the two years ending 31 December 2024;
- (iii) we noted that the historical utilization rates of the 2019, 2020 and 2021 Existing Annual Caps for the service charges paid by the Company to China Telecom Group under the Supplies Procurement Services Framework Agreement was approximately 22.4%, 19.8% and 18.3% respectively. As discussed with the Management, the above Existing Annual Caps had not been fully utilized mainly due to the lower than

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expected level of related business of China Telecom Group. Accordingly, we concur with the Management that it is reasonable for the Company to set the 2022 New Annual Cap for the service charges payable by the Company to China Telecom Group under the Supplies Procurement Services Framework Agreement at a much lower level than the 2021 Existing Annual Cap;

- (iv) based on our review of the interim report of the Company and China Telecom Corporation for the six months ended 30 June 2021, we noted that (1) supplies procurement services expenses of the Group for the six months ended 30 June 2021 amounted to approximately RMB988 million, representing an increase of approximately 231.0% as compared to the same period last year; and (2) the amount of China Telecom Corporation Group's sale of telecommunications equipment and materials through related party transactions with its parent group was RMB1,827 million, representing an increase of approximately 144.3% as compared to the same period last year. As discussed with the Management, the Group will expand and integrate its national logistics business and therefore demand for supplies procurement services (such as warehousing, transportation and installation services) from China Telecom Group will increase for the two years ending 31 December 2024; and
- (v) as mentioned above, according to the A-share Prospectus, China Telecom Corporation Group will invest in new equipment for building its 5G and cloud infrastructure in the future and this will probably increase its demand for the Group's supplies procurement services as well.

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

6. *The 2021 Financial Services Framework Agreement*

- (a) *Subject matter and terms of the 2021 Financial Services Framework Agreement*

As stated in the Letter from the Board, on 1 February 2019, the Company and China Telecom Finance entered into the 2019 Financial Services Framework Agreement, pursuant to which China Telecom Finance agreed to provide financial services to the Group, including (i) deposit services, (ii) loan services and (iii) other financial services.

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Pursuant to the 2021 Financial Services Framework Agreement, China Telecom Finance will provide the following financial services to the Group: (i) financial and financing advice, credit authentication and relevant consulting and agency services; (ii) assist in the collection and payment of transaction funds; (iii) bill acceptance and discounting services; (iv) entrusted loans; (v) internal fund transfer and settlement designs of relevant settlement and clearance arrangement proposals among member companies; (vi) acceptance of deposits; (vii) provision of loans and financial leasing; (viii) approved insurance agency business; (ix) underwriting services for the Group's corporate bonds; (x) consumer credit, buyer credit and financial leasing services for the products of the Group; and (xi) other businesses approved by the CBIRC.

Upon the 2021 Financial Services Framework Agreement becoming effective, the above services, except the deposit services numbered (vi) above, can be provided by China Telecom Finance to the Group immediately in accordance with the business scope of China Telecom Finance as approved by the CBIRC. The deposit services numbered (vi) above shall be provided after obtaining the approval from the Independent Shareholders at the EGM.

(b) *Pricing policies of the deposit services under the 2021 Financial Services Framework Agreement*

The deposit interest rates offered by China Telecom Finance to the Group shall comply with the relevant requirements of the People's Bank of China and be with reference to the deposit benchmark interest rates promulgated by the People's Bank of China from time to time (if any) and the deposit interest rates offered by the major cooperative commercial banks of the Group for the deposit services in the same period and of the same type, and the deposit services shall be conducted on normal commercial terms or better. The deposit interest rates offered by China Telecom Finance shall be equivalent to or higher than those provided by the major cooperative commercial banks of the Group. Under the same conditions, the interest rates of the deposits services provided by China Telecom Finance to the Group shall be the same as those offered by China Telecom Finance to other member companies of China Telecom for the deposit services in the same period and of the same type.

We had also reviewed (1) the Company's 2018, 2019 and 2020 annual reports and the 2021 Interim Report; (2) the 2019 Financial Services Framework Agreement; (3) the 2021 Financial Services Framework Agreement; (4) the Circular and the other information within; (5) the member company list of China Telecom Finance; (6) five sample contracts and a number of past transactions of the deposit services between the Group and independent commercial banks during the past three years on a non-exclusive and random basis; (7) PRC legal opinion relating to China Telecom Finance; (8) the quotation on deposits interest rates from

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independent commercial banks in China; (9) the internal control information regarding the Company's continuing connected transactions; (10) China Telecom's announcement, regarding the 2019 Financial Services Framework Agreement dated 1 February 2019; and (11) a number of interest slips of past transactions of the deposit services between the Group and China Telecom Finance on a non-exclusive and random basis.

We also noticed the proposed transactions between the Group and China Telecom Finance are on a non-exclusive basis. The Group may select at its discretion other financial institutions to provide the relevant financial services. The terms of the financial services offered to the Group by China Telecom Finance shall be equivalent to or more favorable than those offered to the Group by the major cooperative commercial banks of the Group for the financial services in the same period and of the same type. Prior to entering into any specific agreements with China Telecom Finance in respect of the transactions under the 2021 Financial Services Framework Agreement, the Group will compare the rates or fees and the other relevant transaction terms (e.g. transaction approval conditions, procedures or time limit) offered by China Telecom Finance with those offered by the major cooperative commercial banks of the Group for the deposits, loans or other financial services in the same period and of the same type. Only when the rates or fees or the other relevant transaction terms offered by China Telecom Finance are equivalent to or more favorable than those offered by the major cooperative commercial banks of the Group, the Group may enter into transactions with China Telecom Finance at its discretion. Under the circumstances which the Group considers appropriate, the Group may engage additional or other financial institutions other than China Telecom Finance to provide financial services.

The Management has confirmed that the Company will strictly follow the corresponding internal procedures and based on the reasons above, the Management believes that the deposit services contemplated under the 2021 Financial Services Framework Agreement are on normal commercial terms or better which are fair and reasonable. We had also reviewed (i) the *Administrative Measures of Connected Transactions on Financial Services of China Communications Services Corporation Limited* (the "**Administrative Measures of Connected Transactions on Financial Services**") which stated the responsibility of each department in relation to the management of the Company's connected transaction on financial services and listed the corresponding policy that the framework agreement must follow in relation to the connected transactions carried out by the Company; (ii) the Internal Control Guidance and according to our review, after further discussion with the Management and confirmation by the Company, the deposit services contemplated under the 2021 Financial Services Framework Agreement entered into by the Group and China Telecom Finance will follow the Administrative Measures of Connected Transactions on Financial Services and the Internal Control Guidance, which can help to ensure the Company to follow the related policy when conducting specific

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connected transactions under the 2021 Financial Services Framework Agreement. We have also compared the principal terms and pricing policies of the deposit services under the 2021 Financial Services Framework Agreement with those of the 2019 Financial Services Framework Agreement and noted that they were the same.

For transactions made under the 2019 Financial Services Framework Agreement, we also examined other independent information by reviewing the letters issued by the Auditors to the Board and noted 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 Finance during the years ended 31 December 2019 and 2020 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 policies of the deposit services under the 2021 Financial Services Framework Agreement is on normal commercial terms or better and is fair and reasonable so far as the Independent Shareholders are concerned.

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

The table below shows the actual amounts, the Existing Annual Caps and the proposed New Annual Caps of the deposit services under the 2019 Financial Services Framework Agreement and the 2021 Financial Services Framework Agreement:

Unit: RMB million

Transactions	Year ended 31 December						Year ended 31 December		
	2019		2020		2021		2022	2023	2024
						Actual Maximum Daily Balance of Deposits (including accrued interest)			
Financial Services Framework Agreement	Existing Annual Cap	Actual Maximum Daily Balance of Deposits (including accrued interest)	Existing Annual Cap	Actual Maximum Daily Balance of Deposits (including accrued interest)	Existing Annual Cap	(up to 30 June 2021)	New Annual Cap	New Annual Cap	New Annual Cap
	7,500	2,148	8,000	4,003	8,500	4,003	8,500	8,500	8,500
% of utilization		28.6%		50.0%		47.1%			
% of increase			6.7%		6.3%		0%	0%	0%

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As calculated from the table above, we noted that the actual maximum daily balance of deposits (including accrued interest) placed by the Group with China Telecom Finance under the 2019 Financial Services Framework Agreement for the years ended 31 December 2019 and 2020 and the six months ended 30 June 2021 were approximately RMB2,148 million, RMB4,003 million and RMB4,003 million, respectively, representing a utilization rate of approximately 28.6%, 50.0% and 47.1%, respectively. We prepared and reviewed the Historical Transaction Breakdown and noted that the actual maximum daily balance of deposits (including accrued interest) placed by the Group with China Telecom Finance under the 2019 Financial Services Framework Agreement for each of the second half of 2019 and 2020 was approximately RMB2,148 million and RMB4,003 million, respectively which was higher than the corresponding actual maximum daily balance of deposits (including accrued interest) of approximately RMB298 million and RMB2,148 million for each of the first half of 2019 and 2020, respectively.

Despite the relatively lower historical utilization rate of the actual maximum daily balance of deposits (including accrued interest) placed by the Group with China Telecom Finance for the two years ended 31 December 2020, we discussed with the Management and understood that the maximum daily balance of deposits (including accrued interest) for the second half of 2021 is expected to be higher than the maximum daily balance of deposits (including accrued interest) for the first half of 2021 under the 2019 Financial Services Framework Agreement mainly due to the reason that funds receipt in relation to newly signed contracts of member group companies of the Group has been transferred to the accounts of China Telecom Finance for settlement first since end of March 2021. There was a gradual monthly increase in related funds received and deposited into China Telecom Finance for the three months ended 30 June 2021 and the Management considered that the amounts of deposits with China Telecom Finance will continue to increase during the second half of 2021 due to the centralization of related transactions funds receipt by the Group.

As a result, the Management considered that the utilization rate of the actual maximum daily balance of deposits (including accrued interest) placed by the Group with China Telecom Finance for the year ending 31 December 2021 is expected to be higher than those for the two years ended 31 December 2020. We noted that the 2022 New Annual Cap, 2023 New Annual Cap and the 2024 New Annual Cap under the 2021 Financial Services Framework Agreement will remain the same as that of the 2021 Existing Annual Cap at RMB8,500 million.

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As stated in the Letter from the Board, in determining the New Annual Caps in respect of the maximum daily balance of the Group's deposits (including the interest accrued thereon) with China Telecom Finance, the Directors have considered the following factors:

- (i) the Group's amounts of cash and cash equivalent as well as restricted deposits for the three years ended 31 December 2018, 2019 and 2020, which amounted to approximately RMB18.2 billion, RMB21.7 billion and RMB23.9 billion, respectively;
- (ii) the Group's business development in the previous years, and the expected growth of operating cash flows as driven by the continuing development of business in the future. The Group's business development opportunities will include, but without limitation to: (i) the 5G-related infrastructure network construction by the telecommunications operators in the PRC in the coming years, which will also bring along spending related to the network operation maintenance and other daily business operations, such as supply chain and facility management; and (ii) the increased demand for informatization services driven by the development of digital economy, smart society, etc. in the PRC;
- (iii) as China Telecom Finance has strengthened its system function construction and improved relevant technologies, the Group will strengthen cross-province and cross-bank centralized fund management among its subsidiaries and branches. At the same time, the transaction amounts are expected to grow in line with the further deepened cooperation with China Telecom Finance in the future. The Group will increase the use of its settlement account with China Telecom Finance to speed up the settlement and collection of transaction funds with its major customers (being China Telecom and its subsidiaries), and increase deposits by strengthening the effective use of working capital, thereby improving its fund utilization efficiency;
- (iv) the Group has also considered the potential impact on the Group's collection and payment settlement brought by the macroeconomic changes in the future; and
- (v) the Group's historical interest rates for deposits, and the increase in the interest income from the increase in deposits as a result of the Group's business growth.

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As confirmed by the Management, in order to diversify the credit risk from other commercial banks on deposit services, the Group will deposit only part but not all of its available funds with China Telecom Finance and deposit the remaining available funds with other cooperative commercial banks in the PRC. The Group will determine the timing and the actual amount to be deposited with China Telecom Finance based on the availability of funds and the Group's operation needs at its sole discretion, when the interest rate and terms provided by China Telecom Finance are better than those provided by other commercial banks, the Group may intend to deposit more available funds with China Telecom Finance, but not more than RMB8.5 billion.

According to the Company's 2018, 2019 and 2020 annual reports, the cash and cash equivalent of the Group increased from approximately RMB16.1 billion as at 31 December 2018 to approximately RMB21.0 billion as at 31 December 2020. Profit for the year of the Group increased from approximately RMB2.9 billion for the year ended 31 December 2018 to approximately RMB3.1 billion for the year ended 31 December 2020. Interest income also increased from approximately RMB182 million for the year ended 31 December 2018 to approximately RMB290 million for the year ended 31 December 2020. The proportion of the interest income as compared to the profit for the year increased from approximately 6.2% for the year ended 31 December 2018 to approximately 9.4% for the year ended 31 December 2020. The Group has rich amount of cash and cash equivalent and the interest income has a relatively material impact on the Group's financial performance. Through entering into the 2021 Financial Services Framework Agreement, the Group has an extra option in optimizing its fund management.

According to the 2021 Interim Report of the Company, the cash and cash equivalent of the Group totaled to approximately RMB17.8 billion and the highest amount of the New Annual Caps represents approximately 47.6% of the cash and cash equivalent of the Group as at 30 June 2021. As part of our analysis, based on published listed company information available on the website of Hong Kong Exchanges and Clearing Limited using keyword headline category search "Circulars — Connected Transaction — Continuing Connected Transaction", we have on a best effort basis identified and made reference to, as far as we are aware, 37 Main Board listed companies (the "**Comparable Companies**") based on the criteria of Main Board listed companies which had entered into continuing connected transactions involving the provision of deposit services by connected parties in the PRC which are subject to reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing

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Rules with the date of the respective circulars falling within the preceding 12 months before the date of announcement of the Company dated 22 October 2021 (the “**Review Period**”). The Comparable Companies are exhaustive based on the aforementioned criteria:

Company name (stock code)	Date of circular	Proposed maximum daily deposit balance (A) (Note 1) (million)	Total cash and deposits balance on the latest published annual report or interim report of the Comparable Companies as at the time of the circular (B) (Note 2) (million)	Proposed maximum daily deposit balance to total cash and deposit balance (A/B) Approximate %
Sinopec Oilfield Service Corporation (1033)	30/9/2021	RMB3,500	RMB1,502.2	233.0
COSCO SHIPPING Holdings Co., Ltd. (1919)	24/9/2021	RMB75,000	RMB101,904.5	73.6
Sinofert Holdings Limited (297)	14/9/2021	RMB 1,000	RMB 2,054.4	48.7
CITIC Resources Holdings Limited (1205)	9/9/2021	HK\$1,200	HK\$1,384.4	86.7
China Petroleum & Chemical Corporation (386)	3/9/2021	RMB80,000	RMB190,482.0	42.0
COFCO Joycome Foods Limited (1610)	25/8/2021	RMB1,500	RMB707.3	212.1
Beijing Digital Telecom Co., Ltd. (6188)	24/8/2021	RMB2,000	RMB71.4	2,801.1

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Company name (stock code)	Date of circular	Proposed maximum daily deposit balance (A) (Note 1) (million)	Total cash and deposits balance on the latest published annual report or interim report of the Comparable Companies as at the time of the circular (B) (Note 2) (million)	Proposed maximum daily deposit balance to total cash and deposit balance (A/B) Approximate %
Rizhao Port Jurong Co., Ltd. (6117)	13/7/2021	RMB180	RMB280.3	64.2
China Display Optoelectronics Technology Holdings Limited (334)	12/7/2021	RMB1,690	RMB416.7	405.6
BYD Electronic (International) Company Limited (285)	7/6/2021	RMB8,500	RMB3,465.9	245.2
China Electronics Huada Technology Company Limited (85)	4/6/2021	RMB700	HK\$1,180.8 (equivalent to approximately RMB1,001.5)	69.9
Chongqing Iron & Steel Company Limited (1053)	28/5/2021	RMB2,000	RMB4,943.2	40.5
Liaoning Port Co., Ltd (2880)	26/5/2021	RMB6,000	RMB4,511.7	133.0
Financial Street Property Co., Limited (1502)	18/5/2021	RMB1,000	RMB1,378.7	72.5

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Company name (stock code)	Date of circular	Proposed maximum daily deposit balance (A) (Note 1) (million)	Total cash and deposits balance on the latest published annual report or interim report of the Comparable Companies as at the time of the circular (B) (Note 2) (million)	Proposed maximum daily deposit balance to total cash and deposit balance (A/B) Approximate %
China Shenhua Energy Company Limited (1088)	14/5/2021	RMB27,900	RMB124,066	22.5
Honghua Group Limited (196)	13/5/2021	RMB1,500	RMB952.4	157.5
China Foods Limited (506)	11/5/2021	RMB800	RMB1,860.4	43.0
BOC Aviation Limited (2588)	5/5/2021	US\$500	US\$407.6	122.7
Minmetals Land Limited (230)	25/2/2021	RMB3,000	HK\$3,556.7 (equivalent to approximately RMB3,284.1)	91.3
Luoyang Glass Company Limited (1108)	25/1/2021	RMB700	RMB563.4	124.2
Beijing Energy International Holding Co., Ltd. (686)	8/1/2021	RMB3,000	RMB2,026.0	148.1
Zhaojin Mining Industry Company Limited (1818)	31/12/2020	RMB5,000	RMB3,221.2	155.2

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Company name (stock code)	Date of circular	Proposed maximum daily deposit balance (A) (Note 1) (million)	Total cash and deposits balance on the latest published annual report or interim report of the Comparable Companies as at the time of the circular (B) (Note 2) (million)	Proposed maximum daily deposit balance to total cash and deposit balance (A/B) Approximate %
Hisense Home Appliances Group Co., Ltd. (921)	28/12/2020	RMB18,500	RMB6,689.9	276.5
Changan Minsheng APLL Logistics Co., Ltd. (1292)	14/12/2020	RMB190	RMB850.6	22.3
Changhong Jiahua Holdings Limited (3991)	11/12/2020	RMB2,500	HK\$717.9 (equivalent to approximately RMB662.9)	377.1
Yuexiu Transport Infrastructure Limited (1052)	4/12/2020	RMB1,500	RMB1,156.7	129.7
Xinte Energy Co., Ltd (1799)	2/12/2020	RMB1,000	RMB2,495.0	40.1
Inner Mongolia Yitai Coal Co., Ltd. (3948)	1/12/2020	RMB11,700	RMB13,589.1	86.1
Poly Culture Group Corporation Limited (3636)	30/11/2020	RMB600	RMB1,049.4	57.2

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Company name (stock code)	Date of circular	Proposed maximum daily deposit balance (A) (Note 1) (million)	Total cash and deposits balance on the latest published annual report or interim report of the Comparable Companies as at the time of the circular (B) (Note 2) (million)	Proposed maximum daily deposit balance to total cash and deposit balance (A/B) Approximate %
Sinopharm Group Co. Ltd. (1099)	27/11/2020	RMB5,000	RMB39,323.4	12.7
Genertec Universal Medical Group Company Limited (2666)	26/11/2020	RMB1,900	RMB2,833.4	67.1
CGN New Energy Holdings Co., Ltd. (1811)	25/11/2020	US\$680	US\$323.1	210.5
Sinotrans Limited (598)	20/11/2020	RMB5,000	RMB9,584.5	52.2
China BlueChemical Ltd. (3983)	13/11/2020	RMB400	RMB6,503.0	6.2
China Datang Corporation Renewable Power Co., Limited (1798)	13/11/2020	RMB6,000	RMB6,028.0	99.5
Everbright Grand China Assets Limited (3699)	10/11/2020	RMB46	RMB204.0	22.5

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Company name (stock code)	Date of circular	Proposed maximum daily deposit balance (A) (Note 1) (million)	Total cash and deposits balance on the latest published annual report or interim report of the Comparable Companies as at the time of the circular (B) (Note 2) (million)	Proposed maximum daily deposit balance to total cash and deposit balance (A/B) Approximate %
Guodian Technology & Environment Group Corporation Limited (1296)	23/10/2020	RMB4,500	RMB4,858.1	92.6
			Maximum	2,801.1
			Minimum	6.2
			Average	187.7
The Company (552)	1/12/2021	RMB8,500	RMB17,842.2	47.6

Notes:

1. Where the maximum daily deposit balance of the Comparable Companies under the respective annual caps are different, we have taken the maximum annual cap for the purpose of the above analysis.
2. Total cash and deposits balance are calculated based on the total cash and deposits excluding restricted/pledged bank deposits.

As set out in the table above, the proposed maximum daily deposit balances (i.e. the annual caps) of the Comparable Companies ranged from RMB46 million to RMB80,000 million and represented approximately 6.2% to 2,801.1% of their respective total cash and deposit balance (excluding restricted/pledged bank deposits) with an average of approximately 187.7%. The Group's ratio of proposed annual caps of RMB8.5 billion for the three years ending 31 December 2024 to total cash and cash equivalent as at 30 June 2021 of approximately 47.6% is within the range and lower than the average of those of the Comparable Companies.

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Having considered that (i) the amounts of deposits with China Telecom Finance is expected to increase due to the centralization of the Group's related transactions funds receipt by China Telecom Finance since March 2021; (ii) the increase in the Group's cash and cash equivalents and revenue for the three years ended 31 December 2020; (iii) the cash to be generated from the Group's daily business operations in the coming years in view of the improving financial performance of the Group with an increase in revenue and net profit for the three years ended 31 December 2020; (iv) the Group's ratio of the proposed annual caps of RMB8.5 billion for the three years ending 31 December 2024 to the Group's total cash and cash equivalent as at 30 June 2021 is within the range and lower than the average of those of the Comparable Companies, we are of the view that the proposed New Annual Caps of the deposit services under the 2021 Financial Services Framework Agreement for the three years ending 31 December 2024 to be fair and reasonable so far as the Independent Shareholders are concerned.

(d) *Credit risk control, internal control and risk management measures adopted by China Telecom Finance*

As stated in the Letter from the Board, we noticed the following capital risk control, internal control and risk management measures adopted by China Telecom Finance:

- (i) **Regulated and supervised by regulatory authorities:** As a non-banking financial institution established with the approval of the CBIRC, China Telecom Finance is subject to the direct routine supervision by the CBIRC Beijing Branch, and shall abide by all applicable regulatory provisions, including the restrictions on capital adequacy ratio, liquidity ratio and the ratio of borrowing balance and the amount of outstanding guarantees to total capital, as well as the ratio of short-term investment in securities and long-term investment to total capital. Meanwhile, China Telecom Finance is directly regulated by the People's Bank of China to pay deposit reserve in full and in a timely manner.
- (ii) **Undertaking by China Telecom:** Pursuant to the regulatory requirements of the CBIRC, China Telecom undertakes to increase the capital of China Telecom Finance based on the actual needs of resolving payment difficulty upon the emergency of such difficulty, particularly including but not limited to, providing liquidity support to China Telecom Finance when China Telecom Finance has difficulty in making payment, and replenish the capital of China Telecom Finance in a timely manner upon the occurrence of capital erosion as a result of operating losses of China Telecom Finance.

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- (iii) **Establishment of a core business system with safe and stable operation:** China Telecom Finance is a subsidiary of China Telecom Corporation which is responsible for supervising the establishment of a core business system with safe and stable operation by China Telecom Finance. Currently, such system has passed the safety test for connecting online commercial banks, and has met the national safety standard for commercial banks, which assures fund safety by providing requisite facilities in respect of information technology and assuring functions and performance of the system.
- (iv) **Adoption and optimization of information technology measures:** China Telecom Finance will adopt information technology measures to supervise the transactions conducted under the 2021 Financial Services Framework Agreement. China Telecom Finance will set alert values and notification rules in the core business system corresponding to the annual caps for the relevant transactions, and the core business system will collect the information on the relevant transaction scales timely, compare with the alert values automatically, and issue system notification and order to control the transaction behaviors according to the preset rules. Such system design will ensure that the actual transaction amount will not exceed the relevant annual caps under the 2021 Financial Services Framework Agreement.
- (v) **Regulated under China Telecom Corporation's management system for connected transactions:** China Telecom Finance is a subsidiary of China Telecom Corporation. On the basis of the existing well-established management system for connected transactions of China Telecom Corporation, China Telecom Corporation and China Telecom Finance have developed supplemental regulations covering relevant measures for risk control and risk management. The continuing connected transactions in relation to financial services among China Telecom Finance and each of the Group, China Telecom and China Telecom Corporation will be conducted under effective control and regulation via China Telecom Corporation's connected transaction management systems. China Telecom Corporation has existing internal control regulations covering fund management business, financing business and monetary fund management business, which could effectively regulate the relevant business activities on the commencement of financial services by leveraging on the extensive experience of financial management personnel of China Telecom Corporation in fund management sector for years.

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- (vi) **China Telecom Finance has set up a sound corporate governance structure:** Through shareholders' meeting, the board, the supervisory committee and the management as well as the special committees under the board and the management, China Telecom Finance would be able to ensure its stable operation and effective supervision. China Telecom Finance has developed an internal control system with dynamic update mechanism covering all business sectors. Through strengthening measures such as audit and review, China Telecom Finance would be able to ensure the effectiveness of its internal control and strict implementation of its rules and regulations. Moreover, it has also set up relatively sound risk management organizational structures.

According to the *Administrative Measures for Finance Companies of Enterprise Groups* (企業集團財務公司管理辦法) (the “**Administrative Measures**”), China Telecom Finance is obligated to follow the deposit reserve requirement imposed by the People's Bank of China which demand China Telecom Finance to set aside deposit reserve to place under the People's Bank of China according to a set percentage of the deposit balance. This brings an extra protection to the safety of the deposit in China Telecom Finance.

In addition, we had also reviewed the legal opinion of the PRC legal advisers and discussed it with the Management. According to the PRC legal opinion report, China Telecom Finance is regulated by the CBIRC under the Administrative Measures which has a high standard of regulatory requirement to protect from defaults risk and liquidity risk. As stated in the Letter from the Board, we noticed that China Telecom undertakes to increase the capital of China Telecom Finance based on the actual needs of resolving payment difficulty upon the emergency of such difficulty, particularly including but not limited to, providing liquidity support to China Telecom Finance when China Telecom Finance has difficulty in making payment, and replenish the capital of China Telecom Finance in a timely manner upon the occurrence of capital erosion as a result of operating losses of China Telecom Finance. In other words, China Telecom will ultimately bear the default risk and liquidity risk of China Telecom Finance.

Furthermore, we have reviewed the public information of China Telecom Group. We noted that China Telecom Group is a state-owned enterprise established under the laws of the PRC. Its principal business is investment holding of companies which are primarily involved in the provision of telecommunications services, the provision of specialized telecommunication support services and other businesses in the PRC. According to the A-share Prospectus, the registered capital of China Telecom Group amounts to RMB213.1 billion as at 6 August 2021. As at 31 December 2020, China Telecom Corporation Group has total assets of approximately RMB715.1 billion, net profit of approximately RMB21.1 billion and asset-liability ratio of approximately 48.8%. On the basis of the above financial

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figures, we are of the view that China Telecom Group has sufficient financial resources to fulfill its obligations under the undertakings given to China Telecom Finance.

Having considered (i) the provision of financial services by China Telecom Finance will be restricted to the member companies of China Telecom Group; (ii) China Telecom Finance is a licensed financial institution and governed by the CBIRC under the Administrative Measures; (iii) China Telecom has provided undertakings to China Telecom Finance when China Telecom Finance has difficulties in making payments; and (iv) China Telecom Group has enough financial resources to fulfill its obligations under the undertakings given to China Telecom Finance, we concur with the Directors' view that the Company will not face higher risks than the risks faced by the banking industry in general in respect of the use of financial services provided by China Telecom Finance.

(e) *Internal control and risk management measures of the Company for the 2021 Financial Services Framework Agreement*

As stated in the Letter from the Board, we noticed that the Company has established the following internal control and risk management measures for the 2021 Financial Services Framework Agreement as follow:

- (i) **Effective connected transactions management system:** The Company has formulated and strictly implemented the *Administrative Measures of Connected Transactions of China Communications Services Corporation Limited*, the *Internal Control Guidance of China Communications Services Corporation Limited* and the *Administrative Measures of Connected Transactions on Financial Services of China Communications Services Corporation Limited* to make regular assessment on the effectiveness of the related internal control systems for connected transactions, thereby ensuring that the connected transactions are conducted on a regulated basis under fair and reasonable pricing principles and transaction methods and in the interests of the Company and the Shareholders as a whole, and that the continuing connected transactions under the 2021 Financial Services Framework Agreement will be conducted under effective control and regulation via the Company's connected transaction management systems.
- (ii) **Day-to-day management by the Finance Department:** The Group determines reasonable annual caps for each of the financial service connected transactions with reference to the historical similar transaction data, strategic development plans and fund management objectives. The

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finance department of the Company (the “**Finance Department**”) is responsible for the day-to-day management of financial service connected transactions, including:

- (1) formulating administrative measures and fundamental procedures for financial service connected transactions;
- (2) determining the caps in respect of the relevant transactions;
- (3) leading the preparation, adjustment and dissemination of the budget for financial service connected transactions;
- (4) organizing accounting, checking, analysis and report of financial service connected transactions; and
- (5) supervising, reviewing and assessing the execution of financial service connected transactions.

The Finance Department will conduct transactions under the pricing principles and transaction methods under the 2021 Financial Services Framework Agreement, and procure all subsidiaries of the Company to timely check with China Telecom Finance the types and amounts of connected transactions on a monthly basis, to ensure the consistency in the types of connected transactions and transaction data. In addition, the Finance Department will set cap alert for the transactions. The cap alert will usually be set at 80% of the annual caps for the connected transactions, so as to effectively avoid the risk of exceeding the annual caps for connected transactions. The core business system of China Telecom Finance also facilitates and supports the Company to monitor relevant transaction information, thereby ensuring the transaction amounts will not exceed the relevant annual caps. The Finance Department will closely monitor the transaction status under the 2021 Financial Services Framework Agreement, review the monthly budgets of the subsidiaries of the Company under the 2021 Financial Services Framework Agreement, as well as check the implementation status of the cap alert on a daily basis.

- (iii) **Comparison with the terms offered by the major cooperative commercial banks to the Group:** The Company will select three major cooperative state-owned commercial banks or national joint-stock commercial banks as comparable banks, for comparison with the deposit interest rates, loan interest rates and fees for other financial services offered by China Telecom Finance. For the same type of deposit, loan or other financial services under the same conditions, the Company may choose to make deposits, borrowing, or receive other financial services

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with China Telecom Finance only when the terms offered by China Telecom Finance are equivalent to or more favorable than those offered by the three comparable banks and no less favorable than those offered by China Telecom Finance to other member companies of China Telecom. In the event of any changes in the regulations on interest rates published by the People's Bank of China, the Finance Department will contact and discuss with China Telecom Finance to ensure that any corresponding adjustment to deposit interest rate or loan interest rate made by China Telecom Finance will be in line with the relevant new regulations on interest rates published by the People's Bank of China as well as the pricing policies set out in the 2021 Financial Services Framework Agreement.

- (iv) **Comparison with the terms offered to China Telecom and China Telecom Corporation:** The Finance Department will check on a monthly basis relevant rates and charges, and compare the interest rates for deposits, interest rates for loans and service fees charged in respect of the deposit services, loan services and other financial services by China Telecom Finance to the Group, China Telecom and China Telecom Corporation, to make sure that the transactions are conducted in accordance with the pricing policies under the 2021 Financial Services Framework Agreement.
- (v) **Board and management review on risk management and internal control:** The Finance Department reports to the audit committee of the Board on the execution of relevant connected transactions on a regular basis. The internal audit division of the Company incorporates connected transactions into the scope of annual internal evaluation, and reports to the management. The Board supervises the Company's risk management and internal control system (including the internal control system for connected transactions) on an ongoing basis, and carries out annual review on the Company's risk management and internal control system during the year via the audit committee, and will confirm that the Company's risk management and internal control system is stable, sound, effective and adequate after listening to the report by the internal audit division and obtaining the confirmation on the effectiveness of the system from the management to the Board.
- (vi) **Annual review by the independent non-executive Directors:** The independent non-executive Directors of the Company will carry out annual review on the continuing connected transaction agreements and the transactions thereunder, and confirm that such transactions are (a) entered into in the ordinary course of business of the Group; (b) on

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normal commercial terms or better; and (c) according to the agreements governing such connected transactions on terms that are fair and reasonable, and in the interests of the Shareholders as a whole.

(vii) **Annual review and confirmation by the auditor:** The auditor of the Company will review the continuing connected transactions of the Company annually and confirm to the Board that nothing has come to its attention that causes it to believe that such transactions (a) have not been approved by the Board; (b) were not, in all material respects, in accordance with the pricing policies provided in the agreements governing such transactions; (c) were not entered into, in all material respects, in accordance with the agreements governing such transactions; and (d) have exceeded the applicable respective annual caps.

(viii) **Reflection of the Company's legitimate interests in China Telecom Finance through various means, such as the shareholders' meeting of China Telecom Finance:** The Company holds 15% equity interest in China Telecom Finance and it can propose director and supervisor of China Telecom Finance pursuant to the Company Law of the PRC and other relevant laws and regulations, so as to facilitate the effective governance of China Telecom Finance. The Company has recommended one director and one supervisor at the board of directors and the supervisory committee of China Telecom Finance, respectively, so China Telecom Finance would be able to better understand the business development and funding needs of the Group, enabling it to have a more comprehensive consideration of the Group's funding and operating needs and arrangement in its business operations.

As stated in the Letter from the Board, the internal control and risk management measures of China Telecom Finance and the Company set out above are to minimize to the extent possible the risks relating to the use of financial services provided by China Telecom Finance that the Group may be exposed to and to safeguard the interests of the Company and the Shareholders as a whole. We agree with the Directors that the above measures are able to assist the Company in monitoring, in a reasonable and effective manner, the transactions under the 2021 Financial Services Framework Agreement in material aspects and would be sufficient for internal control management purposes.

As disclosed under the sub-section headed "(d) Credit risk control, internal control and risk management measures adopted by China Telecom Finance — (iv) Adoption and optimization of information technology measures" above, China Telecom Finance will adopt information technology measures to supervise the transactions conducted under the 2021 Financial Services Framework Agreement. China Telecom Finance will set alert values and notification rules in the core

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business system corresponding to the annual caps for the relevant transactions, and the core business system will collect the information on the relevant transaction scales timely, compare with the alert values automatically, and issue system notification and order to control the transaction behaviors according to the preset rules. Such system design will ensure that the actual transaction amount will not exceed the relevant annual caps under the 2021 Financial Services Framework Agreement. As advised by the Management, such control measures have been used to ensure that the actual transaction amount has not exceeded the relevant annual caps under the 2019 Financial Services Framework Agreement. Based on our review of the annual reports of the Company for the years ended 31 December 2019 and 2020, we noted that both the independent non-executive Directors and the auditors of the Company confirmed that the actual transaction amount of the continuing connected transactions have not exceeded their respective annual caps. Based on the above, we are of the view that the Company's internal control procedures in place are effective to ensure that the proposed annual caps will not be exceeded.

After considering the internal control management and risks control measures of the Company under the 2021 Financial Services Framework Agreement, we agree with the Directors that the risks relating to the use of financial services provided by China Telecom Finance mainly include: (1) the risks faced by the banking industry in general; and (2) the risks resulting from the fact that China Telecom Finance is a group finance company controlled by China Telecom Corporation. After taking into account all the factors disclosed above, the Directors believe that the Company will not face higher risks than the risks faced by the banking industry in general in respect of the use of financial services provided by China Telecom Finance. As to the risks resulting from the fact that China Telecom Finance is a financial institution controlled by China Telecom Corporation, the Directors believe that the risks can be minimized or avoided through the internal control and risk management measures disclosed above. After considering all the relevant factors, including the benefits on the use of financial services provided by China Telecom Finance, the risks that possibly exist, and the risks management measures and internal control system of China Telecom Finance and the Company, we agree with the Directors that the use of such financial services is in the interests of the Company and the Shareholders as a whole.

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LISTING RULES' IMPLICATIONS

The Non-exempt Continuing Connected Transactions (together with the proposed New Annual Caps thereof) are subject to the annual review requirements of Rule 14A.55 to 14A.59 of the Listing Rules. According to the Company's annual report for the year ended 31 December 2020 (the "2020 Annual Report"), the independent non-executive Directors have confirmed that the Non-exempt Continuing Connected Transactions for the year ended 31 December 2020:

- 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 as a whole.

Furthermore, according to the 2020 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; and
- 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.

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 have been carried out in the ordinary and usual course of business of the Group and 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 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

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vote in favor of the ordinary resolutions in respect of the Non-exempt Continuing Connected Transactions 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
Bernard Tam
*Managing Director and Head
of Investment Banking*

Mr. Bernard Tam is a Responsible Officer of Pulsar Capital Limited licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO. He has over 20 years of experience in corporate finance industry.

1. FINANCIAL INFORMATION OF THE GROUP

The unaudited consolidated financial statements of the Company for the six months ended 30 June 2021 and the audited consolidated financial statements of the Company for the three years ended 31 December 2020 together with the relevant notes to the financial statements of the Company can be found on pages 13 to 43 of the interim report of the Company for the six months ended 30 June 2021, pages 121 to 206 of the annual report of the Company for the year ended 31 December 2020, pages 129 to 234 of the annual report of the Company for the year ended 31 December 2019 and pages 99 to 192 of the annual report of the Company for the year ended 31 December 2018.

Please also see below the hyperlinks to the interim report of the Company for the six months ended 30 June 2021 and the annual reports of the Company for the three years ended 31 December 2020, respectively.

<https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0914/2021091400426.pdf>

<https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0424/ltn20190424310.pdf>

<https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0428/2020042801298.pdf>

<https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0428/2021042800715.pdf>

2. STATEMENT OF INDEBTEDNESS

As at the close of business on 31 October 2021, the Group's unaudited outstanding interest-bearing bank loan amounted to approximately RMB805 million, lease liabilities amounted to approximately RMB1,652 million.

Save as aforesaid, the Group did not have any outstanding indebtedness in respect of any mortgages, charges or debentures, loan capital, bank loans and overdrafts, loans, debt securities or other similar indebtedness, or hire purchase commitments, lease commitments, guarantees or other material contingent liabilities as at the close of business on 31 October 2021.

The Directors have confirmed that there has not been any material change in the indebtedness or the contingent liabilities of the Group from 31 October 2021 to the Latest Practicable Date.

3. SUFFICIENCY OF WORKING CAPITAL

As at the Latest Practicable Date, after due enquiry and taking into account factors such as the Group's business prospects, cash and indebtedness level, barring unforeseen circumstances, the Directors are of the opinion that the Group will have sufficient working capital for its requirement for at least the next 12 months from the date of publication of this circular.

4. MATERIAL ACQUISITION SINCE LAST AUDITED ACCOUNTS

Since 31 December 2020, being the date to which the latest published audited accounts of the Company have been made up, no member of the Group has acquired or agreed to acquire or is proposing to acquire a business or an interest in the share capital of a company whose profits or assets make or will make a material contribution to the figures in the next published financial statements of the Group for the year ending 31 December 2021.

5. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

2021 marks the first year of the “14th Five-Year Plan” and China will enter into a new chapter of development. As a “New Generation Integrated Smart Service Provider”, the Group will seize the opportunities brought by the robust development of digital economy, acceleration of digital transformation in society and the fulfillment of national objectives such as “Carbon Peak, Carbon Neutrality”, on the condition that sound pandemic prevention and control measures are in place. The Group will increase investment in research and development in the relevant areas, leverage the advantages as a “New Generation Integrated Smart Service Provider”, and will continue to promote its high-quality development by implementing the strategy of both organic growth and external development.

In the domestic non-operator market, the Group will penetrate key sectors, including government, electricity, transportation, construction and Internet, as well as key regions, namely the Yangtze River Delta, the Guangdong-Hong Kong-Macao Area and the Beijing-Tianjin-Hebei Area, and will continue to develop New Infrastructure businesses represented by 5G, data centers, IoT and Industrial Internet by leveraging its smart product portfolio. Riding on years of established relationship with telecommunications operators, the Group will capitalize on the synergistic advantages to jointly provide more premium services for customers in society. The Group will continue to expand the revenue scale of the domestic non-operator market and enhance its development quality, so as to maintain sufficient and stable momentum for the corporate development in the future.

In the domestic telecommunications operator market, the Group will persist in the “CAPEX and OPEX + Smart Applications” development strategy and seize the opportunities arising from 5G, big data, cloud-network integration, etc. The Group will endeavour to develop the traditionally advantageous businesses by assisting customers to construct the new network infrastructure facilities featuring cloud-network integration. The Group will also provide customers with “Cloud + 5G + DICT” multi-scenario products and services to meet customers’ business development needs and their digital transformation requirements. By virtue of years of experience and adopting the motto of “the highest excellence is like that of water” in its corporate culture, the Group will identify and evaluate new customer demand on service quality in the new era and promptly respond to their new requirements, with an aim of demonstrating its value, integrating itself into the industry’s ecosystem, and maintaining the Group’s fundamentals for stable operation.

In the overseas market, the Group is fully aware that the pandemic prevention and control situation overseas is severe, complex as well as long-standing, and so it will build the baseline of overseas pandemic risk prevention in a consistent and careful manner. Meanwhile, the Group will seize opportunities brought by the advancement of “Belt and Road” and the “new development paradigm of dual-circulation with domestic and international development reinforcing each other”. While focusing on the implementation of existing major general contracting projects, the Group will leverage the “EPC+F+I+O+S” model to seek further breakthroughs in the fields of electricity, transportation, smart city and operators’ OPEX business. The Group will continue to strengthen cooperation with domestic telecommunications operators and those “Go Abroad” Chinese enterprises, leverage complementary advantages, and constantly develop new income sources in overseas markets. The Group will adopt a variety of financial and IT measures to forecast and prevent business risks overseas.

Capitalizing on the opportunity of the introduction of strategic shareholders, the Group will utilize industry capital as the growth multiplier for corporate development, and start a new phase of its sustainable and healthy development.

CHAPTER I DEFINITIONS

In the Scheme, the following expressions shall have the meanings set out below unless the context requires otherwise:

“the Scheme”	Share Appreciation Rights Incentive Scheme of China Communications Services Corporation Limited (draft) (《中國通信服務股份有限公司股票增值權激勵計劃》(草案)) (“Share Appreciation Rights Scheme”)
“the Company”	China Communications Services Corporation Limited, with short name of “China Comservice”
“China Telecom”	China Telecommunications Corporation (中國電信集團有限公司)
“Share(s)” or “Ordinary Share(s)”	ordinary share(s) of the Company
“Tradable Share(s)”	the issued Ordinary Share(s) being traded on the Stock Exchange, also referred to as “H Share(s)”
“Share Appreciation Rights” or “Appreciation Rights”	the rights granted by the Company to Incentive Recipients, which entitle the Incentive Recipients to obtain gains from the appreciation of stipulated number of H Shares during a certain period and under certain conditions
“Units of Share Appreciation Rights”	the basic unit in appreciation on the Tradable Shares of the Company to be obtained under the Scheme, also referred to as “the number of Shares”
“Scheme Effective Date”	the date as stipulated in Clause 11 of the Scheme
“Scheme Effective Period”	the period as stipulated in Clause 12 of the Scheme
“Board”	the board of Directors
“Supervisory Committee”	the supervisory committee of the Company
“Executive Director(s)”	director(s) holding any executive positions as an employee who has entered into an employment contract with the Company and is entitled to monthly remuneration
“Supervisor(s)”	the member(s) of the Supervisory Committee

APPENDIX II SHARE APPRECIATION RIGHTS INCENTIVE SCHEME

“Remuneration Committee”	the special committee established under the Board, the members of which are directors and shall be appointed by the Board. More than half of the members of the Remuneration Committee are not related persons, i.e. “independent non-executive Directors”, of which the chairman shall be an independent non-executive director
“Grantee(s)” or “Incentive Recipient(s)”	person(s) who has/have been granted Share Appreciation Rights under the Scheme
“Date of Grant”	the date on which the Share Appreciation Rights are granted to the Incentive Recipient(s) by the Company, subject to the fulfilment of the conditions of grant under the Scheme. The Date of Grant must be a Trading Day, as determined by the Company’s Board in accordance with the relevant regulations
“Effective Date of Share Appreciation Rights”	the date(s) in respect of part or all the granted Share Appreciation Rights on or after which the holder(s) of such Share Appreciation Rights is/are entitled to the gains based on the difference between the market price on the Exercise Date and Exercise Price according to the Restriction Schedule under the Scheme
“Exercise Date”	the date on which Share Appreciation Rights are exercised at the Exercise Price
“Exercise”	the exercise of Share Appreciation Rights
“Lapse Date”	the date on which the Share Appreciation Rights as provided in the Scheme shall lapse
“Effective Period”	the period from the Date of Grant to the Lapse Date of Share Appreciation Rights
“Lock-up Period”	the period from the Date of Grant until the Effective Date of the Share Appreciation Rights, during which no Share Appreciation Rights shall be exercised
“Effective”	after the expiration of the Lock-up Period, the Incentive Recipient(s) is/are allowed to exercise part or all of the Share Appreciation Rights when the Company and the Incentive Recipient’s individual performances meet the performance-based conditions of Share Appreciation Rights which have been set

APPENDIX II	SHARE APPRECIATION RIGHTS INCENTIVE SCHEME
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“Restriction Schedule”	an arrangement allowing Share Appreciation Rights granted in one batch to be Effective by batches in different times or to be Effective in one batch according to the prescribed schedule
“Exercise Price”	the price fixed in accordance with Clause 16 of the Scheme
“Fair Market Price”	the fair market price of a Tradable Share on a particular Trading Day, which shall be the higher of: (1) the closing price on that Trading Day; and (2) the average closing prices of the five consecutive trading days preceding that Trading Day. The relevant closing price shall be the closing price as stated in the daily quotations sheet of the Stock Exchange
“Trading Day”	the date on which the Stock Exchange is open for trading marketable securities
“SASAC”	State-owned Assets Supervision and Administration Commission of the State Council
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Retirement”	an employee retiring from his existing working position due to his/her age reaching or exceeding statutory retirement age and discharged from the employment contract, or allowed and approved by the Company to retire in advance due to the state regulations and standards on long-term incapability
“Transfer”	a transfer from existing position beyond the control of such employee which must be complied with unconditionally
“Articles of Association”	the Articles of Association of the Company

CHAPTER II GENERAL PROVISIONS

Clause 1 In order to further improve the corporate governance structure of the Company, refine the mid- to long-term incentive mechanism of the Company combining incentives and constraints, cope with the fierce industry competition and support the Company's long-term development, fully motivate the core managements and key personnel of the Company, and optimize the overall remuneration system of the Company, the Company has formulated the Share Appreciation Rights Incentive Scheme of China Communications Services Corporation Limited (draft) in accordance with the Company Law of the People's Republic of China, the Trial Measures for the Implementation of the Equity Incentive Schemes by State-Controlled Listed Companies (Overseas) (國有控股上市公司(境外)實施股權激勵試行辦法), the Working Guidelines for the Implementation of Equity Incentive by Listed Companies Controlled by Central Enterprises (中央企業控股上市公司實施股權激勵工作指引), the Notice on Issues concerning Regulating the Implementation of the Equity Incentive Scheme by State-Controlled Listed Companies (關於規範國有控股上市公司實施股權激勵制度有關問題的通知), the Listing Rules of the Stock Exchange, and other relevant laws, regulations, departmental regulations, and regulatory documents and the Articles of Association.

Clause 2 The Scheme is subject to the consideration of the Board of the Company, the review of China Telecom, the approval of SASAC and the consideration and approval of the shareholders' general meeting of the Company before the Board is authorized to implement the Scheme.

CHAPTER III PURPOSE OF THE SHARE APPRECIATION RIGHTS SCHEME

Clause 3 The Share Appreciation Rights Scheme of China Communications Services Corporation Limited (draft) is implemented for the purpose of:

- (1) further improving the corporate governance structure of the Company and establishing and continuously improving the mechanism for balancing the interests of shareholders, management and executive team.
- (2) establishing a benefit-sharing and discipline mechanism among shareholders, the Company and employees to bring sustainable returns to shareholders.
- (3) attracting, retaining and motivating outstanding management and core technical personnel, promoting the concept of joint sustainable development between the Company and employees, fully mobilizing the enthusiasm of core employees, and supporting the Company's realization of strategy and long-term steady development.

CHAPTER IV CORPORATE GOVERNANCE STRUCTURE AND FORMULATION AND MANAGEMENT OF THE SCHEME

Clause 4 The Company shall have a standardized corporate governance structure when implementing the Scheme. The corporate governance structure shall comprise the shareholders' general meeting, the Board, the Supervisory Committee and the management team, which shall perform their respective duties, operate in a coordinative manner and with effective checks and balances. The Company's external directors (including independent non-executive directors) shall account for more than half of the members of the Board and shall be able to perform their duties effectively. The Remuneration Committee of the Board of the Company is composed of independent non-executive directors, and shall have a robust system, sound rules of procedure and standardized operation.

Clause 5 The Scheme has been formulated by the Board. The Board has authorized that according to the Board's resolution, the Remuneration Committee shall be responsible for studying the remuneration system and incentive schemes of the Company, monitoring and evaluating the effects of implementation of the Scheme, and advising on the improvements and refinements of the Scheme. The Remuneration Committee shall make recommendations to the Board for consideration and approval on the list of the Grantees and their respective numbers of Share Appreciation Rights. When the Board cast the vote for the aforesaid matter, relevant interested persons therein shall abstain from voting. Without prejudice to the provisions of the Scheme, the Board shall exercise its conclusive right in respect of the date, Incentive Recipients and the respective numbers of Share Appreciation Rights to be granted. The Remuneration Committee shall authorize relevant management departments to be responsible for the due implementation of the Scheme.

CHAPTER V BASIS FOR THE DETERMINATION OF INCENTIVE RECIPIENTS AND THE SCOPE OF INCENTIVE RECIPIENTS

Clause 6 Basis for Determination of Incentive Recipients

The Incentive Recipients under the Scheme are determined in accordance with the Company Law of the People's Republic of China, the Trial Measures for the Implementation of the Equity Incentive Schemes by State-Controlled Listed Companies (Overseas) (國有控股上市公司(境外)實施股權激勵試行辦法), the Working Guidelines for the Implementation of Equity Incentive by Listed Companies Controlled by Central Enterprises (中央企業控股上市公司實施股權激勵工作指引), the Notice on Issues concerning Regulating the Implementation of Equity Incentive Scheme by State-Controlled Listed Companies (關於規範國有控股上市公司實施股權激勵制度有關問題的通知), the Listing Rules, and other relevant laws, regulations, rules, and regulatory documents and the Articles of Association, combined with the actual situation of the Company.

Clause 7 Scope of Incentive Recipients

The Incentive Recipients under the Scheme include the management of the Company, the operational management of provincial companies and professional companies of the Group, as well as professional talents, and core management, technical and business personnel, etc. who contributed prominently to the Company's operating results and sustainable development.

Clause 8 Participation of Specified Persons in the Scheme and Restrictions on Grant of Share Appreciation Rights to Specified Persons

- (1) According to the Scheme, the grant of Share Appreciation Rights to any director, senior management or any of their respective associates (as defined in the Listing Rules, excluding persons otherwise stipulated by the SASAC or other regulatory authorities) shall be subject to the approval of the independent non-executive directors of the Company.
- (2) Senior management personnel of China Telecommunications Corporation, the controlling shareholder of the Company, who hold positions in the Company other than independent directors and supervisors, may participate in the Scheme, but such personnel may only participate in the share incentive scheme of one listed company in which they serve.
- (3) Person-in-charge of the enterprises administrated by the central government and party committee of SASAC shall not participate in share incentive schemes of listed companies.
- (4) The scope of the Incentive Recipients shall be conclusively determined by and construed according to the interpretations of the Board.

Clause 9 Personnel Who Shall not be Incentive Recipients

- (1) Persons who are not employees of the Company.
- (2) Independent directors and supervisors of the Company.
- (3) Any shareholder or de-facto controller and their close relatives who individually or jointly hold 5% or more of the Shares of the Company.
- (4) Persons who are prohibited by SASAC and securities regulatory authorities from participating in the share incentive schemes of listed companies.

If, in the course of the implementation of the Scheme, any of the above-mentioned circumstances arise under which the Incentive Recipients are prohibited from participating in the Scheme, the Company will cancel the outstanding Share Appreciation Rights granted to such Incentive Recipients and terminate his or her participation in the Scheme.

CHAPTER VI INCENTIVE INSTRUMENTS AND UNDERLYING SHARES

Clause 10 Each Share Appreciation Right granted under the Scheme entitles the Incentive Recipients to obtain the gains from the appreciation (which is the excess of the closing price over the Exercise Price on the Exercise Date) of one H Share of the Company during the Scheme Effective Period, provided that conditions and arrangements for taking effect are satisfied. The gains will be paid by the Company in cash. The Incentive Recipients do not have the ownership of the Shares involved, nor do they have the right of voting or placing as the shareholders. The Share Appreciation Rights shall not be transferred or used as guarantee or repaying debts.

CHAPTER VII EFFECTIVE PERIOD OF THE SHARE APPRECIATION RIGHTS SCHEME

Clause 11 The Effectiveness of the Share Appreciation Rights Scheme

The Share Appreciation Rights Scheme shall take effect based on the fulfilment of the following conditions:

- (1) the Share Appreciation Rights Scheme being granted approval by relevant regulatory authorities.
- (2) being approved and adopted at a shareholders' general meeting of the Company by way of a resolution.

The effective date of the Share Appreciation Rights Scheme shall be the date on which all the above conditions are fulfilled.

Prior to the effective date, the Company shall not grant any Appreciation Rights, nor is anyone entitled to any right or benefit under the Scheme.

Clause 12 Unless early terminated as provided in Chapter XV of the Scheme, the Share Appreciation Rights Scheme shall be valid for a period of ten (10) years commencing from the effective date. Upon the expiry of the Scheme, the Board shall not grant any Share Appreciation Rights pursuant to the Scheme. However, other provisions under the Scheme shall remain in full force and effect in all aspects. For the avoidance of doubt, to exercise any Share Appreciation Rights granted within the Scheme Effective Period, Share Appreciation Rights granted under the Scheme which have become effective shall remain valid, while those granted but not yet effective shall continue to be subject to the Restriction Schedule on exercise and other relevant provisions under the Scheme.

CHAPTER VIII GRANT OF SHARE APPRECIATION RIGHTS

Clause 13 Time Limit on the Grant of Share Appreciation Rights

The Board shall not grant Share Appreciation Rights to employees before a price-sensitive event may occur or a price-sensitive matter may arise as an outcome of a resolution, nor shall employees who have been granted Appreciation Rights exercise the same under such circumstance, until such time that the price-sensitive information has been announced or disclosed pursuant to the disclosure requirements of the Listing Rules.

Clause 14 Number of Share Appreciation Rights to be Granted

The total number of Share Appreciation Rights to be granted within the Scheme Effective Period shall not in aggregate exceed 10% of the total issued share capital of the Company, subject to the approval of the regulatory authorities.

If the cumulative total number of Share Appreciation Rights (including exercised and unexercised rights) granted to any single Incentive Recipient within the Scheme Effective Period reaches 1% of the total issued share capital of the Company, the Company will not further grant Share Appreciation Rights under the Scheme to such person to the Scheme.

Clause 15 Confirmation of Grant of Share Appreciation Rights

Grant of Share Appreciation Rights shall be notified to the Grantee in written form. The Grant Agreement of the Share Appreciation Rights shall specify the time of grant, quantity, Exercise Price, conditions to be fulfilled by the Grantee for holding the Share Appreciation Rights, and the principal terms of the Scheme.

If a Grantee fails to accept the grant in accordance with the procedures as set out on the Grant Agreement of the Share Appreciation Rights within the prescribed time, the grant of such Appreciation Rights shall be deemed as unaccepted and shall become void.

CHAPTER IX EXERCISE PRICE AND EFFECTIVENESS OF SHARE APPRECIATION RIGHTS

Clause 16 Determination of the Exercise Price

The Exercise Price of the Share Appreciation Rights shall be determined with reference to the Fair Market Price.

The Exercise Price of the Share Appreciation Rights to be granted under the Scheme shall be the highest of the following:

- (1) the closing price of the H Shares of the Company as stated in the daily quotation sheet of the Stock Exchange as at the Date of Grant;

- (2) the average closing price of the H Shares of the Company as stated in the daily quotation sheet of the Stock Exchange for five consecutive Trading Days prior to the Date of Grant;
- (3) the nominal value of the H Shares of the Company.

Clause 17 Frequency of Grant of Share Appreciation Rights

Unless otherwise arranged by the Board, the Board shall, at an interval of every two years in principle, decide on whether to grant Share Appreciation Rights to qualified persons, and also on the specific arrangements for grant. The Board shall determine the number of Share Appreciation Rights to be granted to the Grantee with reference to his/her duty and performance appraisal.

Clause 18 Grant Conditions

- (1) None of the following circumstances has occurred to the Company:
 1. issuance of an audit report containing an adverse opinion or a disclaimer of opinion by a certified public accountant in the financial and accounting report for the most recent accounting year;
 2. prohibition from the implementation of equity-based incentives by laws and regulations;
 3. other circumstances under which SASAC, securities regulatory authorities and the shareholders' general meeting, would consider the Share Appreciation Rights Scheme could not be implemented.
- (2) None of the following circumstances has occurred to the Incentive Recipients:
 1. having been publicly reprimanded or declared as unqualified Incentive Recipients by the Stock Exchange in the last three years;
 2. being imposed of any administrative penalty by any regulatory authority due to material non-compliance with laws and regulations in the last three years;
 3. serious misconduct or malpractice;
 4. violation of state laws and regulations, and the Articles of Association;
 5. any act that breaches the laws and regulations, including accepting or soliciting bribes, corruption, theft, leaking the Company's commercial and technical secrets, prejudicing the Company's interests and causing significant impact on the Company's reputation and image, etc., during their tenure of office;
 6. any other serious breach of the Company's provisions as determined by the Board.

APPENDIX II SHARE APPRECIATION RIGHTS INCENTIVE SCHEME

If the Company fails to meet the grant conditions, the Company shall not grant any Share Appreciation Rights under the Scheme; if any Incentive Recipient is not up to the grant conditions, the Company shall not grant any Share Appreciation Rights to the Incentive Recipient under the Scheme.

Clause 19 Effective Period Arrangement

All the Share Appreciation Rights granted to Grantees under the Scheme shall not be effective within two years (24 months) from the Date of Grant, nor shall be exercised prior to becoming effective. In principle, the Share Appreciation Rights shall become effective in the following manner:

- (1) by the end of the second anniversary (24 months) from the Date of Grant, 33% of the Share Appreciation Rights granted to each Incentive Recipient under such grant shall become effective;
- (2) by the end of the third anniversary (36 months) from the Date of Grant, another 33% of the Share Appreciation Rights granted to each Incentive Recipient under such grant shall become effective;
- (3) by the end of the fourth anniversary (48 months) from the Date of Grant, the remaining 34% of the Share Appreciation Rights granted to each Incentive Recipient under such grant shall become effective.

Only the Share Appreciation Rights which have become effective can be exercised. The portion which has not become effective shall not be exercised.

Clause 20 Effective Conditions

- (1) When the Share Appreciation Rights under the Scheme become effective by batch, performance-based conditions (including the requirements of the performance indicators of the Company and performance appraisal for the Incentive Recipients) shall be set for each batch of Share Appreciation Rights. Specific conditions shall be made by the Board and approved by the shareholders' general meeting. The Share Appreciation Rights can be exercised only when all performance-based conditions meet the target value set for the period.
- (2) None of the circumstances specified in (1) of Clause 18 has occurred to the Company.
- (3) None of the circumstances specified in (2) of Clause 18 has occurred to the Incentive Recipients.

CHAPTER X EXERCISE OF THE SHARE APPRECIATION RIGHTS

Clause 21 Timing for Exercise

Under the Scheme, the Share Appreciation Rights that have become effective may be exercised on any date which does not fall within any trading-sensitive period (or other Lock-up Period (if applicable)) as stipulated by the securities regulatory authorities within the Effective Period of the Share Appreciation Rights. Meanwhile, the timing for Exercise must also comply with the relevant requirements of the Company.

Clause 22 Confirmation of Exercise

The Grantee may exercise Share Appreciation Rights after the Exercise conditions of the Share Appreciation Rights are satisfied. The Company will centrally coordinate the Exercise on behalf of the Incentive Recipients, and the Human Resources Department and Financial Department will pay the corresponding gains to the holders of the Share Appreciation Rights.

Clause 23 Actual Gains of the Share Appreciation Rights

Gains on the Exercise = number of Share Appreciation Rights exercised × (closing price of H Shares on the Exercise Date – Exercise Price).

If any adjustment is made to the regulations on the gains from the Exercise of equity incentives by relevant regulatory authorities after the Share Appreciation Rights are granted, the Share Appreciation Rights Scheme of China Comservice shall be implemented pursuant to relevant regulations.

Clause 24 In respect of the Share Appreciation Rights granted to the directors and senior management of the Company, the cash gained from the Exercise shall be credited into the accounts set up by the listed company for the Incentive Recipients. Not less than 20% of the cash gains in the account may only be withdrawn upon recognition of satisfactory performance appraisal at the end of their appointment (or term of office).

CHAPTER XI TREATMENT UNDER SPECIAL CIRCUMSTANCES

Clause 25 In case of any merger, division or change of control of the Company, in principle, all the Share Appreciation Rights that have been granted shall remain unchanged, and no accelerated Exercise is allowed to the Incentive Recipients. However, if such merger, division or change of control causes a change of the underlying Shares under the Scheme, the reporting and approval procedures shall be performed again.

Clause 26 If an Incentive Recipient discharges or terminates employment relationship with the enterprise due to objective reasons such as Transfer, removal, Retirement, death and loss of civil capability:

- (1) the Share Appreciation Rights granted to such person (to the extent exercisable) can be exercised within a half-year period from his/her departure on the condition that the lock-up requirement of such rights and his/her performance appraisal targets for that year have been satisfied, and the rights will lapse after the half-year period;
- (2) such Share Appreciation Rights shall cease to be exercisable in principle where both the lock-up requirement and the performance appraisal targets for that year have not been satisfied.

If a Grantee dies, his/her lawful heir can exercise the rights in accordance with the above provisions.

Clause 27 If an Incentive Recipient is unable to perform his/her duties due to persistent poor performance, violates the laws and regulations which causes damage and loss to the Company:

- (1) the Share Appreciation Rights that are not yet effective shall lapse;
- (2) the Share Appreciation Rights that are effective but not yet exercised shall lapse.

Clause 28 If an Incentive Recipient terminates employment relationship with the Company for reasons other than those specified above:

- (1) the Share Appreciation Rights that are not yet effective shall lapse;
- (2) the Share Appreciation Rights that are effective but not yet exercised shall lapse on the date of departure.

Clause 29 In the event of any change in the position of an Incentive Recipient, if he/she remains holding positions in the Company, his/her portion of Share Appreciation Rights that have been granted and the conditions for those portions to become effective shall remain unchanged.

Clause 30 In the event of any other circumstances of the Company or an Incentive Recipient unspecified above, the Board will deal with his/her Share Appreciation Rights pursuant to the above principles.

CHAPTER XII ADJUSTMENT TO THE SHARE APPRECIATION RIGHTS

Clause 31 In the event of any change in the total share capital of the Company resulting from, among others, issuance of new Shares, conversion from capital reserves into share capital, merger and division, the Exercise Price and the number of Share Appreciation Rights shall be adjusted accordingly.

APPENDIX II SHARE APPRECIATION RIGHTS INCENTIVE SCHEME
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Clause 32 Adjustment to the Number of Share Appreciation Rights

If, prior to the Exercise, any of the following circumstances of the Company occurs, the number of Share Appreciation Rights shall be adjusted accordingly in such a way as specified below:

- (1) Conversion of capital reserve into Shares, distribution of bonus Shares and Share subdivision

$$\text{granted quantity after adjustment} = \frac{\text{granted quantity before adjustment} \times (1 + \text{increase in the number of Shares per share due to the conversion, distribution or subdivision})}{1}$$

- (2) Share consolidation

$$\text{granted quantity after adjustment} = \text{granted quantity before adjustment} \times \text{ratio of share consolidation}$$

- (3) Placing and additional issuance

$$\text{granted quantity after adjustment} = \frac{\text{granted quantity before adjustment} \times \text{closing price as at the share record date} \times (1 + \text{ratio of the placing or additional issuance})}{\text{closing price as at the share record date} + \text{price of the placing or additional issuance} \times \text{ratio of the placing or additional issuance}}$$

Clause 33 Adjustment to the Exercise Price of Share Appreciation Rights

If, prior to the Exercise, any of the following circumstances of the Company occurs, the Exercise Price of the Share Appreciation Rights shall be adjusted accordingly in such a way as specified below, provided that such adjustment shall not cause the Exercise Price to be lower than the nominal value of Shares:

- (1) Conversion of capital reserve into Shares, distribution of bonus Shares and Share subdivision

$$\text{Exercise Price after adjustment} = \frac{\text{Exercise Price before adjustment}}{(1 + \text{increase in the number of Shares per share due to the conversion, distribution or subdivision})}$$

APPENDIX II SHARE APPRECIATION RIGHTS INCENTIVE SCHEME

(2) Share consolidation

Exercise Price after adjustment = $\text{Exercise Price before adjustment} \div \text{ratio of share consolidation}$

(3) Dividend distribution

Exercise Price after adjustment = $\text{Exercise Price before adjustment} - \text{the amount of dividend distributed per share}$

(4) Placing and additional issuance

Exercise Price after adjustment = $\frac{\text{Exercise Price before adjustment} \times (\text{closing price as at the share record date} + \text{price of the placing or additional issuance}) \times \text{ratio of the placing or additional issuance}}{(\text{closing price as at the share record date} \times (1 + \text{ratio of the placing or additional issuance}))}$

Clause 34 If the Company adjusts the Exercise Price or the number of Share Appreciation Rights granted or other clauses for the reasons described in Clause 32 and 33 of the Scheme, it shall be considered and approved by the Board as authorized by the shareholders' general meeting.

CHAPTER XIII RIGHTS AND OBLIGATIONS OF THE COMPANY AND INCENTIVE RECIPIENTS

Clause 35 Rights and Obligations of the Company

- (1) The Company shall appraise the performance of the Incentive Recipients and supervise and review whether the Incentive Recipients are qualified to continue to Exercise;
- (2) The Company will withhold and pay on behalf of the Incentive Recipients any accrued individual income taxes and any other taxes and fees pursuant to the national taxation laws and regulations;
- (3) The Company shall discharge its obligations in a timely manner in relation to report and information disclosure under the Share Appreciation Incentive Scheme in accordance with the relevant requirements;
- (4) Other rights and obligations as stipulated under the laws and regulations.

Clause 36 Rights and Obligations of Incentive Recipients

- (1) An Incentive Recipient shall comply with the requirements of his/her position as stipulated by the Company, and shall work diligently and responsibly, strictly abide by professional ethics, and make contribution to the development of the Company;

- (2) During the Effective Period, the Company shall arrange the Exercise and payment matters for Incentive Recipients in a unified manner;
- (3) The Incentive Recipients shall not deal with the Share Appreciation Rights granted without permissions (including but not limited to transfer, disposal, exchange, pledge, guarantee and repaying debts);
- (4) Any gains obtained by the Incentive Recipients from the Scheme are subject to individual income tax and other taxes according to national taxation laws and regulations;
- (5) Other rights and obligations as stipulated under the laws and regulations.

**CHAPTER XIV SCHEME FORMULATION AND APPROVAL PROCEDURES,
GRANT AND EXERCISE PROCEDURES**

Clause 37 Formulation and Approval Procedures of the Share Appreciation Rights Scheme

- (1) The Remuneration Committee of the Board is responsible for formulating the draft Share Appreciation Rights Incentive Scheme and proposal for each grant.
- (2) The relevant responsible departments of the Company shall communicate with relevant regulatory authorities.
- (3) The draft of the Scheme, the proposal for each grant and the administrative measures as considered and approved by the Board shall be submitted by the Company to relevant regulatory authorities for approval.
- (4) After the approval from relevant regulatory authorities is obtained, the Scheme shall be submitted to the shareholders' general meeting for consideration, and the Scheme shall become effective upon approval, and the Board is authorized to consider the proposal for each grant, and to formulate and amend the administrative measures.

Clause 38 Grant Procedures

- (1) The Remuneration Committee of the Board is responsible for the formulation of the grant proposal.
- (2) The Board considers and approves the proposal for each grant and determines the Date of Grant.
- (3) The Incentive Recipients will sign the Grant Agreement of the Share Appreciation Rights with the Company. The Incentive Recipients who do not sign such Agreement shall be deemed to have waived the grant.

- (4) Based on the agreements signed by the Incentive Recipients, a management register for the Share Appreciation Rights Scheme will be prepared, which records relevant details, among others, the names of the Incentive Recipients, the granted quantity, the Date of Grant, Exercise Price, the respective agreement number.

Clause 39 Exercise Procedures

- (1) During the Effective Period, upon the satisfaction of the Exercise conditions, the Company will centrally process the Exercise of the Share Appreciation Rights that satisfy the Exercise conditions upon the confirmation from the Board of the Company.
- (2) If the Exercise conditions has not been satisfied during any financial year within the Effective Period, such portion of the Share Appreciation Rights shall be revoked.

CHAPTER XV MODIFICATION AND TERMINATION OF THE SCHEME

Clause 40 Modification of the Scheme

The shareholders' general meeting authorises the Board to be responsible for the implementation and management of the Scheme and, when necessary, to revise the Scheme and to file amendments to the institutions or departments that perform the obligations of the state-owned assets contributor. With respect to the Grantees who have accepted Share Appreciation Rights under the Scheme, in case of modification or suspension of the Scheme, no changes or impairment can be made or caused to the rights and obligations previously attached to such Grantees without their prior consent. Subject to the foregoing conditions, the Board can make modifications to the Scheme as they deem necessary in the following manner:

- (1) Make adjustments to Share Appreciation Rights granted to conform to new requirements due to any change in applicable laws and regulations;
- (2) If the conditions are favourable for implementing other equity incentive plans, to decide whether and to what extent other equity incentives under new schemes be granted to participants of the Scheme and the relationship of conversion between the Share Appreciation Rights granted under the Scheme and equity incentives under the new schemes.

If relevant laws, regulations, agreements or securities regulatory authorities require that approval must be obtained from the shareholders' general meeting or/and the securities regulatory authorities for making certain modifications to the Scheme, the Board shall obtain such approval from relevant authorized organizations.

Clause 41 Termination of the Scheme

The shareholders' general meeting authorizes the Board to decide on the termination of the Scheme. The Scheme is automatically terminated upon the expiry of the Scheme Effective Period, or the Board may decide to early terminate the Scheme, or the Board may initiate a new Share Appreciation Rights scheme or any other incentive scheme when it considers appropriate to replace the Scheme. If the Company decides to adopt a new scheme to replace the Scheme, it must be approved by the Board, and shall ensure in good faith that the rights and obligations of the Incentive Recipients under the Scheme are not impaired.

In the event the Board decides to terminate the Scheme before its expiry, the Company will no longer grant any Share Appreciation Rights pursuant to the Scheme. The Share Appreciation Rights that have been granted but have not yet been exercised before the termination of the Share Appreciation Rights Scheme continue to be valid and can still be exercised in accordance with the provisions of the Scheme.

CHAPTER XVI MISCELLANEOUS

Clause 42 Means for Notification and Contact

Notice or other document addressed to a Grantee shall be delivered by hand or by post to the residential address as shown on the Company's register or other address as notified by the Grantee to the Company. Notices and documents delivered by the Company shall be deemed to have been received by the Grantee after 36 hours of the delivery.

Clause 43 Force Majeure

In the event of any failure of act or omission within the respective valid period of the Scheme due to force majeure event, the continuity of the valid period shall be suspended until the force majeure event ceases. In such case, the valid period shall be resumed from the date of suspension until the expiry of the term.

Clause 44 Dispute

Unless otherwise specified, the decision made by the Board over any dispute in relation to the Scheme or related matters shall be conclusive and binding.

Clause 45 No Implication of Employment or other Rights

Any grant of Share Appreciation Rights under or pursuant to the Scheme does not constitute any right of permanent employment in the Company for any Grantee. In other words, any offer or grant of Share Appreciation Rights shall not be deemed as a guarantee for right of employment or continued employment for the Grantee. The rights and obligations of any Grantee in office or at work shall not be affected by his/her participation in or entitlement to the Scheme. The Scheme does not render any additional benefit or detriment to a Grantee when he/she terminates service or employment with the Company for any reason in the future, nor limit the Company's right to terminate employment of the Grantee.

The Scheme does not award any person any legal rights in the Company, or to directly or indirectly own any equity interests in the Company, nor shall it give rise to any legal action or lawsuit against the Company's interests, unless such interests are the subject of or directly derived from Share Appreciation Rights.

Clause 46 Supervision of the Scheme

The Board reserves the right to formulate or modify the provisions governing the administration and operation of the Scheme at any time if such provisions conflict with those of the Scheme. All costs in connection with the promotion and administration of the Scheme shall be borne by the Company.

Clause 47 Governing Laws and Legal Restrictions

The Scheme is governed by the relevant laws, regulations and rules of the relevant competent authorities in the People's Republic of China. If the Scheme is in violation of the aforementioned laws, regulations or rules of government competent authorities, the Company is not obliged to implement the Scheme or make any payment thereunder.

When granting Share Appreciation Rights under the Scheme, if the Company requests, the Grantee who obtains benefits from the share appreciation shall provide certification to the Company in accordance with the relevant laws and regulations and the provisions of competent authorities, otherwise the Company is not obliged to take any action to implement any award under the Scheme.

CHAPTER XVII SUPPLEMENTARY PROVISIONS

Clause 48 The right of final interpretation of the Scheme is vested in the Board.

CHAPTER I GENERAL PROVISIONS

Clause 1 In order to implement the Share Appreciation Rights Incentive Scheme (the “Share Appreciation Rights Scheme” or “the Scheme”) of China Communications Services Corporation Limited (the “Company”), and to clarify the administrative bodies of the Share Appreciation Rights Scheme and their responsibilities, the implementation process, the calculation methods of performance indicators and related parameters, etc., these measures (the “Measures”) are hereby formulated.

**CHAPTER II ADMINISTRATIVE AND ORGANIZATION BODIES
AND RESPONSIBILITIES**

Clause 2 The administrative and organization bodies of Share Appreciation Rights Scheme

The administrative bodies of the Share Appreciation Rights Scheme include the shareholders’ general meeting, the Board and the remuneration committee of the Company; the supervisory body is the supervisory committee of the Company; the executive bodies of the matters related to the Share Appreciation Rights Scheme include: the Corporate Affair Office, the Investor Relations Department, the Labor and Salary Management Department, the General Finance Department, as well as the Accounting, Taxation and Audit Inspection Department, as well as the department responsible for risk management.

Clause 3 The responsibilities of the shareholders’ general meeting

- (I) To consider and approve the Share Appreciation Rights Scheme proposed by the Board of the Company;
- (II) To consider and approve the material amendments, suspensions and terminations of the Share Appreciation Rights Scheme of the Company;
- (III) To authorize the Board to handle matters related to the Share Appreciation Rights Scheme;
- (IV) To consider other matters to be determined by the shareholders’ general meeting.

Clause 4 The responsibilities of the Board

- (I) To consider the Share Appreciation Rights Scheme and propose it to the shareholders’ general meeting for voting according to relevant regulations;
- (II) To approve, sign, execute, amend and terminate any contracts, agreements and other legal documents related to the incentive scheme according to the provisions of the Share Appreciation Rights Scheme;

- (III) To consider proposals including the grant, effectiveness and lapse of each batch of the incentive scheme according to the provisions of the Share Appreciation Rights Scheme, the Measures and the authorization of the shareholders' general meeting;
- (IV) To change or terminate the Share Appreciation Rights Scheme according to relevant provisions of the Share Appreciation Rights Scheme;
- (V) To amend the Measures when necessary according to the needs of the implementation and management of the Share Appreciation Rights Scheme;
- (VI) Other related matters authorized by the shareholders' general meeting.

Clause 5 The responsibilities of the remuneration committee

- (I) To formulate the Share Appreciation Rights Scheme of the Company and its amendments;
- (II) To formulate the rules and regulations related to the Share Appreciation Rights Scheme and the amendments;
- (III) To formulate the implementation proposals of the Share Appreciation Rights Scheme and the amendments;
- (IV) To formulate the Exercise Price, number of grants and their adjustment method of the Share Appreciation Rights Scheme;
- (V) To report to the Board on the implementation of the Share Appreciation Rights Scheme;
- (VI) To consider other matters determined by the remuneration committee as authorized by the Board;
- (VII) To consider other matters that should be determined by the remuneration committee.

Clause 6 The responsibilities of the Supervisory Committee

The Supervisory Committee is the supervisory organization of the Share Appreciation Rights Scheme.

1. Responsible for supervising the implementation of Share Appreciation Rights Scheme as to whether it is in compliance with the relevant laws, administrative regulations, departmental rules, normative documents and operational rules of the stock exchange, and whether it is implemented according to the preset internal procedures;
2. To verify the list of Incentive Recipients and express its opinions;

3. To express opinions on whether the Share Appreciation Rights Scheme is conducive to the sustainable development of the listed company and whether there are any circumstances apparently harmful to the interests of the listed company and all shareholders;
4. To express opinions on whether the conditions stipulated under the Share Appreciation Rights Scheme have been fulfilled for the Incentive Recipients to receive and exercise such entitlements.

Clause 7 The major responsibilities of other participation bodies

The working group of the remuneration committee is the executive organization of the Share Appreciation Rights Scheme, including the Corporate Affair Office, the Investor Relations Department, the Labor and Salary Management Department, the General Finance Department, as well as the Accounting, Taxation and Audit Inspection Department and the department responsible for risk management. Its major responsibilities are as follows:

(I) The Corporate Affair Office and the Investor Relations Department

1. Responsible for explaining and making enquiries about the legal issues related to the Share Appreciation Rights Scheme, reviewing, maintaining and managing relevant legal documents;
2. Responsible for formulating the Share Appreciation Rights Scheme and the grant proposal (documents of the Board and the shareholders' general meeting);
3. Responsible for organizing and convening the meeting(s) of the remuneration committee and the Board as well as the shareholders' general meeting to consider the Share Appreciation Rights Scheme and the grant proposal and relevant resolutions;
4. Responsible for regularly reporting to the remuneration committee on the progress of the implementation of the Share Appreciation Rights Scheme;
5. Responsible for communicating with the capital market, shareholders and the media on the implementation of the Share Appreciation Rights Scheme;
6. Responsible for preparing information disclosure documents according to relevant regulatory requirements;
7. Responsible for tracking the market fluctuation of the share price of the Company.

(II) The Labor and Salary Management Department

1. Responsible for communicating and reporting the Share Appreciation Rights Scheme and the grant proposal to the superior units and regulatory authorities;
2. Responsible for formulating the Share Appreciation Rights Scheme and the grant proposal (approval documents);
3. Responsible for the daily management of the Share Appreciation Rights Scheme, and organizing the implementation of the grant and exercise of Share Appreciation Rights;
4. Responsible for reviewing the qualification for grant, qualification for lifting the restriction and quantity of unrestricted sales in respect of the Incentive Recipients, and organizing the signing of grant documents;
5. Responsible for summarizing the annual performance appraisal results of the Incentive Recipients;
6. Responsible for counting and calculating the exercisable number, lapsed number, grant number and gains of Share Appreciation Rights granted to the Incentive Recipients;
7. Responsible for the account management of Share Appreciation Rights, and recording and counting the grant, lifting restrictions, changes and lapsing of Share Appreciation Rights;
8. Responsible for informing the Investor Relations Department on the implementation of the Share Appreciation Rights Scheme;
9. Responsible for advising the Board about the date of grant of each Share Appreciation Right, and calculating the Exercise Price of Share Appreciation Rights according to the date of grant determined by the Board;
10. Responsible for formulating the adjustment proposal for the Exercise Price and quantity of the granted Share Appreciation Rights according to the Share Appreciation Rights Scheme;
11. Responsible for organizing the daily communication with and enquiries from the Incentive Recipients;

12. Responsible for the maintenance and archives management of all files and documents related to the Share Appreciation Rights Scheme. The daily management and maintenance of the Share Appreciation Rights Scheme include the paper work related to the drafting of relevant documents of the Share Appreciation Rights Scheme and the grant proposal, and the maintenance of relevant files and documents.

(III) The General Finance Department and the Accounting, Taxation and Audit Inspection Department

1. Responsible for the calculation of the final results of the Company's annual performance indicators and submitting it to the Investor Relations Department;
2. Responsible for summarizing the final results of the annual performance indicators of benchmarking companies, analysing and deciding the satisfaction of the grant performance-based conditions and effective performance-based conditions;
3. Working with the Investor Relations Department and the Labor and Salary Management Department to formulate the Share Appreciation Rights Scheme and the grant proposal;
4. Responsible for the accounting treatment of cost and cash flow in the implementation process, and withholding and paying income taxes according to laws, and paying the gain after tax to the Incentive Recipients.

(IV) The department responsible for risk management

Responsible for the necessary supervision of the implementation process of the Share Appreciation Rights Scheme and the Incentive Recipients.

CHAPTER III IMPLEMENTATION PROCEDURES OF THE SHARE APPRECIATION RIGHTS SCHEME

Clause 8 Decision Making and Approval Process of the Share Appreciation Rights Scheme

- (I) The remuneration committee of the Board is responsible for formulating the draft Share Appreciation Rights Scheme and proposal for each grant;
- (II) The relevant responsible departments of the Company shall communicate with relevant regulatory authorities;
- (III) The draft Share Appreciation Rights Scheme, the proposal for each grant and the administrative measures as considered and approved by the Board shall be submitted to relevant regulatory authorities for approval by the Company;

- (IV) After the approval from relevant regulatory authorities is obtained, the Share Appreciation Rights Scheme shall be submitted to the shareholders' general meeting for consideration, and the Share Appreciation Rights Scheme shall become effective upon approval, and the Board is authorized to consider the subsequent proposal for each grant, and to formulate and amend the administrative measures.

Clause 9 Grant Procedures of the Share Appreciation Rights Scheme

- (I) The remuneration committee of the Board is responsible for formulating the grant proposal;
- (II) The Board considers and approves the proposal for each grant and determines the Date of Grant;
- (III) The Incentive Recipients and the Company enter into the Grant Agreement of the Share Appreciation Rights, and if the Incentive Recipient does not sign the Grant Agreement of the Share Appreciation Rights, the grant is then deemed to be abandoned.

Clause 10 Exercise Procedures of the Share Appreciation Rights Scheme

- (I) Eligibility review of the Exercise: during the Effective Period, on the condition that the Exercise conditions are fulfilled, the Company will process the Exercise of Share Appreciation Rights that satisfy the Exercise conditions after obtaining confirmation from the Board of the Company in a unified manner. If any of the Exercise conditions has not been satisfied during any financial year within the Effective Period, the respective portion of the Share Appreciation Rights shall be revoked by the Company. The Labor and Salary Management Department shall review the exercise qualification of Incentive Recipients in accordance with the provisions of the Share Appreciation Rights Scheme, and determine the actual exercisable amount and gains from the Exercise of each Incentive Recipient according to the performance appraisal results of the previous year;
- (II) Unified exercise: the Labor and Salary Management Department reviews the exercise qualification of Incentive Recipients, and the Company will arrange the Exercise in a unified manner after obtaining confirmation from Incentive Recipients;
- (III) Fund payment: the Accounting, Taxation and Audit Inspection Department shall, according to the gains from the Exercise provided by the Labor and Salary Management Department, withhold and pay the income tax pursuant to the laws, and pay the gain after tax to the Incentive Recipients.

CHAPTER IV SPECIAL TREATMENT OF THE SHARE APPRECIATION RIGHTS

Clause 11 The shareholders' general meeting authorizes the Board to decide on the termination of the Scheme. The Scheme is automatically terminated upon the expiry of the Scheme Effective Period, or the Board may decide to early terminate the Scheme, or the Board may initiate a new Share Appreciation Rights scheme or any other incentive schemes when it considers appropriate to replace the Scheme. If the Company decides to adopt a new scheme to replace the Scheme, it must be approved by the Board, and shall ensure in good faith that the rights and obligations of the Incentive Recipients under the Scheme are not impaired.

Clause 12 In the event that the Board decides to terminate the Scheme before its expiry, the Company will no longer grant any Share Appreciation Rights pursuant to the Scheme. The Share Appreciation Rights that have been granted but have not yet been exercised before the termination of the Share Appreciation Rights Scheme continue to be valid and can still be exercised in accordance with the provisions of the Scheme.

CHAPTER V SUPPLEMENTARY PROVISIONS

Clause 13 The Measures shall come into effect after being approved by the shareholders' general meeting.

Clause 14 The right of final interpretation of the Measures is vested in the Board of the Company.

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 in this circular or this circular misleading.

2. INTERESTS AND SHORT POSITIONS OF DIRECTORS AND SUPERVISORS IN THE SECURITIES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at the Latest Practicable Date, none of the Directors, supervisors or chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required: (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including the interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) to be entered in the register kept by the Company pursuant to section 352 of the SFO; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies of the Listing Rules, to be notified to the Company and the Stock Exchange.

3. MATERIAL INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at the Latest Practicable Date, the following persons (other than Directors, supervisors and chief executives of the Company) had, or were deemed or taken to have an interest or short position in the shares and underlying shares of the Company, which are required to be notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Name of shareholder	Class of shares	Capacity	Number of shares held	Percentage of the respective class of share (%)	Percentage of the total number of shares in issue (%)
China Telecommunications Corporation	Domestic shares	Beneficial owner	3,559,362,496 (L)	78.49	51.39

Name of shareholder	Class of shares	Capacity	Number of shares held	Percentage of the respective class of share (%)	Percentage of the total number of shares in issue (%)
China Mobile Communications Group Co., Ltd.	Domestic shares	Beneficial owner	608,256,000 (L)	13.41	8.78
China United Network Communications Group Company Limited	Domestic shares	Beneficial owner	236,300,000 (L)	5.21	3.41
Hermes Investment Management Ltd	H shares	Investment manager	233,207,872 (L)	9.75	3.37
FMR LLC	H shares	Interests of controlled corporations	119,776,004 (L)	5.01	1.73
BlackRock, Inc.	H shares	Interests of controlled corporations	119,769,335 (L)	5.01	1.73

Note: (L) — Long Position

Save as disclosed above, as at the Latest Practicable Date, no other persons (other than Directors, supervisors or chief executives of the Company) were recorded to hold any interests or short positions in the shares or underlying shares of the Company which are required to be notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

4. DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors or supervisors of the Company had any existing or proposed service contract with any member of the Group which will not expire or is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

5. DIRECTORS' AND SUPERVISORS' INTERESTS

As at the Latest Practicable Date, none of the Directors or supervisors of the Company had any interest, direct or indirect, in any asset which since 31 December 2020, the date to which the latest published audited financial statements of the Group were made up, have been acquired or disposed of 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 position held by Mr. Gao Tongqing at China Mobile Communications Group Co., Ltd. and the position held by Mr. Mai Yanzhou 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 of the Company 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.

6. CONSENT AND QUALIFICATION OF EXPERT

The following are the qualifications of Pulsar Capital Limited who has given their opinions, 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

As at the Latest Practicable Date, Pulsar Capital Limited did not have any shareholding interest in any member of the Group or any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, Pulsar Capital Limited did not have any direct or indirect interest in any assets which has been, since 31 December 2020, being the date to which the latest published audited accounts of the Company were made up, acquired or disposed of by or leased to, or were proposed to be acquired or disposed of by or leased to, any member of the Group.

Pulsar Capital Limited issued a letter dated 1 December 2021 for the purpose of incorporation in this circular, in connection with its advice to the Independent Board Committee and the Independent Shareholders. As at the Latest Practicable Date, Pulsar Capital Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its advice, letter and references to its name and logo included in this circular in the form and context in which they respectively appear.

7. COMPETING INTERESTS

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

8. NO MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were of the opinion that since 31 December 2020, being the date up to which the latest published audited accounts of the Group have been made, there had been no material adverse changes in the financial or trading position of the Group.

9. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation, arbitration or claim of material importance and, so far as the Directors are aware, no litigation, arbitration or claim of material importance was pending or threatened against any member of the Group.

10. GENERAL

- (a) Mr. Chung Wai Cheung, Terence is the company secretary of the Company. Mr. Chung is a member of the Hong Kong Institute of Certified Public Accountants and the CPA Australia.
- (b) The Company's registered office is at Block No.1, Compound No.1, Fenghuangzui Street, Fengtai District, Beijing, the PRC and its principal place of business in Hong Kong is at Room 1101-1102, 11/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.

11. MATERIAL CONTRACTS

No material contracts (not being contracts entered into in the ordinary course of business) have been entered into by the Group within the two years immediately preceding the issue of this circular.

12. DOCUMENTS ON DISPLAY

Copies of the following documents will be published on the website of the Company at www.chinaccs.com.hk and on the website of the Stock Exchange at www.hkexnews.hk for 14 days from the date of this circular:

- (a) the 2015 Agreements;
- (b) the 2018 Supplemental Agreements;
- (c) the 2019 Financial Services Framework Agreement;
- (d) the 2021 Supplemental Agreements;
- (e) the 2021 Financial Services Framework Agreement;
- (f) 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; and
- (g) the written consent referred to in the section headed “Consent and Qualification of Expert” in this appendix.



中国通信服务
CHINA COMSERVICE

中國通信服務股份有限公司

CHINA COMMUNICATIONS SERVICES CORPORATION LIMITED

(A joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock Code: 552)

NOTICE OF THE EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of China Communications Services Corporation Limited (the “**Company**”) will be held at 10:00 a.m. on Wednesday, 22 December 2021, at Block No.1, Compound No.1, Fenghuangzui Street, Fengtai District, Beijing, the PRC, to consider and, if thought fit, pass the following resolutions:

ORDINARY RESOLUTIONS

1. **THAT** the entering into the supplemental agreement to the Engineering Framework Agreement with China Telecommunications Corporation, the non-exempt continuing connected transactions thereunder, and the proposed new annual caps for the three years ending 31 December 2024 be and are hereby approved, ratified and confirmed, and that one of the executive directors of the Company be and is hereby authorized to do all such further acts and things and execute such further documents and take all such steps which in their opinion may be necessary, desirable or expedient to implement and/or give effect to the terms of such agreement.
2. **THAT** the entering into the supplemental agreement to the Ancillary Telecommunications Services Framework Agreement with China Telecommunications Corporation, the non-exempt continuing connected transactions thereunder, and the proposed new annual caps for the three years ending 31 December 2024 be and are hereby approved, ratified and confirmed, and that one of the executive directors of the Company be and is hereby authorized to do all such further acts and things and execute such further documents and take all such steps which in their opinion may be necessary, desirable or expedient to implement and/or give effect to the terms of such agreement.
3. **THAT** the entering into the supplemental agreement to the Operation Support Services Framework Agreement with China Telecommunications Corporation, the non-exempt continuing connected transactions thereunder, and the proposed new annual caps for the three years ending 31 December 2024 be and are hereby approved, ratified and confirmed, and that one of the executive directors of the Company be and is hereby

authorized to do all such further acts and things and execute such further documents and take all such steps which in their opinion may be necessary, desirable or expedient to implement and/or give effect to the terms of such agreement.

4. **THAT** the entering into the supplemental agreement to the IT Application Services Framework Agreement with China Telecommunications Corporation, the non-exempt continuing connected transactions thereunder, and the proposed new annual caps for the three years ending 31 December 2024 be and are hereby approved, ratified and confirmed, and that one of the executive directors of the Company be and is hereby authorized to do all such further acts and things and execute such further documents and take all such steps which in their opinion may be necessary, desirable or expedient to implement and/or give effect to the terms of such agreement.
5. **THAT** the entering into the supplemental agreement to the Supplies Procurement Services Framework Agreement with China Telecommunications Corporation, the non-exempt continuing connected transactions thereunder, and the proposed new annual caps for the three years ending 31 December 2024 be and are hereby approved, ratified and confirmed, and that one of the executive directors of the Company be and is hereby authorized to do all such further acts and things and execute such further documents and take all such steps which in their opinion may be necessary, desirable or expedient to implement and/or give effect to the terms of such agreement.
6. **THAT** the deposit services under the 2021 Financial Services Framework Agreement entered into between the Company and China Telecom Group Finance Co., Ltd., and the proposed new annual caps thereof for the three years ending 31 December 2024 be and are hereby approved, ratified and confirmed, and that one of the executive directors of the Company be and is hereby authorized to do all such further acts and things and execute such further documents and take all such steps which in their opinion may be necessary, desirable or expedient to implement and/or give effect to the terms of such agreement.
7. **THAT** the adoption of the Share Appreciation Rights Incentive Scheme, its administrative measures and Initial Grant be considered and approved; and **THAT** the Board be and is hereby authorized to amend the Share Appreciation Rights Incentive Scheme, its administrative measures and Initial Grant in accordance with the requirements of the regulatory authorities and to undertake all actions and matters which in their opinion are necessary or appropriate in relation to the Share Appreciation Rights Incentive Scheme, its administrative measures and Initial Grant.

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

Beijing, PRC
1 December 2021

Notes:

- (1) Details of the above resolutions are set out in the circular of the Company dated 1 December 2021. Unless the context otherwise requires, terms defined in the circular shall have the same meanings when used in this notice.
- (2) Buyers who submit the share transfer application forms to the Company's share registrar before 4:30 p.m. on Thursday, 16 December 2021 and then register as shareholders on the register of members of the Company are entitled to attend the EGM.
- (3) Each shareholder entitled to attend and vote at the EGM may appoint one or more proxies to attend and vote on his behalf at the EGM. A proxy need not be a shareholder. Each shareholder who wishes to appoint one or more proxies should first review the circular of the Company dated 1 December 2021.
- (4) To be valid, the form of proxy together with the power of attorney or other authorization document (if any) signed by the authorized person or notarially certified power of attorney must be delivered to the Office of the Board of the Company for domestic share shareholders or to Computershare Hong Kong Investor Services Limited for H share shareholders not less than 24 hours before the designated time for holding of the EGM (i.e. on 21 December 2021, 10:00 a.m.). Completion and return of a form of proxy will not preclude a shareholder from attending in person and voting at the EGM if he so wishes.

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

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

- (5) China Telecommunications Corporation and its associates, being connected persons to the Company with material interests in the Non-exempt Continuing Connected Transactions, will abstain from voting on each of the ordinary resolutions to approve the Non-exempt Continuing Transactions (together with the proposed New Annual Cap(s) thereof) as described in the Circular and in this notice. No Shareholder is required to abstain from voting in respect of the relevant resolution to approve the proposed adoption of Share Appreciation Rights Incentive Scheme. Any vote of the Shareholders at the EGM shall be taken by poll.
- (6) Shareholders attending the EGM in person or by proxy shall present their identity certification. If the attending shareholder is a corporation, its legal representative or person authorized by the board or other decision making authority shall present a copy of the relevant resolution of the board or other decision making authority in order to attend the EGM.
- (7) Closure of the register of members:

The H share register of members of the Company will be closed from Friday, 17 December 2021 to Wednesday, 22 December 2021 (both days inclusive). In order to attend the EGM, all transfer documents, accompanied by the relevant share certificates, must be lodged for registration with Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, not later than 4:30 p.m. on Thursday, 16 December 2021. H share shareholders of the Company who are registered on the register of members held by Computershare Hong Kong Investor Services Limited on Wednesday, 22 December 2021 are entitled to attend the EGM.

- (8) The EGM is expected to last for half a day and shareholders (in person or by proxy) attending the EGM shall be responsible for their own transport and accommodation expenses.
- (9) The address of the Office of the Board is as follows:

Block No.1, Compound No.1, Fenghuangzui Street
Fengtai District
Beijing 100073
PRC

Contact person: Chung Wai Cheung, Terence
Telephone: (8610) 5850 2290