THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

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

中国通信服务
CHINA COMSERVICE

中 國 通 信 服 務 股 份 有 限 公 司

CHINA COMMUNICATIONS SERVICES CORPORATION LIMITED

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

(Stock code: 552)

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS AND PROPOSED NEW ANNUAL CAPS

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

廣發融資(香港)有限公司
GF Capital (Hong Kong) Limited

A letter from the Board is set out from pages 5 to 23 of this circular. A letter from the Independent Board Committee is set out on pages 24 to 25 of this circular. A letter from the Independent Financial Adviser, is set out on pages 26 to 46 of this circular.

A notice convening an extraordinary general meeting of the Company to be held at 10 a.m. on 30 December 2010 (Thursday), at No. 19, Chaoyangmen Beidajie, Dongcheng District, Beijing, the PRC, is set out on pages 50 to 51 of this circular. Form of proxy for use at the EGM is enclosed with this circular. Whether or not you are able to attend the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's share registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, as soon as possible and in any event not less than 24 hours before the time designated for holding the EGM or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the EGM or any adjourned meeting should you so wish.

12 November 2010

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

"2007 Announcement and Circular"	the announcement and the circular of the Company dated 15 June 2007 and 20 June 2007, respectively, in respect of, among other things, the acquisition of the specialized telecommunications support businesses from and certain continuing connected transactions with, China Telecommunications Corporation and/or its associates
"2007 Supplemental Agreement"	the supplemental agreement between the Company and China Telecommunications Corporation dated 15 June 2007 to, among other things, renew the terms of each of the Agreements (other than the Supplies Procurement Services Framework Agreement) to 31 December 2009
"2008 Announcement and Circular"	the announcement and the circular of the Company dated 19 September 2008 and 26 September 2008, respectively, in respect of, among other things, the proposed renewal of the Agreements (other than the Supplies Procurement Services Framework Agreement) and proposed amendments to annual caps for transactions contemplated thereunder
"2008 Supplemental Agreement"	the supplemental agreement between the Company and China Telecommunications Corporation dated 19 September 2008 to, among other things, renew the terms of each of the Agreements (other than the Supplies Procurement Services Framework Agreement) to 31 December 2010
"2009 Announcement and Circular"	the announcement and the circular of the Company dated 29 October 2009 and 12 November 2009, respectively, in respect of, among other things, the entering into the Supplies Procurement Services Framework Agreement and the proposed annual caps for transactions contemplated thereunder
"2010 Supplemental Agreement"	the supplemental agreement between the Company and China Telecommunications Corporation dated 9 November 2010 to, among other things, renew the terms of each of the Agreements to 31 December 2012

"Agreements"	mean the Engineering Framework Agreement, the Ancillary Telecommunications Services Framework Agreement, the Operation Support Services Framework Agreement, the IT Application Services Framework Agreement, the Centralized Services Agreement and the Property Leasing Framework Agreement first entered into between the Company and China Telecommunications Corporation on 16 November 2006 prior to the IPO, as amended or supplemented by the 2007 Supplemental Agreement and the 2008 Supplemental Agreement, as well as the Supplies Procurement Services Framework Agreement entered into between the Company and China Telecommunications Corporation on 29 October 2009
"associate"	has the meaning ascribed to it under the Listing Rules
"Board"	the board of directors of the Company
"China" or "PRC"	the People's Republic of China (excluding, for the purposes of this circular, Hong Kong, Macau and Taiwan)
"China Telecom Group"	China Telecommunications Corporation and its subsidiaries but excluding the Group
"China Telecommunications Corporation"	China Telecommunications Corporation (中國電信集團公司), a state-owned enterprise established under the laws of the PRC on 17 May 2000 and the controlling shareholder of the Company
"Company"	China Communications Services Corporation Limited (中國通信服務股份有限公司), a joint stock limited company incorporated in the PRC with limited liability on 30 August 2006, whose H Shares are listed on the Stock Exchange
"Continuing Connected Transactions"	the connected transactions entered into between a member of the Group and China Telecommunications Corporation and its subsidiaries (excluding the Group) as governed by the Agreements, details of which are set out in section 3 of this circular headed "Continuing Connected Transactions under the Agreements"
"Director(s)"	the directors of the Company
"Existing Annual Caps"	the existing annual caps applicable to the Continuing Connected Transactions under each of the Agreements for the applicable period ending on 31 December 2010, which were approved by the Independent Shareholders (where applicable)
"Extraordinary General Meeting" or "EGM"	the extraordinary general meeting of the Company to be convened on 30 December 2010

"Group"	the Company together with its subsidiaries
"Hong Kong"	Hong Kong Special Administrative Region of the PRC
"H Share(s)"	overseas listed foreign invested shares in the Company's issued share capital with a par value of RMB1.00 per share which are listed on the Stock Exchange
"Independent Board Committee"	the committee of the independent non-executive Directors, consisting of Wang Jun, Chan Mo Po, Paul, Zhao Chunjun, Wu Shangzhi and Hao Weimin, who are independent non-executive Directors, formed to advise the Independent Shareholders on the renewal of the Non-Exempt Connected Transactions together with the proposed New Annual Caps
"Independent Financial Adviser"	GF Capital (Hong Kong) Limited, a corporation licensed to carry out Type 6 (advising on corporate finance) of the regulated activities under the SFO
"Independent Shareholders"	Shareholders other than China Telecommunications Corporation and its associates
"IPO"	the initial public offering of the Company in 2006 and which comprises an international offering and a Hong Kong public offering
"Latest Practicable Date"	5 November 2010, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"New Annual Caps"	the new annual caps proposed for the Continuing Connected Transactions under each of the Agreements for the two years ending 31 December 2012, where applicable, Independent Shareholders' approval of which will be sought at the EGM
"Non-Exempt Connected Transactions"	the Continuing Connected Transactions under the Agreements other than those under the Centralized Services Agreement and the Property Leasing Framework Agreement

"Original Service Areas"	the principal service regions of the Company within the PRC before completion of Company's acquisition of China International Telecommunications Construction Corporation in May 2008, comprising Shanghai municipality, Zhejiang, Fujian, Hubei, Guangdong, Hainan, Jiangsu, Anhui, Jiangxi, Hunan, Sichuan, Guizhou, Yunnan, Shaanxi, Gansu, Qinghai provinces, Guangxi Zhuang Autonomous Region, Chongqing municipality, and Xinjiang Uygur Autonomous Region
"Prospectus"	the prospectus dated 27 November 2006 issued by the Company in connection with its Hong Kong public offering
"RMB"	Renminbi, the lawful currency of the PRC
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Shareholders"	shareholders of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Supervisors"	the supervisors of the Company

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

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CHINA COMMUNICATIONS SERVICES CORPORATION LIMITED

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

(Stock code: 552)

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

Non-executive Directors
Liu Aili
Zhang Junan

Independent Non-executive Directors
Wang Jun
Chan Mo Po, Paul
Zhao Chunjun
Wu Shangzhi
Hao Weimin

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

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

12 November 2010

To the Shareholders

Dear Sir or Madam,

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS AND PROPOSED NEW ANNUAL CAPS

1. INTRODUCTION

Reference is made to the announcement of the Company dated 9 November 2010 in relation to the renewal of the Continuing Connected Transactions and the proposed New Annual Caps.

The Company announced on 9 November 2010 that it entered into the 2010 Supplemental Agreement with China Telecommunications Corporation to extend the terms of the Agreements to 31 December 2012.

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

Each of the applicable percentage ratios of the proposed New Annual Caps for the Non-Exempt Connected Transactions, on an annual basis, exceeds 5%. Accordingly, the renewal of the Agreements (other than the Centralized Services Agreement and the Property Leasing Framework Agreement) by way of the 2010 Supplemental Agreement and the proposed New Annual Caps for the Non-Exempt Connected Transactions are subject to the reporting, announcement and independent shareholders' approval requirements as prescribed under Chapter 14A of the Listing Rules.

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

An Independent Board Committee comprising all of the independent non-executive Directors of the Company has been formed to advise the Independent Shareholders on the renewal of the Non-Exempt Connected Transactions together with the proposed New Annual Caps. GF Capital (Hong Kong) Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and Independent Shareholders on the same.

The purpose of this circular is to provide, among other things, further information about the Continuing Connected Transactions, letters from the Independent Board Committee and from the Independent Financial Adviser, and a notice to the Shareholders convening the Extraordinary General Meeting to approve the Non-Exempt Connected Transactions together with the proposed New Annual Caps.

2. BACKGROUND

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

(1) the Engineering Framework Agreement;

(2) the Ancillary Telecommunications Services Framework Agreement;

(3) the Operation Support Services Framework Agreement;

(4) the IT Application Services Framework Agreement;

(5) the Centralized Services Agreement;

(6) the Property Leasing Framework Agreement; and

(7) the Supplies Procurement Services Framework Agreement.

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

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

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

3. CONTINUING CONNECTED TRANSACTIONS UNDER THE AGREEMENTS

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

(a) Engineering Framework Agreement

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

The current term of the Engineering Framework Agreement will expire on 31 December 2010, automatically renewable for further periods of no more than three years (subject to shareholders' approval, if applicable) unless it is terminated earlier by either party with three months' prior written notice. The Company has entered into the 2010 Supplemental Agreement to extend the current term of the Engineering Framework Agreement to 31 December 2012.

The charges payable for engineering related services rendered under the Engineering Framework Agreement shall be determined by reference to market rates or as reflected by prices obtained through the tender process. According to the relevant regulations and under the internal policy of China Telecom Group, whenever the value of any design and/or project supervision and management contracts exceeds RMB0.5 million, or the value of any construction contracts exceeds RMB2 million, the award of the relevant contract must be subject to a tender process (with a minimum of three parties tendering bids). The Company is to be accorded priority by China Telecom Group in the provision of the engineering related services except in the tender process, provided that the terms and conditions offered by independent third parties to China Telecom Group are no more favourable than those offered by the Company for the same services, and in return, the Company has undertaken to China Telecom Group that the Company shall not provide services to it on terms which are less favourable than those offered by the Company to independent third parties. The payment for engineering related services provided by the Company under the Engineering Framework Agreement is normally made in accordance with the progress of practical work following the general market practice in the industry.

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

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

In terms of the New Annual Caps, the transactions under the Engineering Framework Agreement are continuing connected transactions on normal commercial terms subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. Accordingly, the Independent Shareholders' approval for the renewal of this agreement and the proposed New Annual Caps for this continuing connected transaction will be sought.

(b) Ancillary Telecommunications Services Framework Agreement

Pursuant to the Ancillary Telecommunications Services Framework Agreement, the Company has agreed to provide to China Telecom Group certain ancillary telecommunications services such as maintenance of network facilities including equipment, ducts and cables, equipment rooms and base stations; distribution of telecommunications products and services; provision of application, content and other services such as fixed-line value added services, wireless value added services, Internet value added services, and development of online gaming, certificate authentication and value added business platform of Internet cafes (the "Ancillary Telecommunications Services"). The Ancillary Telecommunications Services Framework Agreement was amended by the 2007 Supplemental Agreement to include the provision of comprehensive logistics services to China Telecom Group, which include purchase agency, warehousing, transportation, delivery, testing and inspection, logistics information management and distribution. The scope of the Ancillary Telecommunications Services Framework Agreement covers transactions between the Company (and its subsidiaries) and China Telecommunications Corporation (and its subsidiaries but excluding the Group), as may be applicable from time to time.

The current term of the Ancillary Telecommunications Services Framework Agreement will expire on 31 December 2010, automatically renewable for further periods of no more than three years (subject to shareholders' approval, if applicable) unless it is terminated earlier by either party with three months' prior written notice. The Company has entered into the 2010 Supplemental Agreement to extend the current term of the Ancillary Telecommunications Services Framework Agreement to 31 December 2012.

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

(1) government-prescribed price;

(2) where there is no government-prescribed price but where there is a government-guidance price, the government-guidance price applies;

(3) where there is neither a government-prescribed price nor a government-guidance price, the market price applies. The market price is defined as the price at which the same type of services are provided by independent third parties in the ordinary course of business; or

(4) where none of the above is applicable, the price is to be agreed between the relevant parties for the provision of the above services, which shall be the reasonable costs incurred in providing the same plus a reasonable profit (for this purpose, "reasonable costs" means the costs confirmed by both parties after negotiations, and "reasonable profit" means a profit ratio confirmed by both parties during the course of normal commercial negotiation, taking into account factors such as historical price, transaction size, average profit ratio within the relevant industry, supply and demand, labour cost, local commodity prices and economic development levels).

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

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

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

In terms of the New Annual Caps, the transactions under the Ancillary Telecommunications Services Framework Agreement are continuing connected transactions on normal commercial terms subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. Accordingly, the Independent Shareholders' approval for the renewal of this agreement and the proposed New Annual Caps for this continuing connected transaction will be sought.

(c) Operation Support Services Framework Agreement

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

The current term of the Operation Support Services Framework Agreement will expire on 31 December 2010, automatically renewable for further periods of no more than three years (subject to shareholders' approval, if applicable) unless it is terminated earlier by either party with three months' prior written notice. The Company has entered into the 2010 Supplemental Agreement to extend the current term of the Operation Support Services Framework Agreement to 31 December 2012.

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

The operation support services under the Operation Support Services Framework Agreement are provided in accordance with the same pricing policy as that of the Ancillary Telecommunications Services Framework Agreement. Subject to the terms and conditions set out above, the payment for the operation support services is made in the manner provided for in each specific contract entered into between the parties by reference to the market practices.

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

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

The Directors propose the New Annual Caps for the service charges receivable by the Company from China Telecom Group under the Operation Support Services Framework Agreement in respect of the two years ending 31 December 2011 and 2012 to be RMB1,910 million and

RMB1,910 million, respectively. The Directors propose the New Annual Caps for the service charges payable by the Company to China Telecom Group under the Operation Support Services Framework Agreement in respect of the two years ending 31 December 2011 and 2012 to be RMB470 million and RMB470 million, respectively. In determining the New Annual Caps, the Directors have considered the historical transaction amounts, the operation and growth conditions of our businesses in this area, and the estimated mutual demand of the operation support services.

In terms of the New Annual Caps, the transactions under the Operation Support Services Framework Agreement are continuing connected transactions on normal commercial terms subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. Accordingly, the Independent Shareholders' approval for the renewal of this agreement and the proposed New Annual Caps for this continuing connected transaction will be sought.

(d) IT Application Services Framework Agreement

The IT Application Services Framework Agreement governs the arrangements between the Group and China Telecom Group with respect to mutual provision of IT application services. Pursuant to the IT Application Services Framework Agreement, the Company agreed to provide China Telecom Group with telecommunications network support services, software and hardware development and other related IT services. China Telecom Group also agreed to provide to the Group certain IT application services including but not limited to, basic telecommunications services such as voice and data, value added services and information application services. The scope of the IT Application Services Framework Agreement covers transactions between the Company (and its subsidiaries) and China Telecommunications Corporation (and its subsidiaries but excluding the Group), as may be applicable from time to time.

The current term of the IT Application Services Framework Agreement will expire on 31 December 2010, automatically renewable for further periods of no more than three years (subject to shareholders' approval, if applicable) unless it is terminated earlier by either party with three months' prior written notice. The Company has entered into the 2010 Supplemental Agreement to extend the current term of the IT Application Services Framework Agreement to 31 December 2012.

The charges payable for such IT application services under the IT Application Services Framework Agreement shall be determined by reference to market rates, for example, rates as reflected by prices obtained through the tender process (with a minimum of three parties tendering bids). The party receiving the relevant services will accord priority to the party providing such services, provided that the terms and conditions offered by independent third parties to the relevant party are no more favourable than those offered by the other party for the same services, and in return, each of the parties has undertaken to the other that it shall not provide services to the other on terms which are less favourable than those offered to independent third parties. Subject to the terms and conditions set out above, the payment for the IT applications services is made in the manner provided for in each specific contract entered into between the parties by reference to the market practices.

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

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

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

In terms of the New Annual Caps, the transactions under the IT Application Services Framework Agreement are continuing connected transactions on normal commercial terms subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. Accordingly, the Independent Shareholders' approval for the renewal of this agreement and the proposed New Annual Caps for this continuing connected transaction will be sought.

(e) Centralized Services Agreement

The centralized services agreed to be provided by the Company to China Telecommunications Corporation include:

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

(2) the provincial headquarters management function to manage remaining assets of China Telecommunications Corporation in the Original Service Areas of the Group.

The scope of the Centralized Services Agreement covers transactions between the Company (and its subsidiaries) and China Telecommunications Corporation (and its subsidiaries but excluding the Group), as may be applicable from time to time. Except as otherwise agreed by the parties, the aggregate administrative expenses incurred by the Company for the provision of the centralized services referred to above (all expenses incurred in connection with the above-mentioned headquarters management functions excluding remuneration for the Directors, share appreciation rights and provision of bad debts) will be apportioned pro rata between the Company and China Telecommunications Corporation according to a ratio based on the net asset value of each of the relevant parties. Settlement of such reimbursement between the Company and China Telecom Group has been made every three months unless the parties agree otherwise.

The current term of the Centralized Services Agreement will expire on 31 December 2010, automatically renewable for further periods of no more than three years (subject to shareholders' approval, if applicable) unless it is terminated earlier by either party with three months' prior written notice. The Company has entered into the 2010 Supplemental Agreement to extend the current term of the Centralized Services Agreement to 31 December 2012.

The Existing Annual Caps for the management fee income (in the form of reimbursed apportioned cost received) of the Group for the centralized services provided to China Telecom Group under the Centralized Services Agreement for the three years of 2008, 2009 and 2010 are RMB350 million, RMB350 million and RMB350 million, respectively. The actual amounts of the management fee income received by the Company from China Telecom Group under the Centralized Services Agreement for the two years ended 31 December 2008 and 2009 were RMB245.88 million and RMB259.85 million, respectively. Based on the Company's management accounts, the actual amounts of the management fee income received by the Company from China Telecom Group under the Centralized Services Agreement for the nine months ended 30 September 2010 were RMB183.78 million.

The Directors propose the New Annual Caps for the management fee income receivable by the Company from China Telecom Group under the Centralized Services Agreement in respect of the two years ending 31 December 2011 and 2012 to be RMB350 million and RMB350 million, respectively. In determining the New Annual Caps, the Directors have considered the historical transaction amounts and the estimated demand of the centralized services required by China Telecom Group.

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

(f) Property Leasing Framework Agreement

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

The rental charges in respect of each property are based on market rates. Rental charges are payable monthly in arrears, except as otherwise agreed by the parties, and subject to review every three years by both parties confirming after negotiations whether to adjust the rental charges and the amount of such adjustment.

The current term of the Property Leasing Framework Agreement will expire on 31 December 2010, automatically renewable for further periods of no more than three years (subject to shareholders' approval, if applicable) unless it is terminated earlier by either party with three months' prior written notice. The Company has entered into the 2010 Supplemental Agreement to extend the current term of the Property Leasing Framework Agreement to 31 December 2012.

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

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

The Directors propose the New Annual Caps for the rents receivable by the Company from China Telecom Group under the Property Leasing Framework Agreement in respect of the two years ending 31 December 2011 and 2012 to be RMB166 million and RMB166 million, respectively. The Directors propose the New Annual Caps for the rents payable by the Company to China Telecom Group under the Property Leasing Framework Agreement in respect of the two years ending 31 December 2011 and 2012 to be RMB150 million and RMB150 million, respectively. In determining the New Annual Caps, the Directors have considered the historical transaction amounts and the estimated mutual demand of the leased properties due to the expansion of business by the Company and China Telecom Group.

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

(g) Supplies Procurement Services Framework Agreement

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

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

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

(1) procurement services in respect of imported telecommunications supplies are provided at 1% of the contract value at the maximum;

(2) procurement services in respect of domestic telecommunications supplies and other domestic non-telecommunications materials are provided at 3% of the contract value at the maximum;

(3) other procurement services are provided at:

(i) the government-prescribed prices;

(ii) where there are no government-prescribed prices but where there are government-guidance prices, the government-guidance prices apply;

(iii) where there are neither government-prescribed prices nor government-guidance prices, the market prices apply. The market price is defined as the price determined by business operators which is formulated through market competition. The market price is determined at the sequence of (i) the price at which the same types of services are provided by independent third parties in the ordinary course of business in the same areas or regions in close proximity thereto; or (ii) the price at which the same types of services are provided by independent third parties in the ordinary course of business within China; or

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

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

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

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

The current term of the Supplies Procurement Services Framework Agreement will expire on 31 December 2010, automatically renewable for further periods of no more than three years (subject to shareholders' approval, if applicable) unless it is terminated earlier by either party with three months' prior written notice. The Company has entered into the 2010 Supplemental Agreement to extend the current term of the Supplies Procurement Services Framework Agreement to 31 December 2012.

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

The Existing Annual Caps for the service charges payable by the Company to China Telecom Group under the Supplies Procurement Services Framework Agreement for the two years of 2009 and 2010 are RMB800 million and RMB900 million, respectively. The actual amounts for the service charges paid by the Company to China Telecom Group under the Supplies Procurement Services Framework Agreement for the year ended 31 December 2009 were RMB634.60 million. Based on the Company's management accounts, the actual amounts for the service charges paid by the Company to China Telecom Group under the Supplies Procurement Services Framework Agreement for the nine months ended 30 September 2010 were RMB332.79 million.

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

In terms of the New Annual Caps, the transactions under the Supplies Procurement Services Framework Agreement are continuing connected transactions on normal commercial terms subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. Accordingly, the Independent Shareholders' approval for the renewal of this agreement and the proposed New Annual Caps for this continuing connected transaction will be sought.

4. REASONS AND BENEFITS FOR TRANSACTIONS UNDER THE AGREEMENTS

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

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

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

5. INFORMATION ABOUT THE COMPANY AND CHINA TELECOMMUNICATIONS CORPORATION

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

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

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

6. LISTING RULES IMPLICATIONS

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

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

Unit: RMB million

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

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

As far as the Company is aware, none of the Existing Annual Caps has been exceeded as at the date of this circular. The Board is of the view that the proposed New Annual Caps above are set so as to not hinder the ability of the Group to conduct its business in the ordinary and usual course and allow the Group to benefit from future growth.

Each of the applicable percentage ratios of the proposed New Annual Caps for the Non-Exempt Connected Transactions, on an annual basis, exceeds 5%. Accordingly, the renewal of the Agreements (other than the Centralized Services Agreement and the Property Leasing Framework Agreement) by way of the 2010 Supplemental Agreement and the proposed New Annual Caps of the Non-Exempt Connected Transactions are subject to the reporting, announcement and independent shareholders' approval requirements as prescribed under Chapter 14A of the Listing Rules.

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

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

The Directors (including the independent non-executive Directors) are of the opinion that the Continuing Connected Transactions have been entered into, and will be carried out, in the ordinary and usual course of business of the Group and on normal commercial terms which are fair and reasonable so far as the interests of the Shareholders are concerned, and that the proposed New Annual Caps for the Continuing Connected Transactions are fair and reasonable.

China Telecommunications Corporation and its associates, being connected persons to the Company, will abstain from voting at the EGM on the ordinary resolutions to approve the terms of the 2010 Supplemental Agreement and the proposed New Annual Caps for the Non-Exempt Connected Transactions. Any vote of the Independent Shareholders at the EGM shall be taken by poll. The Company confirms that none of the independent non-executive Directors has any interests in the 2010 Supplemental Agreement and the proposed New Annual Caps.

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

7. EXTRAORDINARY GENERAL MEETING

A notice of the Extraordinary General Meeting to be held at 10 a.m. on 30 December 2010 at No. 19, Chaoyangmen Beidajie, Dongcheng District, Beijing, PRC, is set out on pages 50 to 51 of this circular at which ordinary resolutions will be proposed to approve the renewal of the Non-Exempt Connected Transactions together with the proposed New Annual Caps. The vote of the Independent Shareholders at the Extraordinary General Meeting on the ordinary resolutions shall be taken by a poll. In accordance with the Listing Rules, China Telecommunications Corporation, the ultimate controlling shareholder of the Company holding 52.60% of the total issued share capital of the Company as at the Latest Practicable Date, and its associates, will abstain from voting on the ordinary resolutions at the Extraordinary General Meeting.

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

8. CONCLUSIONS AND RECOMMENDATIONS

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

The Independent Financial Adviser considers that the entering into the 2010 Supplemental Agreement to renew the Non-Exempt Connected Transactions is in ordinary and usual course of business of the Company and that the terms thereof are fair and reasonable on normal commercial terms and in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Financial Adviser would advise the Independent Shareholders, as well as recommend the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the ordinary resolutions as set out in the notice of the EGM at the end of this circular.

The Independent Board Committee, after taking into account, among other things, the advice of the Independent Financial Adviser, concurs with the views of the Independent Financial Adviser and considers that the entering into the 2010 Supplemental Agreement to renew the Non-Exempt Connected Transactions is in the ordinary and usual course of business of the Company and that the terms thereof are fair and reasonable on normal commercial terms and in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the 2010 Supplemental Agreement (in respect of the renewal of the Non-Exempt Connected Transactions) and the proposed New Annual Caps. The text of the letter from the Independent Board Committee is set out on pages 24 to 25 of this circular. No member of the Independent Board Committee has any material interest in the 2010 Supplemental Agreement and the proposed New Annual Caps.

9. OTHER INFORMATION

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

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

中国通信服务
CHINA COMSERVICE
中 國 通 信 服 務 股 份 有 限 公 司

CHINA COMMUNICATIONS SERVICES CORPORATION LIMITED

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

(Stock code: 552)

12 November 2010

To the Independent Shareholders

Dear Sir or Madam,

Renewal of Non-Exempt Connected Transactions and Proposed New Annual Caps

We refer to the circular issued by the Company to the Shareholders dated 12 November 2010 (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 9 November 2010, the Board announced that the Company entered into the 2010 Supplemental Agreement with China Telecommunications Corporation to extend the terms of the Agreements to 31 December 2012. Further details are contained in the letter from the Board set out on pages 5 to 23 of the Circular.

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

GF Capital (Hong Kong) Limited has been appointed to act as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders with regard to the renewal of the Non-Exempt Connected Transactions together with the proposed New Annual Caps 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 from pages 26 to 46 of the Circular.

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

As your Independent Board Committee, we have discussed with the management of the Company the reasons for the renewal of the Non-Exempt Connected Transactions and the basis for proposing 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 renewal of the Non-Exempt Connected Transactions together with the proposed New Annual Caps.

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

Yours faithfully
For and on behalf of
Independent Board Committee
Wang Jun
Chan Mo Po, Paul
Zhao Chunjun
Wu Shangzhi
Hao Weimin

The following is the text of a letter of advice from GF Capital (Hong Kong) Limited, which has been prepared for the purpose of incorporation into this circular, setting out its opinion to the Independent Board Committee and the Independent Shareholders. Capitalized terms used herein shall have the same meanings ascribed to them in this circular.

廣發融資（香港）有限公司
GF Capital (Hong Kong) Limited

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

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

12 November 2010

Dear Sirs,

RENEWAL OF NON-EXEMPT 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 in respect of (i) the Engineering Framework Agreement, (ii) the Ancillary Telecommunications Services Framework Agreement, (iii) the Operation Support Services Framework Agreement, (iv) the IT Application Services Framework Agreement and (v) the Supplies Procurement Services Framework Agreement and the proposed New Annual Caps in respect of the Non-Exempt Connected Transactions (the "**Transactions**"). The details of the Transactions are set out in the letter from the Board (the "**Letter**") contained in the circular dated 12 November 2010 (the "**Circular**"), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise defined.

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

As each of the applicable percentage ratios of the proposed New Annual Caps for the Non-Exempt Connected Transactions, on an annual basis, exceeds 5%, accordingly the renewal of the Agreements (other than the Centralized Services Agreement and Property Leasing Framework Agreement) by way of the 2010 Supplemental Agreement and the proposed New Annual Caps of the Non-Exempt Connected Transactions are subject to the reporting, announcement and independent Shareholders' approval requirements as prescribed under Chapter 14A of the Listing Rules.

INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising all of the independent non-executive Directors, namely Mr. Wang Jun, Mr. Chan Mo Po, Paul, Mr. Zhao Chunjun, Mr. Wu Shangzhi and Mr. Hao Weimin, has been established to advise the Independent Shareholders in respect of the Engineering Framework Agreement, the Ancillary Telecommunications Services Framework Agreement, the Operation Support Services Framework Agreement, the IT Application Services Framework Agreement, the Supplies Procurement Services Framework Agreement and the proposed New Annual Caps in respect of the Transactions.

We have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders as to whether the entering into the 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 is in the ordinary and usual course of business of the Company and on normal commercial terms; and that the terms, the relevant proposed New Annual Caps in respect of transactions contemplated thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole as far as the Company and the Independent Shareholders are concerned.

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 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 continued to be true, accurate and complete at the date of the Circular.

We have assumed that all statements of belief, opinion and intention made by the Company, its representatives 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 currently available information and documents which are available under present circumstances to enable us to reach an informed view and we have relied on the accuracy of such information and the information contained in the Circular to provide a reasonable basis of our opinions.

Our review and analysis were based upon the information provided by the Company which include among others, the Engineering Framework Agreement, the Ancillary Telecommunications Services Framework Agreement, the Operation Support Services Framework Agreement, the IT Application Services Framework Agreement, the Supplies Procurement Services Framework Agreement, the Announcement, the Circular, the interim report for the six months ended 30 June 2010 (the "**Interim Report**") and the annual report for the year ended 31 December 2009 (the "**Annual Report**") of the Company.

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. We, however, have not conducted any independent in-depth investigation into 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 renewal of the Non-Exempt Connected Transactions and the proposed New Annual Caps, we have considered the following principal factors and reasons:

Background

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

China Telecommunications Corporation is a state-owned enterprise established under the laws of the PRC on 17 May 2000. Its principal business is the investment holding of companies engaged in the provision of telecommunication services in the PRC, the provision of specialised telecommunication support services and other business.

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

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

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

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

1. The Engineering Framework Agreement

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

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

The current term of the Engineering Framework Agreement will expire on 31 December 2010, automatically renewable for further periods of no more than three years unless it is terminated earlier by either party with three months' prior written notice. The Company has entered into the 2010 Supplemental Agreement to extend the current term of the Engineering Framework Agreement to 31 December 2012.

(b) ***Reasons and benefits of entering into the Engineering Framework Agreement***

As stated in the Letter, the Directors expect that China Telecom Group will continue to construct and optimize its mobile network, especially to upgrade its broadband network in the future. Therefore, in determining the proposed New Annual Caps, the Directors have considered the possible increase in the demand of telecommunications engineering services, including design, construction and supervision, required by China Telecom Group. The Directors also take into account the historical transaction amounts, and the operation and growth condition of the Group's businesses.

In view of the above, we consider that the Engineering Framework Agreement is of assistance to the Company to capture the business opportunity and strengthen the strategic relationship with China Telecom Group. In addition, we are of the view that the entering into of the Engineering Framework Agreement is in the ordinary and usual course of business of the Group and is in the interests of the Company and the Shareholders as a whole.

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

As stated in the Letter, the charges payable for engineering related services rendered under the Engineering Framework Agreement shall be determined by reference to market rates or as reflected by prices obtained through the tender process. According to the relevant regulations and under the internal policy of China Telecom Group, whenever the value of any design and/or project supervision and management contracts exceeds RMB0.5 million, or the value of any construction contracts exceeds RMB2 million, the award of the relevant contract must be subject to a tender process (with a minimum of three parties tendering bids). The Company is to be accorded priority by China Telecom Group in the provision of the engineering related services except in the tender process, provided that the terms and conditions offered by independent third parties to China Telecom Group are no more favourable than those offered by the Company for the same services, and in return, the Company has undertaken to China Telecom Group that it shall not provide services to it on terms which are less favourable than those offered by the Company to independent third parties. The payment for engineering related services provided by the Company under the Engineering Framework Agreement is normally made in accordance with the progress of practical work following the general market practice in the industry.

Based on the above, we consider that the Engineering Framework Agreement is on normal commercial terms which are fair and reasonable, and in the interest of the Company and the Shareholders as a whole.

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

The table below sets out the historical figures, the Existing Annual Caps and the proposed New Annual Caps in relation to the Engineering Framework Agreement:

Unit: RMB million

Transactions	**Year ended 31 December 2008**		**Year ended 31 December 2009**		**Year ending 31 December 2010**			**Year ending 31 December 2011**	**Year ending 31 December 2012**
Engineering Framework Agreement	**Existing Annual Cap**	**Actual amounts**	**Existing Annual Cap**	**Actual amounts**	**Existing Annual Cap**	**Actual amounts (up to 30 June 2010)**	**Actual amounts (up to 30 September 2010)**	**New Annual Cap**	**New Annual Cap**
Engineering related services provided to China Telecom Group	9,500	8,702	12,500	10,996	12,500	4,241	6,438	13,125	14,000
% of utilization		92%		88%		34%	52%		
% of increase								5%[1]	7%[2]

Notes:

1. The percentage increase in the 2011 New Annual Cap is with reference to the 2010 Existing Annual Cap.

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

The Existing Annual Caps for the service charges receivable by the Company from China Telecom Group under the Engineering Framework Agreement for the three years ending 31 December 2010 are RMB9,500 million, RMB12,500 million and RMB12,500 million respectively. The actual amounts for the service charges received by the Company from China Telecom Group under the Engineering Framework Agreement for the two years ended 31 December 2008 and 2009 were approximately RMB8,702 million and RMB10,996 million respectively, representing an utilization rate of 92% and 88% respectively. Based on the Company's management accounts, the actual amounts for the service charges received by the Company from China Telecom Group under the Engineering Framework Agreement for the six months ended 30 June 2010 and the nine months ended 30 September 2010 were approximately RMB4,241 million and RMB6,438 million respectively, representing an utilization rate of 34% and 52% respectively.

There is an approximately 5% increase in the 2011 New Annual Cap as compared to the 2010 Existing Annual Cap and an approximately 7% increase in the 2012 New Annual Cap as compared to the 2011 New Annual Cap. In determining the proposed New Annual Caps, the Directors have considered the possible increase in the demand of telecommunications engineering services, including design, construction and supervision, required by China Telecom Group. The Directors also take into account the historical transaction amounts, and the operation and growth condition of the Group's businesses.

The Management has confirmed that the increase in the proposed New Annual Caps is mainly attributable to (i) the increased demand for the Group's services by China Telecommunications Corporation due to continuous construction and enhancement of mobile network system; and (ii) the engineering work due to broadband internet upgrade. As advised by the Management, the 2011 New Annual Cap and the 2012 New Annual Cap are determined with reference to the expected increase in the demand for the Group's engineering services by China Telecommunications Corporation in connection with the construction and upgrade of the mobile network.

Based on the above, we are of the view that the proposed New Annual Caps for the Engineering Framework Agreement are made by the Management after due and careful consideration. We consider that the factors stated above can justify the proposed New Annual Caps for the Engineering Framework Agreement for the two years ending 31 December 2011 and 2012. We also consider that the increase in the proposed New Annual Caps under the Engineering Framework Agreement, having compared the historical transaction amounts with the Existing Annual Caps, have been determined on a fair and reasonable basis.

2. The Ancillary Telecommunications Services Framework Agreement

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

Pursuant to the Ancillary Telecommunications Services Framework Agreement, the Company has agreed to provide to China Telecom Group certain ancillary telecommunications services such as maintenance of network facilities including equipment, ducts and cables, equipment rooms and base stations, distribution of telecommunications products and services, provision of application, content and other services such as fixed-line value added services, wireless value added services, internet value added services, and development of online gaming, certificate authentication and value added business platform of internet cafes (the "Ancillary Telecommunications Services"). The Ancillary Telecommunications Services Framework Agreement was amended by the 2007 Supplemental Agreement to include the provision of comprehensive logistics services to China Telecom Group, which include purchase agency, warehousing, transportation, delivery, testing and inspection, logistics information management and distribution. The scope of the Ancillary Telecommunications Services Framework Agreement covers transactions between the Company (and its subsidiaries) and China Telecommunications Corporation (and its subsidiaries but excluding the Group), as may be applicable from time to time.

The current term of the Ancillary Telecommunications Services Framework Agreement will expire on 31 December 2010, automatically renewable for further periods of no more than three years unless it is terminated earlier by either party with three months' prior written notice. The Company has entered into the 2010 Supplemental Agreement to extend the current term of the Ancillary Telecommunications Services Framework Agreement to 31 December 2012.

(b) ***Reasons and benefits of entering into the Ancillary Telecommunications Services Framework Agreement***

As stated in the Letter, it is expected that China Telecom Group will continue to expand its business operation, construct and optimize its telecommunications network as well as broaden the customer base. The Directors consider that it is in the interest of the Company to cooperate with China Telecom Group and ensure a stable revenue source from one of the largest telecommunications operators in the PRC, so as to benefit the Company's future growth and development.

In view of the above, we consider that the Ancillary Telecommunications Services Framework Agreement is of assistance to the Company to capture the business opportunity and strengthen the strategic relationship with China Telecom Group. In addition, we are of the view that the entering into of the Ancillary Telecommunications Services Framework Agreement is in the ordinary and usual course of business of the Group and is in the interests of the Company and the Shareholders as a whole.

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

Pursuant to the Ancillary Telecommunications Services Framework Agreement, the pricing basis is determined by reference to (i) government-prescribed price; (ii) if there is no government-prescribed price but a government-guidance price, then the government-guidance price; (iii) if there is no government-prescribed price and government-guidance price, then market price; and (iv) if there are no applicable prices as mentioned in (i), (ii) and (iii), then the reasonable costs plus reasonable profits. The market price is defined as the price at which the same type of services is provided by independent third parties in the ordinary course of business. Reasonable costs means the costs confirmed by both parties after negotiations, and reasonable profits means a profit ratio confirmed by both parties during the course of normal commercial negotiation, taking into account factors such as historical price, transaction size, average profit ratio within the relevant industry, supply and demand, labour cost, local commodity prices and economic development levels.

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

Based on the above, we consider that the Ancillary Telecommunications Services Framework Agreement is on normal commercial terms which are fair and reasonable, and in the interest of the Company and the Shareholders as a whole.

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

The table below sets out the historical figures, the Existing Annual Caps and the proposed New Annual Caps relating to the Ancillary Telecommunications Services Framework Agreement:

Unit: RMB million

Transactions	**Year ended 31 December 2008**		**Year ended 31 December 2009**		**Year ending 31 December 2010**			**Year ending 31 December 2011**	**Year ending 31 December 2012**
Ancillary Telecommunications Services Framework Agreement	**Existing Annual Cap**	**Actual amounts**	**Existing Annual Cap**	**Actual amounts**	**Existing Annual Cap**	**Actual amounts (up to 30 June 2010)**	**Actual amounts (up to 30 September 2010)**	**New Annual Cap**	**New Annual Cap**
Ancillary Telecommunications Services provided to China Telecom Group	4,700	4,648	6,700	4,469	6,700	2,151	3,837	7,035	7,550
% of utilization		99%		67%		32%	57%		
% of increase								5%[1]	7%[2]

Notes:

1. The percentage increase in the 2011 New Annual Cap is with reference to the 2010 Existing Annual Cap.

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

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 ending 31 December 2010 are RMB4,700 million, RMB6,700 million and RMB6,700 million respectively. The actual amounts for the service charges received by the Company from China Telecom Group under the Ancillary

Telecommunications Services Framework Agreement for the two years ended 31 December 2008 and 2009 were approximately RMB4,648 million and RMB4,469 million respectively, representing an utilization rate of approximately 99% and 67% respectively. Based on the Company's management accounts, the actual amounts for the service charges received by the Company from China Telecom Group under the Ancillary Telecommunications Services Framework Agreement for the six months ended 30 June 2010 and the nine months ended 30 September 2010 were approximately RMB2,151 million and RMB3,837 million respectively, representing an utilization rate of approximately 32% and 57% respectively.

The Directors propose the New Annual Caps for the Ancillary Telecommunications Services Framework Agreement in respect of the two years ending 31 December 2011 and 2012 to be RMB7,035 million and RMB7,550 million respectively. There is an approximately 5% increase in the 2011 New Annual Cap as compared to the 2010 Existing Annual Cap and an approximately 7% increase in the 2012 New Annual Cap as compared to the 2011 New Annual Cap. In determining the proposed New Annual Caps, the Directors have considered the historical transaction amounts, the operation and growth condition of the Group's businesses in this area, and the expected increase of demand of the Ancillary Telecommunications Services required by China Telecom Group mainly attributable to its expansion of network, customer base and mobile phone business.

The Management has confirmed that the increase in the 2011 New Annual Cap and 2012 New Annual Cap is mainly attributable to (i) the growth of the Group's revenue from provision of the Ancillary Telecommunications Services to the China Telecom Group; (ii) the increase in demand of the Ancillary Telecommunications Services by the China Telecom Group in connection to its expansion of mobile network and growth in customer base.

Based on the above, we are of the view that the proposed New Annual Caps for the Ancillary Telecommunications Services Framework Agreement are made by the Management after due and careful consideration. We consider that the factors stated above can justify the proposed New Annual Caps for the Ancillary Telecommunications Services Framework Agreement for the two years ending 31 December 2011 and 2012. We also consider that the increase in the proposed New Annual Caps under the Ancillary Telecommunications Services Framework Agreement, having compared the historical transaction amounts with the Existing Annual Caps, have been determined on a fair and reasonable basis.

3. The Operation Support Services Framework Agreement

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

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

The current term of the Operation Support Services Framework Agreement will expire on 31 December 2010, automatically renewable for further periods of no more than three years unless it is terminated earlier by either party with three months' prior written notice. The Company has entered into the 2010 Supplemental Agreement to extend the current term of the Operation Support Services Framework Agreement to 31 December 2012.

(b) ***Reasons and benefits of entering into the Operation Support Services Framework Agreement***

As stated in the Letter, it is expected that China Telecom Group will continue to expand its business operation, construct and optimize its telecommunications network as well as broaden the customer base. The Directors consider that it is in the interest of the Company to cooperate with China Telecom Group and ensure a stable revenue source as well as a stable source of supply from one of the largest telecommunications operators in the PRC, so as to benefit the Company's future growth and development.

In view of the above, we, we are of the view that the entering into of the Operation Support Services Framework Agreement is in the ordinary and usual course of business of the Group and is in the interests of the Company and the Shareholders as a whole.

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

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

The operation support services under the Operation Support Services Framework Agreement are provided in accordance with the same pricing policy as that of the Ancillary Telecommunications Services Framework Agreement set out in section 2(c) above. Subject to the terms and conditions set out above, the payment for the operation support services is made in the manner provided for in each specific contract entered into between the parties by reference to the market practices.

Based on the above, we consider that the Operation Support Services Framework Agreement is on normal commercial terms which are fair and reasonable, and in the interest of the Company and the Shareholders as a whole.

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

The table below sets out the historical figures, the Existing Annual Caps and the proposed New Annual Caps relating to the Operation Support Services Framework Agreement:

Unit: RMB million

Transactions	**Year ended 31 December 2008**		**Year ended 31 December 2009**		**Year ending 31 December 2010**			**Year ending 31 December 2011**	**Year ending 31 December 2012**
Operation Support Services Framework Agreement	**Existing Annual Cap**	**Actual amounts**	**Existing Annual Cap**	**Actual amounts**	**Existing Annual Cap**	**Actual amounts (up to 30 June 2010)**	**Actual amounts (up to 30 September 2010)**	**New Annual Cap**	**New Annual Cap**
Revenue	1,910	1,562	1,910	1,694	1,910	740	1,311	1,910	1,910
% of utilization		82%		89%		39%	69%		
% of increase								0%[1]	0%[2]
Expenditure	470	401	470	215	470	125	187	470	470
% of utilization		85%		46%		27%	40%		
% of increase								0%[1]	0%[2]

Notes:

1. The percentage increase in the 2011 New Annual Cap is with reference to the 2010 Existing Annual Cap.

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

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 ending 31 December 2010 are stable at RMB1,910 million. The actual amounts for the service charges received by the Company from China Telecom Group under the Operation Support Services Framework Agreement for the two years ended 31 December 2008 and 2009 were approximately RMB1,562 million and RMB1,694 million respectively, representing an utilization rate of approximately 82% and 89% respectively. Based on the Company's management accounts, the actual amounts for the service charges received by the Company from China Telecom Group under the Operation Support Services Framework Agreement for the six months ended 30 June 2010 and the nine months ended 30 September 2010 were approximately RMB740 million and RMB1,311 million respectively, representing an utilization rate of approximately 39% and 69% respectively.

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 ending 31 December 2010 are stable at RMB470 million. The actual amounts for the service charges paid by the Company to China Telecom Group under the Operation Support Services Framework Agreement for the two years ended 31 December 2008 and 2009 were approximately RMB401 million and RMB215 million respectively, representing an utilization rate of approximately 85% and 46% respectively. Based on the Company's management accounts, the actual amounts for the service charges paid by the Company to China Telecom Group under the Operation Support Services Framework Agreement for the six months ended 30 June 2010 and the nine months ended 30 September 2010 were approximately RMB125 million and RMB187 million respectively, representing an utilization rate of approximately 27% and 40% respectively.

The Directors propose the New Annual Caps for the service charges receivable by the Company from China Telecom Group under the Operation Support Services Framework Agreement in respect of the two years ending 31 December 2011 and 2012 to be stable at RMB1,910 million, which are the same level as the Existing Annual Caps.

The Directors also propose the New Annual Caps for the service charges payable by the Company to China Telecom Group under the Operation Support Services Framework Agreement in respect of the two years ending 31 December 2011 and 2012 to be stable at RMB470 million, which are the same level as the Existing Annual Caps.

In determining the New Annual Caps, the Directors have considered the historical transaction amounts, the operation and growth condition of the Group's businesses in the area, and the estimated mutual demand of the operation support services.

Given that (i) the Management has confirmed that the Company will mutually demand and supply operation support services from China Telecom Group under the Operation Support Services Framework Agreement at a similar level as in the past few years, (ii) the utilization rate of the Existing Annual Caps, and (iii) the proposed New Annual Caps for the two years ending 2011 and 2012 are at the same level as the Existing Annual Caps, we are of the view that the proposed New Annual Caps have been determined on a fair and reasonable basis.

Based on the above, we are of the view that the proposed New Annual Caps for the Operation Support Services Framework Agreement are made by the Management after due and careful consideration. We consider that the factors stated above can justify the proposed New Annual Caps for the Operation Support Services Framework Agreement for the two years ending 31 December 2011 and 2012. We also consider that the increase in the proposed New Annual Caps under the Operation Support Services Framework Agreement, having compared the historical transaction amounts with the Existing Annual Caps, have been determined on a fair and reasonable basis.

4. The IT Application Services Framework Agreement

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

Pursuant to the IT Application Services Framework Agreement, the Company agreed to provide China Telecom Group with telecommunications network support services, software and hardware development and other related IT services. China Telecom Group also agreed to provide to the Group certain IT application services including but not limited to, basic telecommunications services such as voice and data, value added services and information application services. The scope of the IT Application Services Framework Agreement covers transactions between the Company (and its subsidiaries) and China Telecommunications Corporation (and its subsidiaries but excluding the Group), as may be applicable from time to time.

The current term of the IT Application Services Framework Agreement will expire on 31 December 2010, automatically renewable for further periods of no more than three years unless it is terminated earlier by either party with three months' prior written notice. The Company has entered into the 2010 Supplemental Agreement to extend the current term of the IT Application Services Framework Agreement to 31 December 2012.

(b) *Reasons and benefits of entering into the IT Application Services Framework Agreement*

As stated in the Letter, the Directors expected that the China Telecom Group will continue to enhance the restructuring of its businesses and promote its information service business, therefore, there will be an increase in its IT application services demand. In determining the proposed New Annual Caps, the Directors also have considered the historical transaction amounts, the operation and growth condition of the Group's businesses in the area, and the Group's estimated demand of the IT application services.

In view of the above, we consider that the IT Application Services Framework Agreement is of assistance to the Company to capture the business opportunity and strengthen the strategic relationship with China Telecom Group. In addition, we are of the view that the entering into of the IT Application Services Framework Agreement is in the ordinary and usual course of business of the Group and is in the interests of the Company and the Shareholders as a whole.

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

Pursuant to the IT Application Services Framework Agreement, the charges payable for such IT application services shall be determined by reference to market rates, for example, rates as reflected by prices obtained through the tender process (with a minimum of three parties tendering bids). The party receiving the relevant services will accord priority to the party providing such services, provided that the terms and conditions offered by independent third parties to the relevant party are no more favourable than those offered by the other party for the same services, and in return, each of the parties has undertaken to the other that it shall not provide services to the other on terms which are less favourable than those offered to independent third parties. Subject to the terms and conditions set out above, the payment for the IT applications services is made in the manner provided for in each specific contract entered into between the parties by reference to the market practices.

Based on the above, we consider that the IT Application Services Framework Agreement is on normal commercial terms which are fair and reasonable, and in the interest of the Company and the Shareholders as a whole.

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

The table below sets out the historical figures, the Existing Annual Caps and the proposed New Annual Caps relating to the IT Application Services Framework Agreement:

Unit: RMB million

Transactions	Year ended 31 December 2008		Year ended 31 December 2009		Year ending 31 December 2010			Year ending 31 December 2011	Year ending 31 December 2012
IT Application Services Framework Agreement	**Existing Annual Cap**	**Actual amounts**	**Existing Annual Cap**	**Actual amounts**	**Existing Annual Cap**	**Actual amounts (up to 30 June 2010)**	**Actual amounts (up to 30 September 2010)**	**New Annual Cap**	**New Annual Cap**
Revenue	1,000	947	1,300	1,093	1,600	402	715	1,750	1,900
% of utilization		95%		84%		25%	45%		
% of increase								9%[1]	9%[2]
Expenditure	230	132	230	186	230	80	120	430	430
% of utilization		57%		81%		35%	52%		
% of increase								87%[1]	0%[2]

Notes:

1. The percentage increase in the 2011 New Annual Cap is with reference to the 2010 Existing Annual Cap.

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

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 ending 31 December 2010 are RMB1,000 million, RMB1,300 million and RMB1,600 million respectively. The actual amounts for the service charges received by the Company from China Telecom Group under the IT Application Services Framework Agreement for the two years ended 31 December 2008 and 2009 were approximately RMB947 million and RMB1,093 million respectively, representing an utilization rate of approximately 95% and 84% respectively. Based on the Company's management accounts, the actual amounts for the service charges received by the Company from China Telecom Group under the IT Application Services Framework Agreement for the six months ended 30 June 2010 and the nine months ended 30 September 2010 were approximately RMB402 million and RMB715 million respectively, representing an utilization rate of approximately 25% and 45% respectively.

The Existing Annual Caps for the service charges payable by the Company to China Telecom Group under the IT Application Services Framework Agreement for the three years ending 31 December 2010 are stable at RMB230 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 two years ended 31 December 2008 and 2009 were approximately RMB132 million and RMB186 million respectively, representing an utilization rate of approximately 57% and 81% respectively. Based on the Company's management accounts, the actual amounts for the service charges paid by the Company to China Telecom Group under the IT Application Services Framework Agreement for the six months ended 30 June 2010 and the nine months ended 30 September 2010 were approximately RMB80 million and RMB120 million, representing an utilization rate of approximately 35% and 52% respectively.

The Directors propose the New Annual Caps for the service charges receivable by the Company from China Telecom Group under the IT Application Services Framework Agreement in respect of the two years ending 31 December 2011 and 2012 to be RMB1,750 million and RMB1,900 million respectively. Accordingly, there is an approximately 9% increase in the 2011 New Annual Cap as compared to the 2010 Existing Annual Cap, and an approximately 9% increase in the 2012 New Annual Cap as compared to the 2011 New Annual Cap.

The Directors also propose the New Annual Caps for the service charges payable by the Company to China Telecom Group under the IT Application Services Framework Agreement in respect of the two years ending 31 December 2011 and 2012 to be stable at RMB430 million. Accordingly, there is an approximate 87% increase in the 2011 New Annual Cap as compared to the 2010 Existing Annual Cap, and no further increase in the 2012 New Annual Cap.

As stated in the Letter, the Directors expect that China Telecom Group will continue to enhance the restructuring of its businesses and promote its information service business. Therefore, there will be an increase in its IT application services demand. In determining the proposed New Annual Caps, the Directors also have considered the historical transaction amounts, the operation and growth condition of the Group's businesses in this area, and the Group's estimated demand of the IT application services.

Based on the above, we are of the view that the assumptions made by the Management in setting the proposed New Annual Caps in relation to the IT Application Services Framework Agreement are fair and reasonable. We are also of the view that the increases in the proposed New Annual Caps in relation to the service charges receivable by the Group under the IT Application Services Framework Agreement reflect the normal business needs of the Company while the increases in the proposed New Annual Caps in relation to the service charges payable by the Group reflect the increased demand by the Group for IT application services.

5. The Supplies Procurement Services Framework Agreement

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

Pursuant to the Supplies Procurement Services Framework Agreement, the Company agreed to provide to China Telecommunications Corporation 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 Telecommunications Corporation agreed to provide to the Company 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 Telecommunications Corporation (and its subsidiaries but excluding the Group), as may be applicable from time to time.

The current term of the Supplies Procurement Services Framework Agreement will expire on 31 December 2010, automatically renewable for further periods of no more than three years unless it is terminated earlier by either party with three months' prior written notice. The Company has entered into the 2010 Supplemental Agreement to extend the current term of the Supplies Procurement Services Framework Agreement to 31 December 2012.

(b) ***Reasons and benefits of entering into the Supplies Procurement Services Framework Agreement***

As stated in the Letter, the Directors expect the demand of supplies procurement services from China Telecom Group to increase attributable to its expansion of network size and customer base. As such, the Company expects an increase of transaction amounts for provision of comprehensive logistic services for facilities procurement between the Group and China Telecom Group as a result of the expansion in telecommunications network by China Telecom Group in connection with the growth in customer base. In view of the above, we concur with the view of the Management that there has been increasing demand for sales and procurement services for both telecommunications and non-telecommunications operators, ultimate customers and other end users.

In view of the above, we consider that the Supplies Procurement Services Framework Agreement is of assistance to the Company to capture the business opportunity. In addition, we are of the view that the entering into of the Supplies Procurement Services Framework Agreement is in the ordinary and usual course of business of the Group and is in the interests of the Company and the Shareholders as a whole.

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

As stated in the Letter, the pricing basis under the Supplies Procurement Services Framework Agreements is determined as below: (i) 1% of the contract value at maximum for procurement services relating to imported telecommunications supplies; (ii) 3% of the contract value at the maximum for procurement services relating to domestic telecommunications supplies and other domestic non-telecommunications materials; and (iii) for other procurement services under the Supplies Procurement Services Framework Agreement, pricing basis is determined by reference to (a) government-prescribed prices; (b) if there is no government-prescribed price, then the government-guided prices; (c) if there are no government-prescribed price and government-guided prices, then market prices; and (d) if there are no applicable prices as mentioned in (a), (b) and (c), then the reasonable costs plus reasonable profit margin as negotiated between two parties. We also noted that the pricing basis for the procurement services under the Supplies Procurement Services Framework Agreement is subject to review and amendment by both parties when necessary on 31 December each year. In addition, we further noted that the payment term for the related procurement services is no longer than 60 days. As advised by the Management, such payment term is in line with the credit policy of the Company.

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

In view of the above, we consider that the Supplies Procurements Services Framework Agreement is on normal commercial terms which are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

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

The table set out below illustrates the historical transaction amounts and the proposed New Annual Caps for the comprehensive logistic services occurred between the Group and the China Telecom Group:

Unit: RMB million

Transactions	**Year ended 31 December 2009**		**Year ending 31 December 2010**			**Year ending 31 December 2011**	**Year ending 31 December 2012**
Supplies Procurement Services Framework Agreement	**Existing Annual Cap**	**Actual amounts**	**Existing Annual Cap**	**Actual amounts (up to 30 June 2010)**	**Actual amounts (up to 30 September 2010)**	**New Annual Cap**	**New Annual Cap**
Revenue	2,000	1,949	2,800	1,132	2,106	3,500	4,000
% of utilization		97%		40%	75%		
% of increase						25%[1]	14%[2]
Expenditure	800	635	900	142	333	900	900
% of utilization		79%		16%	37%		
% of increase						0%[1]	0%[2]

Notes:

1. The percentage increase in the 2011 New Annual Cap is with reference to the 2010 Existing Annual Cap.

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

The Existing Annual Caps for the service charges receivable by the Company from China Telecom Group under the Supplies Procurement Services Framework Agreement for the two years ending 31 December 2010 are RMB2,000 million and RMB2,800 million respectively. The actual amount for the service charges received by the Company from China Telecom Group under the Supplies Procurement Services Framework Agreement for the year ended 31 December 2009 was approximately RMB1,949 million, representing an utilization rate of 97%. Based on the Company's management accounts, the actual amounts for the services charge received by the Company from China Telecom Group under the Supplies Procurement Services Framework Agreement for the six months ended 30 June 2010 and the nine months ended 30 September 2010 were approximately RMB1,132 million and RMB2,106 million respectively, representing an utilization rate of approximately 40% and 75% respectively.

The Existing Annual Caps for the service charges payable by the Company to China Telecom Group under the Supplies Procurement Services Framework Agreement for the two years ended 31 December 2009 and 2010 are RMB800 million and RMB900 million respectively. The actual amount for the service charges paid by the Company to China Telecom Group under the Supplies Procurement Services Framework Agreement for the year ended 31 December 2009 was approximately RMB635 million, representing an utilization rate of approximately 79%. Based on the Company's management accounts, the actual amounts for the service charges paid by the Company to China Telecom Group under the Supplies Procurement Services Framework Agreement for the six months ended 30 June 2010 and the nine months ended 30 September 2010 were approximately RMB142 million and RMB333 million respectively, representing an utilization rate of approximately 16% and 37% respectively.

The Directors propose 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 the two years ending 31 December 2011 and 2012 to be RMB3,500 million and RMB4,000 million respectively. Accordingly, there is an approximately 25% increase in the 2011 New Annual Cap as compared to the 2010 Existing Annual Cap and a further 14% increase in the 2012 New Annual Cap compared with the 2011 New Annual Cap.

The Directors also propose the New Annual Caps for the service charges payable by the Company to China Telecom Group under the Supplies Procurement Services Framework Agreement in respect of the two years ending 31 December 2011 and 2012 to be stable at RMB900 million.

As stated in the Letter, the Directors expect the demand of supplies procurement services from China Telecom Group to increase attributable to its expansion of network size and customer base. In determining the proposed New Annual Caps, the Directors have also considered the historical transaction amounts and the Group's estimated demand of supplies procurement services from China Telecom Group.

As advised by the Management, in determining the 2011 New Annual Cap and 2012 New Annual Cap, the Directors have taken into accounts (i) the historical transaction amounts and the expected amounts for each of the two years ending 31 December 2011 and 2012, (ii) the current condition and growth trend of comprehensive logistical services of the Group (iii) the estimated extent of the comprehensive logistical services that may be required by China Telecom Group in connection with its provision of mobile telecommunications services and related business, which includes the manufacture and sales or resale of 3G related supplies and purchase of 3G related facilities and (iv) the continuous enhancement of the mobile network of China Telecom Group.

Based on the above, we are of the view that the proposed New Annual Caps under the Supplies Procurement Services Framework Agreement for each of the two years ending 31 December 2011 and 2012 are made by the Management after due and careful consideration. Having considered that the factors stated above, we are of the view that the proposed New Annual Caps under the Supplies Procurement Services Framework Agreement for the years ending 31 December 2011 to 2012 are justifiable and have been determined on a fair and reasonable basis.

Listing Rules' implications

The Non-Exempt Connected Transactions and the proposed New Annual Caps contemplated thereunder are subject to the following annual review requirements of Rules 14A.37 to 14A.41 of the Listing Rules:

a. Each year the independent non-executive Directors must review the Continuing Connected Transactions contemplated under the respective Agreements and confirm in the annual report and accounts that the Transactions have been entered into:

   (1) in the ordinary and usual course of business of the Company;

   (2) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Company than terms available to or from (as appropriate) independent third parties; and

   (3) in accordance with the respective Agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

b. Each year the auditors must provide a letter to the Board (with a copy provided to the Stock Exchange at least 10 business days prior to the bulk printing of the Company's annual report), confirming that the Transactions:

   (1) have received the approval of the Board;

   (2) are in accordance with the pricing policies of the Company if the Transactions involve provision of goods or services by the Company;

   (3) have been entered into in accordance with the respective Agreements governing the Transactions; and

   (4) have not exceeded the relevant proposed annual caps.

c. The Company shall allow, and shall procure that China Telecom Group shall allow, the auditors sufficient access to their records for the purpose of reporting on the Transactions as set out in the Listing Rules. The Board must state in the annual report whether its auditors have confirmed the matters stated in (b) above.

d. The Company shall promptly notify the Stock Exchange and publish an announcement in accordance with Rule 2.07C of the Listing Rules if it knows or has reason to believe that the independent non-executive Directors and/or the auditors will not be able to confirm the matters set out in (a) and/or (b) above respectively. The Company may have to re-comply with Rules 14A.35(3) and (4) of the Listing Rules and any other conditions the Stock Exchange considers appropriate.

e. Upon any variation or renewal of the respective Agreements, the Company must comply in full with all applicable reporting, disclosure and Independent Shareholders' approval requirements of Chapter 14A of the Listing Rules in respect of all continuing connected transactions effected after such variation or renewal.

The aforesaid annual review requirements pursuant to Rules 14A.37 to 14A.41 of the Listing Rules can provide appropriate measures to govern the Company in carrying out the respective Agreements and safeguard the interest of the Shareholders thereunder.

RECOMMENDATION

Having considered the above principal factors and reasons, we consider that the entering into of the Non-Exempt Connected Transactions is in the ordinary and usual course of business of the Company and on normal commercial terms; and that the terms of the respective Agreements and the proposed New Annual Caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole so far as the Company and the Independent Shareholders are concerned. Accordingly, we advise the Independent Shareholders, as well as recommend the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the ordinary resolutions as set out in the notice of EGM set forth at the end of this Circular.

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

Dino Ng	**Brian Lee**
Managing Director and Co-Head of Corporate Finance	*Associate Director*

1. RESPONSIBILITY STATEMENT

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

2. DIRECTORS' AND SUPERVISORS' INTERESTS

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

As at the Latest Practicable Date, none of the Directors or Supervisors had any interest, direct or indirect, in any asset which since 31 December 2009, the date to which the latest published audited financial statements of the Group were made up, have been acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group.

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

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

China Telecommunications Corporation and its associates being connected persons to the Non-Exempt Connected Transactions will abstain from voting on the ordinary resolutions to approve the renewal of the Non-Exempt Connected Transactions together with the proposed New Annual Caps.

3. SERVICE CONTRACTS

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

4. COMPETING INTEREST

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

5. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2009, being the date of the latest published audited financial statements of the Company.

6. QUALIFICATION OF EXPERTS

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

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

7. CONSENT

(a) GF Capital (Hong Kong) Limited issued a letter dated 12 November 2010 for the purpose of incorporation in this circular, in connection with its advice to the Independent Board Committee and the Independent Shareholders.

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

(c) As at the Latest Practicable Date, GF Capital (Hong Kong) Limited was not beneficially interested in the share capital of any member of the Group nor had any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group and did not have any interest, either directly or indirectly, in any assets which have been, since 31 December 2009 (the date to which the latest published audited financial statements of the Company were made up), acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

8. GENERAL

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

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

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

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Freshfields Bruckhaus Deringer in Hong Kong at 11th Floor, Two Exchange Square, Central, Hong Kong during normal business hours from the date of this circular up to and including the date of the EGM and at the EGM:

(a) the articles of association of the Company;

(b) the Agreements;

(c) the 2007 Supplemental Agreement;

(d) the 2008 Supplemental Agreement;

(e) the 2010 Supplemental Agreement;

(f) the 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;

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

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

10. MISCELLANEOUS

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

中国通信服务
CHINA COMSERVICE
中國通信服務股份有限公司

CHINA COMMUNICATIONS SERVICES CORPORATION LIMITED

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

(Stock code: 552)

NOTICE OF THE EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of China Communications Services Corporation Limited (the "Company") will be held at 10 a.m. on 30 December 2010 at No. 19, Chaoyangmen Beidajie, Dongcheng District, Beijing, the PRC, to consider and, if thought fit, pass the following businesses:

ORDINARY RESOLUTIONS

1. **THAT** the 2010 Supplemental Agreement (in respect of the renewal of the non-exempt connected transactions to 31 December 2012) with China Telecommunications Corporation as described in the circular of the Company dated 12 November 2010 (the "Circular") be and is hereby approved, ratified and confirmed and that any director of the Company be and is hereby authorized to do all such further acts and things and execute such further documents and take all such steps which in their opinion may be necessary, desirable or expedient to implement and/or give effect to the terms of such agreement.

2. **THAT** the proposed new annual caps for the non-exempt connected transactions for the two years ending 31 December 2012 as described in the Circular be and are hereby approved, ratified and confirmed.

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

Beijing, the PRC
12 November 2010

Notes:

(1) Buyers who submit the share transfer application forms to the Company's share registrar before 4:30 p.m. on 29 November 2010 and then register as shareholders on the register of members of the Company are entitled to attend the extraordinary general meeting.

(2) Each shareholder entitled to attend and vote at the extraordinary general meeting may appoint one or more proxies to attend and vote on his behalf at the extraordinary general meeting. A proxy need not be a shareholder. Each shareholder who wishes to appoint one or more proxies should first review the Circular, which is expected to be despatched to shareholders at around 12 November 2010.

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

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

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

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

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

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

(b) shareholders intending to attend the extraordinary general meeting shall return the attendance slip via hand delivery, mail or fax to the Office of the Board of the Company on or before 9 December 2010.

(5) Closure of the register of members:

The register of members of the Company will be closed from 30 November 2010 to 30 December 2010 (both days inclusive).

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

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

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

(8) All proposed resolutions in this notice shall be voted as a single resolution only.

(9) As at the date of this notice, our executive directors are Mr. Li Ping (Chairman), Mr. Zheng Qibao (President) and Mr. Yuan Jianxing (Executive Vice President and Chief Financial Officer), our non-executive directors are Mr. Liu Aili and Mr. Zhang Junan, and our independent non-executive directors are Mr. Wang Jun, Mr. Chan Mo Po, Paul, Mr. Zhao Chunjun, Mr. Wu Shangzhi and Mr. Hao Weimin.