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**中国通信服务**  
CHINA COMSERVICE

中國通信服務股份有限公司

**CHINA COMMUNICATIONS SERVICES CORPORATION LIMITED**

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

**(Stock Code: 552)**

**CONTINUING CONNECTED TRANSACTIONS  
AND  
DISCLOSEABLE TRANSACTIONS  
UNDER THE FINANCIAL SERVICES FRAMEWORK AGREEMENT**

**SUMMARY**

The Company refers to its announcement dated 22 June 2018 in relation to the capital contribution agreement entered into by and among the Company, China Telecom Group and China Telecom to establish China Telecom Finance with a registered capital of RMB5.0 billion, of which China Telecom Group, China Telecom and the Company had contributed RMB0.75 billion, RMB3.5 billion and RMB0.75 billion, respectively, representing 15%, 70% and 15% of the total registered capital of China Telecom Finance, respectively. China Telecom Finance, a non-banking financial institution legally established in the PRC on 8 January 2019 with the approval of the CBIRC, is a limited liability company approved by the relevant PRC government authorities (including but not limited to the CBIRC) to provide funds and financial management services to the member companies of China Telecom Group.

**FINANCIAL SERVICES FRAMEWORK AGREEMENT ENTERED INTO  
BETWEEN THE COMPANY AND CHINA TELECOM FINANCE**

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

## **LISTING RULES IMPLICATIONS**

As at the date of this announcement, China Telecom Group is the controlling shareholder of the Company holding approximately 51.39% of the total issued share capital of the Company. Therefore, each of China Telecom Group and its associates is a connected person of the Company under Chapter 14A of the Listing Rules. China Telecom Group holds approximately 70.89% of the total issued share capital of China Telecom and therefore China Telecom is a subsidiary of China Telecom Group. China Telecom Finance is held as to 15% and 70% by China Telecom Group and China Telecom, respectively, and is therefore an associate of China Telecom Group as well as a connected person of the Company under Chapter 14A of the Listing Rules. As such, the Financial Services Framework Agreement constitutes a continuing connected transaction of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios of the proposed annual caps for the deposit services provided by China Telecom Finance to the Group under the Financial Services Framework Agreement exceeds 5% but are less than 25%, the relevant deposit services constitute discloseable transactions and non-exempt continuing connected transactions of the Company and are subject to the disclosure requirement under Chapter 14 of the Listing Rules and the reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

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

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

## **BOARD OPINIONS**

The Board (excluding the members of the Independent Board Committee, whose opinion, after taking into account the advice from the Independent Financial Adviser on the terms of the deposit services contemplated under the Financial Services Framework Agreement and its proposed annual caps, will be included in the circular to be dispatched to the Shareholders) is of the view that, the Financial Services Framework Agreement and the deposit services contemplated thereunder are in the ordinary and usual course of business of the Group, on normal commercial terms or better, and the terms of the Financial Services Framework Agreement and the proposed annual caps applicable to the deposit services are fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

The Board (including the independent non-executive Directors) is of the view that, the loan services and other financial services contemplated under the Financial Services Framework Agreement are in the ordinary and usual course of business of the Group, on normal commercial terms or better, and the proposed annual caps applicable to the loan services and the other financial services are fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

The Independent Board Committee comprising all of the independent non-executive Directors has been established to advise the Independent Shareholders on the deposit services (together with the proposed annual caps thereof) contemplated under the Financial Services Framework Agreement. Pulsar Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on the same.

## **GENERAL**

The EGM will be convened to consider and, if thought fit, approve the deposit services contemplated under the Financial Services Framework Agreement and the proposed annual caps applicable thereto. The Company expects that the circular containing, among other things, (i) a letter from the Board setting out the details on the non-exempt continuing connected transactions under the Financial Services Framework Agreement; (ii) a letter from the Independent Board Committee; (iii) a letter of advice from the Independent Financial Adviser; and (iv) a notice of the EGM, will be dispatched to the Shareholders on or before 27 February 2019.

## **INTRODUCTION**

The Company refers to its announcement dated 22 June 2018 in relation to the capital contribution agreement entered into by and among the Company, China Telecom Group and China Telecom to establish China Telecom Finance with a registered capital of RMB5.0 billion, of which China Telecom Group, China Telecom and the Company had contributed RMB0.75 billion, RMB3.5 billion and RMB0.75 billion, respectively, representing 15%, 70% and 15% of the total registered capital of China Telecom Finance, respectively. China Telecom Finance, a non-banking financial institution legally established in the PRC on 8 January 2019 with the approval of the CBIRC, is a limited liability company approved by the relevant PRC government authorities (including but not limited to the CBIRC) to provide funds and financial management services to the member companies of China Telecom Group.

## **FINANCIAL SERVICES FRAMEWORK AGREEMENT ENTERED INTO BETWEEN THE COMPANY AND CHINA TELECOM FINANCE**

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

The principal terms of the Financial Services Framework Agreement are set out below:

### **Signing Date**

1 February 2019

### **Parties**

- (i) the Company
- (ii) China Telecom Finance

### **Effective Period of the Agreement**

The Financial Services Framework Agreement becomes effective when it is duly signed by the legal representatives or authorised representatives of both parties and affixed with their respective company chops, and with effect from 1 February 2019 until 31 December 2021. Subject to the compliance with relevant laws and regulations and relevant regulatory requirements, both parties shall negotiate and agree on the renewal arrangement. The deposit services contemplated under the Financial Services Framework Agreement shall be subject to the approval by the Independent Shareholders according to the Listing Rules.

### **Content of Services**

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

- (i) financial and financing advice, credit authentication and relevant consulting and agency services;
- (ii) collection and payment of transaction funds;
- (iii) provision of guarantee;
- (iv) acceptance of bills and discounted bill services;
- (v) entrusted loans;
- (vi) internal fund transfer and settlement designs of relevant settlement and clearance arrangement proposals among member companies;

- (vii) acceptance of deposits;
- (viii) provision of loans and financial leasing;
- (ix) approved insurance agency business;
- (x) underwriting services for the Group's corporate bonds;
- (xi) consumer credit, buyer credit and financial leasing services for the products of the Group; and
- (xii) other businesses approved by the CBIRC.

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

### **Major Terms**

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

*(i) Deposit Services*

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

(ii) *Loan Services*

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

The Group will not be required by China Telecom Finance to provide guarantee by any of the Group's assets or through other means for the loan services provided to the Group.

(iii) *Other Financial Services*

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

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

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

the rates or fees or the other relevant transaction terms offered by China Telecom Finance are equivalent to or more favorable than those offered by the major cooperative commercial banks of the Group, the Group may enter into transactions with China Telecom Finance at its discretion. Under the circumstances which the Group considers appropriate, the Group may engage additional or other financial institutions other than China Telecom Finance to provide financial services.

## HISTORICAL TRANSACTION AMOUNT

Since China Telecom Finance was incorporated on 8 January 2019, no financial services were carried out between China Telecom Finance and the Group in the past.

## PROPOSED ANNUAL CAPS

### (i) *Deposit Services*

The proposed annual caps in respect of the deposit services (including the interest accrued thereon) provided by China Telecom Finance to the Group under the Financial Services Framework Agreement for the three years ending 31 December 2019, 31 December 2020 and 31 December 2021 are as follows:

	<b>Proposed annual cap for the year ending 31 December 2019</b>	<b>Proposed annual cap for the year ending 31 December 2020</b>	<b>Proposed annual cap for the year ending 31 December 2021</b>
Maximum daily balance of deposits under the deposit services provided by China Telecom Finance to the Group (including the interest accrued thereon)	RMB7.5 billion	RMB8.0 billion	RMB8.5 billion

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

- 1) the Group's amounts of and changes in cash and cash equivalent as well as restricted deposits for the three years ended 31 December 2015, 2016 and 2017, which amounted to approximately RMB12.1 billion, RMB16.2 billion and RMB16.6 billion, respectively;
- 2) the Group's business development in the previous years, and the expected growth of operating cash flows as driven by the continuing development of business in the future. The Group's business development opportunities will include, but without limitation to: (i) the gradual increase in 5G-related fundamental network construction by the telecommunications operators in the PRC in the coming years, which will also bring along spending related to the network operation maintenance and other daily business operations, such as supply chain and facility management; and (ii) the increased demand for digitalized services driven by the development of digital economy, smart society, etc. in the PRC;



- 3) leveraging on the technical support from China Telecom Finance, the Group will commence cross-province and cross-bank centralized fund management among its subsidiaries. At the same time, the transaction amounts are expected to grow in line with the further deepened cooperation with China Telecom Finance in the future. Besides, the Group is also expected to speed up the settlement and collection of transaction funds with its major customers (being China Telecom Group and its subsidiaries) through the settlement account with China Telecom Finance, and increase deposits by strengthening the effective use of working capital, thereby improving its fund utilization efficiency;
- 4) the Group has also considered the potential impact on the Group's collection and payment settlement brought by the macroeconomic changes in the future; and
- 5) the Group's historical interest rates for deposits, and the increase in the interest income from the increase in deposits as a result of the Group's business growth.

As one or more of the applicable percentage ratios of the proposed annual caps for the deposit services provided by China Telecom Finance to the Group under the Financial Services Framework Agreement exceeds 5% but are less than 25%, the relevant deposit services constitute discloseable transactions and non-exempt continuing connected transactions of the Company and are subject to the disclosure requirements under Chapter 14 of the Listing Rules and the reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

*(ii) Loan Services*

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

The proposed annual caps in respect of the maximum daily balance of the loan services (including the interest accrued thereon) for the loan services to be provided by China Telecom Finance to the Group under the Financial Services Framework Agreement for each of the three years ending 31 December 2019, 31 December 2020 and 31 December 2021 is RMB1.0 billion.

*(iii) Other Financial Services*

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



## REASONS FOR AND BENEFITS OF ENTERING INTO THE FINANCIAL SERVICES FRAMEWORK AGREEMENT

- (i) **Realizing more comprehensive and centralized fund management to improve fund management efficiency of the Group:** The Group will open a settlement account at China Telecom Finance acting in its capacity as a platform for internal settlement, fund-raising and financing, and fund management between the Group and the members companies of China Telecom Group. The provision of deposit, loan and other financial services by China Telecom Finance to the Group will facilitate the settlement between the Group and China Telecom Group and other member companies (some of which are the Group's customers) to reduce the time required for remittance and receipt of funds. The Group is currently unable to realize cross-province and cross-bank fund collection for its subsidiaries in various provinces, but with the assistance of the account management system and the capability as a deposit financial institution of China Telecom Finance, the Group can realize centralized management of its subsidiaries' funds previously deposited with different commercial banks.
- (ii) **Bolstering the Group to reduce costs and enhance operating efficiency:** China Telecom Finance will offer customized proposals for centralized deposit and management of funds in line with the management needs of the Group, enabling the Group to satisfy its flexible needs of funds through timely withdrawals. China Telecom Finance will help speed up the fund turnover of the Group, achieving a more efficient fund clearing and settlement with less bank charges. China Telecom Finance will enhance internal settlement efficiency and reduce fund costs of the Group.
- (iii) **China Telecom Finance fully understands and is familiar with the Group's business needs:** As China Telecom Finance only provides financial services to China Telecom Group and its member companies, it has more direct and deep knowledge of the industries including telecommunication operation and communication services. China Telecom Finance is familiar with the capital structure, business operations, funding needs and cash flow pattern of the Group, and therefore can better foresee the funding needs of the Group. As such, China Telecom Finance is able to offer flexible, convenient, customized and cost-effective services to the Group. China Telecom Finance, as an internal professional financial institution serving member companies of the China Telecom Group, exposes to lower client risks as compared to external institutions that serve many different clients in the market.
- (iv) **The Group will use the services from China Telecom Finance on a voluntary and non-exclusive basis:** The Financial Services Framework Agreement is non-exclusive with no restrictions on the Group's options to appoint any other commercial banks or financial institutions to meet its needs for financial services, and China Telecom Finance is only one of the several financial institutions which offer financial services to the Group. Only when the rates or fees or the other relevant transaction terms offered by China Telecom Finance are equivalent to or more favorable than those offered by the major cooperative commercial banks of the Group, the Group may enter into transactions with China Telecom Finance at its discretion. Under the circumstances which the Group considers appropriate, the Group may engage additional or other financial institutions other than China Telecom Finance to provide financial services.

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

#### **CAPITAL RISK CONTROL, INTERNAL CONTROL AND RISK MANAGEMENT MEASURES ADOPTED BY CHINA TELECOM FINANCE**

- (i) **Regulated and supervised by regulatory authorities:** As a non-banking financial institution established with the approval of the CBIRC, China Telecom Finance is subject to the direct routine supervision by the CBIRC Beijing Branch, and shall abide by all applicable regulatory provisions, including the restrictions on capital adequacy ratio, liquidity ratio and the ratio of borrowing balance and the amount of outstanding guarantees to total capital, as well as the ratio of short-term investment in securities and long-term investment to total capital. Meanwhile, China Telecom Finance is directly regulated by the People's Bank of China to pay deposit reserve in full and in a timely manner.

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

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

## **INTERNAL CONTROL AND RISKS MANAGEMENT MEASURES OF THE COMPANY FOR THE FINANCIAL SERVICES FRAMEWORK AGREEMENT**

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

The Finance Department will conduct transactions under the pricing principles and transaction methods under the Financial Services Framework Agreement, and procure all subsidiaries of the Company to timely check with China Telecom Finance the types and amounts of connected transactions on a monthly basis, to ensure the consistency in the types of connected transactions and transaction data. In addition, the Finance Department will set cap alert for the transactions, and adopt effective measures to avoid the risk of exceeding the caps for connected transactions. The core business system of China Telecom Finance also facilitates and supports the Company to monitor relevant transaction information, thereby ensuring the transaction amounts will not exceed the relevant annual caps.

- (iii) **Comparison with the terms offered by the major cooperative commercial banks to the Group:** In respect of the deposit services, loan services and other financial services provided by China Telecom Finance, the Finance Department is responsible for monitoring that the rates for or charges in respect of the specific transactions under the Financial Services Framework Agreement are determined under the pricing policies under the Financial Services Framework Agreement. The Company will select three major cooperative state-owned commercial banks or national joint-stock commercial banks as comparable banks, taking into account the bank's credit level, financial service capability, financial product type and historical cooperation, for comparison with the deposit interest rates, loan interest rates and fees for other financial services offered by China Telecom Finance. For the same type of deposit, loan or other financial services under the same conditions, the Company may choose to make deposits, borrowing, or receive other financial services with China Telecom Finance only when the terms offered by China Telecom Finance are equivalent to or more favorable than those offered by the three comparable banks and no less favorable than those offered by China Telecom Finance to other member companies of China Telecom Group. In the event of any changes in the regulations on interest rates published by the People's Bank of China, the Finance Department will contact and discuss with China Telecom Finance to ensure that any corresponding adjustment to deposit interest rate or loan interest rate made by China Telecom Finance will be in line with the relevant new regulations on interest rates published by the People's Bank of China as well as the pricing policies set out in the Financial Services Framework Agreement.
- (iv) **Comparison with the terms offered to China Telecom Group and China Telecom:** The Finance Department will regularly check relevant rates and charges, and compare the interest rates for deposits, interest rates for loans and service fees charged in respect of the deposit services, loan services and other financial services by China Telecom Finance to the Group, China Telecom Group and China Telecom, to make sure that the transactions are conducted in accordance with the pricing policies under the Financial Services Framework Agreement.
- (v) **Document examination:** To ensure China Telecom Finance meets the regulatory requirements of different regulatory authorities, the Company requires China Telecom Finance to provide sufficient information for review regularly, including a copy of all the regulatory reports submitted by China Telecom Finance to the CBIRC, monthly financial statements and monthly deposit status. The Company will review the relevant information timely, follow up promptly if any problem is identified, and report to the management in due course.



- (vi) **Board and management review on risk management and internal control:** The Finance Department reports to the audit committee of the Board on the execution of relevant connected transactions on a regular basis. The internal audit division of the Company incorporates connected transactions into the scope of annual internal evaluation, and reports to the management. The Board supervises the Company's risk management and internal control system (including the internal control system for connected transactions) on an ongoing basis, and carries out annual review on the Company's risk management and internal control system during the year via the audit committee, and will confirm that the Company's risk management and internal control system is stable, sound, effective and adequate after listening to the report by the internal audit division and obtaining the confirmation on the effectiveness of the system from the management to the Board.
- (vii) **Annual review by the independent non-executive Directors:** The independent non-executive Directors of the Company will carry out annual review on the continuing connected transaction agreements and the transactions thereunder, and confirm that such transactions are (a) entered into in the ordinary course of business of the Group; (b) on normal commercial terms or better; and (c) according to the agreements governing such connected transactions on terms that are fair and reasonable and in the interests of the Shareholders as a whole.
- (viii) **Annual review and confirmation by the auditor:** The auditor of the Company will review the continuing connected transactions of the Company annually and confirm to the Board that nothing has come to its attention that causes it to believe that such transactions (a) have not been approved by the Board; (b) were not, in all material respects, in accordance with the pricing policies provided in the agreements governing such transactions; (c) were not entered into, in all material respects, in accordance with the agreements governing such transactions; and (d) have exceeded the applicable respective annual caps.
- (ix) **Protection of the legitimate interests through various means, such as the shareholders' meeting of China Telecom Finance:** The Company holds 15% equity interest in China Telecom Finance and it can propose director and supervisor of China Telecom Finance pursuant to the Company Law of the PRC and other relevant laws and regulations, so as to facilitate the effective governance of China Telecom Finance. In addition, one current director at China Telecom Finance had worked with the Company for years, so China Telecom Finance would be able to better understand the business development and funding needs of the Group, enabling it to have a more comprehensive consideration of the Group's funding and operating needs and arrangement in its business operations.



## **BOARD OPINION**

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

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

The Board (excluding the members of the Independent Board Committee, whose opinion, after taking into account the advice from the Independent Financial Adviser on the terms of the deposit services contemplated under the Financial Services Framework Agreement and its proposed annual caps, will be included in the circular to be dispatched to the Shareholders) is of the view that, the Financial Services Framework Agreement and the deposit services contemplated thereunder are in the ordinary and usual course of business of the Group, on normal commercial terms or better, and the terms of the Financial Services Framework Agreement and the proposed annual caps applicable to the deposit services are fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

The Board (including the independent non-executive Directors) is of the view that, the loan services and other financial services as contemplated under the Financial Services Framework Agreement are in the ordinary and usual course of business of the Group, on normal commercial terms or better, and the proposed annual caps applicable to the loan services and the other financial services are fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

Due to their positions in China Telecom Group, two of the Directors, namely Mr. Zhang Zhiyong and Mr. Si Furong, abstained from voting on the resolutions relating to the above matters. Save as above, the Company confirms that none of the other Directors has any material interests in the continuing connected transactions and the proposed annual caps under the Financial Services Framework Agreement.

The Independent Board Committee comprising all of the independent non-executive Directors has been established to advise the Independent Shareholders on the deposit services (together with the proposed annual caps thereof) contemplated under the Financial Services Framework Agreement. Pulsar Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on the same.

## **INFORMATION OF THE COMPANY AND CHINA TELECOM FINANCE**

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

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

## **LISTING RULES IMPLICATIONS**

As at the date of this announcement, China Telecom Group is the controlling shareholder of the Company holding approximately 51.39% of the total issued share capital of the Company. Therefore, each of China Telecom Group and its associates is a connected person of the Company under Chapter 14A of the Listing Rules. China Telecom Group holds approximately 70.89% of the total issued share capital of China Telecom and therefore China Telecom is a subsidiary of China Telecom Group. China Telecom Finance is held as to 15% and 70% by China Telecom Group and China Telecom, respectively, and is therefore an associate of China Telecom Group as well as a connected person of the Company under Chapter 14A of the Listing Rules. As such, the Financial Services Framework Agreement constitutes a continuing connected transaction of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios of the proposed annual caps for the deposit services provided by China Telecom Finance to the Group under the Financial Services Framework Agreement exceeds 5% but are less than 25%, the relevant deposit services constitute discloseable transactions and non-exempt continuing connected transactions of the Company and are subject to the disclosure requirement under Chapter 14 of the Listing Rules and the reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

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

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

The Company will comply with the rules in relation to annual review of continuing connected transactions set out in the Listing Rules. The Company undertakes to comply with all applicable requirements set out in Chapter 14A of the Listing Rules upon any further material amendment or renewal of the Financial Services Framework Agreement.

## **GENERAL**

The EGM will be convened to consider and, if thought fit, approve the deposit services contemplated under the Financial Services Framework Agreement and the proposed annual caps applicable thereto. The Company expects that the circular containing, among other things, (i) a letter from the Board setting out the details on the non-exempt continuing connected transactions under the Financial Services Framework Agreement; (ii) a letter from the Independent Board Committee; (iii) a letter of advice from the Independent Financial Adviser; and (iv) a notice of the EGM, will be dispatched to the Shareholders on or before 27 February 2019.

China Telecom Group, being a connected person of the Company with material interests in the Financial Services Framework Agreement, will abstain from voting at the EGM on the ordinary resolution to approve the deposit services (together with the proposed annual caps thereof contemplated under the Financial Services Framework Agreement). Any voting by the Independent Shareholders at the EGM will be taken by poll.

## DEFINITIONS

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

“associate”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“CBIRC”	China Banking and Insurance Regulatory Commission
“China Telecom”	China Telecom Corporation Limited (中國電信股份有限公司), a joint stock limited company incorporated in the PRC with limited liability on 10 September 2002, with its issued H shares and American depository shares listed on the Hong Kong Stock Exchange and the New York Stock Exchange, respectively. Its principal business is the provision of fundamental telecommunications services including comprehensive wireline telecommunications services and mobile telecommunications services, and value-added telecommunications services such as Internet access services and information services , as well as other related services
“China Telecom Finance”	China Telecom Group Finance Co., Ltd. (中國電信集團財務有限公司), a non-banking financial institution legally established in the PRC on 8 January 2019 with the approval by the CBIRC, is a limited liability company approved by the relevant PRC government authorities (including but not limited to the CBIRC) to provide funds and financial management services to the member companies of China Telecom Group
“China Telecom Group”	China Telecommunications Corporation (中國電信集團有限公司), a state-owned enterprise established under the laws of the PRC on 17 May 2000 and the controlling shareholder of the Company. Its principal business is investment holding of companies which are primarily involved in the provision of telecommunications services, the provision of specialized telecommunication support services and other businesses in the PRC
“Company” or “CCS”	China Communications Services Corporation Limited (中國通信服務股份有限公司), a joint stock limited company incorporated in the PRC with limited liability on 30 August 2006, whose issued H Shares are listed on the Hong Kong Stock Exchange
“connected person”	has the meaning ascribed to it under the Listing Rules

“controlling shareholder”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“EGM”	the Company’s extraordinary general meeting to be held to consider and approve, if thought fit, the deposit services contemplated under the Financial Services Framework Agreement and the proposed annual caps applicable thereto
“Financial Services Framework Agreement”	the CCS financial services framework agreement entered into between the Company and China Telecom Finance on 1 February 2019 in connection with the provision of a range of financial services
“Group”	the Company and its subsidiaries
“H Share(s)”	the overseas listed foreign share(s) in the Company’s issued share capital of RMB1.00 each which has been listed on the Hong Kong Stock Exchange
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Independent Board Committee”	an independent board committee, consisting of Mr. Siu Wai Keung, Francis, Mr. Lv Tingjie, Mr. Wu Taishi and Mr. Liu Linfei who are independent non-executive Directors, which has been formed to advise the Independent Shareholders on the deposit services (together with the proposed annual caps applicable thereto) under the Financial Services Framework Agreement
“Independent Financial Adviser”	Pulsar Capital Limited, a corporation licensed to carry out Type 1 (Dealing in Securities) and Type 6 (Advising on Corporate Finance) of the regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Independent Shareholders”	the Shareholders other than China Telecom Group
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“major cooperative commercial banks”	major state-owned commercial banks and national joint stock commercial banks that operate and cooperate with the Group

“member companies”	has the meaning as defined in Article 3 of the <i>Administrative Measures for Finance Companies of Enterprise Groups</i> (企業集團財務公司管理辦法, the Order No. 8 of the China Banking Regulatory Commission in 2006), and with respect to China Telecom Group, including China Telecom Group and its subsidiaries (in which China Telecom Group holds more than 51% equity interests), any company in which China Telecom Group and/or its subsidiaries individually or jointly holds more than 20% equity interest, or a company in which China Telecom Group and/or its subsidiaries individually or jointly holds less than 20% of the equity interests but is the largest shareholder
“percentage ratio(s)”	has the meaning ascribed to it under the Listing Rules
“PRC”	the People’s Republic of China and for the purpose of this announcement, excluding Hong Kong, the Macau Special Administrative Region and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholder(s)”	the shareholder(s) of the Company

By order of the Board  
**China Communications Services Corporation Limited**  
**Zhang Zhiyong**  
*Chairman*

Beijing, PRC  
1 February 2019

*As at the date of this announcement, our executive directors are Mr. Zhang Zhiyong, Mr. Si Furong and Ms. Zhang Xu, our non-executive directors are Mr. Li Zhengmao and Mr. Shao Guanglu, and our independent non-executive directors are Mr. Siu Wai Keung, Francis, Mr. Lv Tingjie, Mr. Wu Taishi and Mr. Liu Linfei.*