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

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中国通信服务
CHINA COMSERVICE

中國通信服務股份有限公司

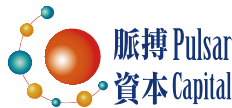
CHINA COMMUNICATIONS SERVICES CORPORATION LIMITED

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

(Stock code: 552)

**CONTINUING CONNECTED TRANSACTIONS
UNDER THE FINANCIAL SERVICES FRAMEWORK AGREEMENT
AND
NOTICE OF THE EGM**

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



A letter from the Board is set out on pages 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 48 of this circular.

A notice convening an extraordinary general meeting (“EGM”) of the Company to be held at 10:00 a.m. on 18 April 2019, at No. 19, Chaoyangmen Beidajie, Dongcheng District, Beijing, the PRC, is set out on pages 52 to 53 of this circular. A form of proxy for use at the EGM is enclosed with this circular. Whether or not you are able to attend the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company’s share registrar, Computershare Hong Kong Investor Services Limited, at Shops, 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 (i.e. on 17 April 2019, 10:00 a.m.) or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the EGM or any adjourned meeting should you so wish and completion and return of the reply slip will not affect your right to attend the respective meeting.

27 February 2019

CONTENTS

	<i>Pages</i>
Definitions	1
Letter from the Board	5
Letter from the Independent Board Committee	24
Letter from the Independent Financial Adviser	26
Appendix I — General Information	49
Appendix II — Notice of the Extraordinary General Meeting	52

DEFINITIONS

In this circular, 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 of the Company
“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 depositary 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
“close associate”	has the meaning ascribed to it under the Listing Rules

DEFINITIONS

“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

DEFINITIONS

“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
“Latest Practicable Date”	22 February 2019, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“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 has the meaning as defined in Article 3 of the Administrative Measures for Finance Companies of Enterprise Groups (企業集團財務公司管理辦法, the Order No. 8 of the China Banking Regulatory Commission in 2006), and with respect to China Telecom 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
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended or supplemented from time to time

DEFINITIONS

“Shareholder(s)” the shareholder(s) of the Company

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

LETTER FROM THE BOARD



中国通信服务
CHINA COMSERVICE

中國通信服務股份有限公司

CHINA COMMUNICATIONS SERVICES CORPORATION LIMITED

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

(Stock code: 552)

Executive Directors

Zhang Zhiyong (*Chairman*)

Si Furong

Zhang Xu

Non-executive Directors

Li Zhengmao

Shao Guanglu

Independent Non-executive Directors

Siu Wai Keung, Francis

Lv Tingjie

Wu Taishi

Liu Linfei

Registered office

Level 5 and B

No. 2 Fuxingmen South Avenue

Xicheng District

Beijing

PRC

Place of business in Hong Kong

Room 3203–3205

Great Eagle Centre

23 Harbour Road

Wanchai

Hong Kong

27 February 2019

To the Shareholders

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS
UNDER THE FINANCIAL SERVICES FRAMEWORK AGREEMENT
AND
NOTICE OF THE EGM**

INTRODUCTION

The Company refers to (i) 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, and (ii) its announcement dated 1 February 2019 in relation to the continuing connected transactions and discloseable transactions under the Financial Services Framework Agreement.

LETTER FROM THE BOARD

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.

As at the Latest Practicable Date, China Telecom Group was 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 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.

LETTER FROM THE BOARD

The purpose of this circular is to provide, among other things, further information about the deposit services under the Financial Services Framework Agreement, letters from the Independent Board Committee and from the Independent Financial Adviser, and a notice to Shareholders convening the EGM, and to provide you with information which is reasonably necessary to enable you to make an informed decision on whether to vote for or against certain resolution to be proposed at the EGM.

BACKGROUND

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.

The Company also refers to its announcement dated 1 February 2019 in relation to the continuing connected transactions and discloseable transactions under the Financial Services Framework Agreement, pursuant to which China Telecom Finance had agreed to provide financial services to the Group, including deposit services, loan services and other financial services.

FINANCIAL SERVICES FRAMEWORK AGREEMENT

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

LETTER FROM THE BOARD

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 ^{Note}.

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.

Note: Pursuant to Administrative Measures of Finance Companies of Enterprise Groups (Order No.8 of the China Banking Regulatory Commission in 2006), depending on actual development needs and subject to fulfillment of regulatory requirements, China Telecom Finance can apply to the CBIRC to carry on other businesses, which include providing consumer credits, buyer credits and financial leasing of the products of the member companies.

LETTER FROM THE BOARD

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.

LETTER FROM THE BOARD

(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.

LETTER FROM THE BOARD

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:

	Proposed annual cap for the year ending 31 December 2019	Proposed annual cap for the year ending 31 December 2020	Proposed annual cap for the year ending 31 December 2021
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
Annual growth rate	-	6.7%	6.3%

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

LETTER FROM THE BOARD

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.

LETTER FROM THE BOARD

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 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

LETTER FROM THE BOARD

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.

LETTER FROM THE BOARD

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.

LETTER FROM THE BOARD

- (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.

LETTER FROM THE BOARD

- (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. The cap alert will usually be set at 80% of the annual caps for the connected transactions, so as to effectively avoid the risk of exceeding the annual caps for connected transactions. The core business system of China Telecom Finance also facilitates and supports the Company to monitor relevant transaction information, thereby ensuring the transaction amounts will not exceed the relevant annual caps. The Finance Department will closely monitor the transaction status under the Financial Services Framework Agreement, and will check the implementation status of the cap alert on a daily basis.

- (iii) **Comparison with the terms offered by the major cooperative commercial banks to the Group:** 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

LETTER FROM THE BOARD

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 check on a monthly basis relevant rates and charges, and compare the interest rates for deposits, interest rates for loans and service fees charged in respect of the deposit services, loan services and other financial services by China Telecom Finance to the Group, China Telecom Group and China Telecom, to make sure that the transactions are conducted in accordance with the pricing policies under the Financial Services Framework Agreement. China Telecom Finance will provide the Finance Department with such information, and the Finance Department will also independently review such information.
- (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

LETTER FROM THE BOARD

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) **Reflection of the legitimate interests in China Telecom Finance through various means, such as the shareholders' meeting of China Telecom Finance:** The Company holds 15% equity interest in China Telecom Finance and it can propose director and supervisor of China Telecom Finance pursuant to the Company Law of the PRC and other relevant laws and regulations, so as to facilitate the effective governance of China Telecom Finance. The Company recommended one director and one supervisor at the board of directors (comprising five directors) and the supervisory committee (comprising three supervisors) of China Telecom Finance, respectively. The current director recommended by the Company 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

LETTER FROM THE BOARD

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 (including the independent non-executive Directors) 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.

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 resolution 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.

LETTER FROM THE BOARD

LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, China Telecom Group was 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.

CONCLUSIONS AND RECOMMENDATIONS

Pulsar Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders with regard to the deposit services contemplated under the Financial Services Framework Agreement (together with the proposed annual caps thereof).

The Independent Financial Adviser considers that the deposit services contemplated under the Financial Services Framework Agreement (together with the

LETTER FROM THE BOARD

proposed annual caps thereof) are in the ordinary and usual course of business of the Group, on normal commercial terms or better, and the terms 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. Accordingly, the Independent Financial Adviser would advise the Independent Shareholders, as well as recommend the Independent Board Committee to advise the Independent Shareholders, to vote in favor of the ordinary resolution to be proposed at the EGM to approve the deposit services (together with the proposed annual caps thereof).

The Independent Board Committee, after taking into account, among other things, the advice of the Independent Financial Adviser, concurs with the views of the Independent Financial Adviser and considers that the deposit services have been entered into in the ordinary and usual course of business of the Group on normal commercial terms or better, and that the terms of the deposit services under the Financial Services Framework Agreement and the proposed annual caps thereof are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favor of the ordinary resolution to be proposed at the EGM to approve the deposit services under the Financial Services Framework Agreement (together with the proposed annual caps thereof). 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 deposit services under the Financial Services Framework Agreement (together with the proposed annual caps thereof).

The Board considers that the above resolution is in the interests of the Company and the Shareholders as a whole, and recommends the Shareholders to vote in favor of the relevant resolution to be proposed at the EGM.

EXTRAORDINARY GENERAL MEETING

A notice convening the EGM to be held at 10:00 a.m. on 18 April 2019 at No. 19, Chaoyangmen Beidajie, Dongcheng District, Beijing, the PRC, is set out on pages 52 to 53 of this circular at which the ordinary resolution will be proposed to consider and, if thought fit, approve the deposit services contemplated under the Financial Services Framework Agreement and the proposed annual caps applicable thereto.

A form of proxy for use at the EGM is enclosed with this circular. Whether or not Shareholders are able to attend the EGM, they are requested to complete and return the enclosed form of proxy to (i) for domestic Shareholders, the Office of the Board of the Company, at No. 19, Chaoyangmen Beidajie, Dongcheng District, Beijing, the PRC; and (ii) for holders of H Shares, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as practicable and in any event by no later than 24 hours before the time designated for holding the EGM (i.e. on 17 April 2019, 10:00 a.m.). Completion and return of the form of proxy will not preclude Shareholders from attending and voting in person at the EGM should they so wish.

LETTER FROM THE BOARD

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.

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
Zhang Zhiyong
Chairman



中國通信服務
CHINA COMSERVICE

中國通信服務股份有限公司

CHINA COMMUNICATIONS SERVICES CORPORATION LIMITED

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

(Stock code: 552)

27 February 2019

To the Independent Shareholders

Dear Sir or Madam,

**NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS
AND
PROPOSED ANNUAL CAPS
UNDER THE FINANCIAL SERVICES FRAMEWORK AGREEMENT**

We refer to the circular issued by the Company to the Shareholders dated 27 February 2019 (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 1 February 2019, the Board announced that the Company has entered into the Financial Services Framework Agreement with China Telecom Finance, pursuant to which China Telecom Finance had agreed to provide financial services to the Group, including deposit services, loan services and other financial services. Further details are contained in the letter from the Board set out on pages 5 to 23 of the Circular.

The Independent Board Committee has been established to make a recommendation to the Independent Shareholders as to whether, in its view, the deposit services under the Financial Services Framework Agreement (together with the proposed annual caps thereof) are fair and reasonable so far as the Independent Shareholders are concerned.

Pulsar Capital Limited has been appointed to act as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders with regard to the deposit services under the Financial Services Framework Agreement (together with the proposed annual caps thereof) as described in the Circular. The text of the letter from the Independent Financial Adviser containing their recommendation and the principal factors they have taken into account in arriving at their recommendation are set out on pages 26 to 48 of the Circular.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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 deposit services under the Financial Services Framework Agreement (together with the proposed annual caps thereof) and the basis for proposing the proposed annual caps. We have also considered the key factors taken into account by the Independent Financial Adviser in arriving at its opinion regarding the deposit services under the Financial Services Framework Agreement (together with the proposed annual caps thereof).

The Independent Board Committee concurs with the view of the Independent Financial Adviser and considers that the deposit services under the Financial Services Framework Agreement have been entered into in the ordinary and usual course of business of the Group, on normal commercial terms or better, and that the terms of the deposit services and the proposed annual caps thereof are fair and reasonable and in the interests of the Company and the 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 resolution set out in the notice of the EGM at the end of the Circular.

Yours faithfully,
For and on behalf of
Independent Board Committee

Siu Wai Keung, Francis

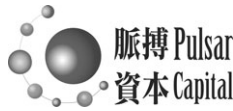
Lv Tingjie

Wu Taishi

Liu Linfei

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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



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

27 February 2019

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

Dear Sirs,

NON-EXEMPT CONTINUING CONNECTED TRANSACTION UNDER THE FINANCIAL SERVICES FRAMEWORK AGREEMENT

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the deposit services (together with proposed annual caps thereof) contemplated under the Financial Services Framework Agreement, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular dated 27 February 2019 (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise defined.

We refer to the announcement of the Company 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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As at the Latest Practicable Date, China Telecom Group was 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.

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. 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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

INDEPENDENT BOARD COMMITTEE

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.

We have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the deposit services contemplated under the Financial Services Framework Agreement (together with the proposed annual caps thereof) have been entered into in the ordinary and usual course of business of the Group, and on normal commercial terms or better, and whether the terms of the deposit services contemplated under the Financial Services Framework Agreement (together with the proposed annual caps thereof) are fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

During the past two years immediately preceding the Latest Practicable Date, we acted as the independent financial adviser in respect of the renewal of non-exempt continuing connected transactions contained in the circular dated 19 November 2018. The advisory fee in connection with this engagement had been fully settled.

Notwithstanding this prior engagement as the independent financial adviser, we do not have any relationships with or interests in the Company, or any other parties that could reasonably be regarded as hindrance to our independence to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders. Apart from the normal advisory fee to us in connection with our appointment as the Independent Financial Adviser, no arrangement exists whereby we shall receive any other fees or benefits from the Company.

BASIS OF OUR OPINION

In formulating our opinion, we have relied on the information, statements, opinions and representations provided to us by the Company, its representatives, its management (the “**Management**”) and the Directors for which they are solely and wholly responsible for and we have assumed that all such information, statements, opinions and representations contained or referred to in the Circular were true, accurate and complete at the time they were made and continue to be true, accurate and complete as at the date of the Circular.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We have assumed that all statements of belief, opinion and intention made by the Company, its representatives, the Management and the Directors as set out in the Circular were reasonably made after due and careful enquiry. We have also sought and obtained confirmation from the Company that no material facts have been omitted from the information provided and referred to in the Circular. The Directors confirmed that they have provided us with all information and documents which are available under present circumstances to enable us to reach an informed view and we have relied on the accuracy of such information and the information contained in the Circular to provide a reasonable basis of our opinions.

Our review and analyses were based upon the information and facts contained or referred to in the Circular, the information provided by the Company and the relevant public information. We consider that we have reviewed sufficient information to reach a reasonably informed view to justify our reliance on the accuracy of the information contained in the Circular as aforesaid and to provide reasonable grounds for our advice. In addition, we have no reason to doubt the truth, accuracy and/or completeness of the information and representations as provided to us by the Directors, the Management and/or representatives of the Company. We, however, have not conducted any independent in-depth investigation into the business, affairs, financial position or prospects of the Group nor we have carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation in respect of deposit services (together with the proposed annual caps thereof) contemplated under the Financial Services Framework Agreement, we have considered the following principal factors and reasons:

Information of the Company

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

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Set out below is a summary of the cash and cash equivalent, restricted deposits, total assets, profit for the year and interest income of the Group for the years ended 31 December 2015, 2016 and 2017 and for six months ended 30 June 2018 as extracted from the 2015, 2016 and 2017 annual reports and the 2018 interim report of the Group:

	For the year ended 31 December			For the six months ended
	2015	2016	2017	30 June 2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Audited)	(Audited)	(Audited)	(Non-audited)
Cash and cash equivalent	9,535,851	13,324,079	13,266,631	13,069,466
Cash and cash equivalent and restricted deposits	12,091,141	16,216,487	16,620,919	14,747,498
Total Assets	57,913,326	62,593,981	70,734,851	79,108,101
Cash and cash equivalent and restricted deposits / Total Assets	20.9%	25.9%	23.5%	18.6%
Profit for the year	2,337,517	2,553,195	2,749,078	1,603,498
Interest Income	143,392	184,088	202,679	92,614
Interest Income/ Profit for the year	6.1%	7.2%	7.4%	5.8%

The cash and cash equivalent of the Group increased from approximately RMB9.54 billion for the year ended 31 December 2015 to approximately RMB13.27 billion for the year ended 31 December 2017. The cash and cash equivalent and restricted deposits of the Group increased from approximately RMB12.09 billion for the year ended 31 December 2015 to approximately RMB16.62 billion for the year ended 31 December 2017. Profit for the year of the Group increased from approximately RMB2.34 billion for the year ended 31 December 2015 to approximately RMB2.75 billion for the year ended 31 December 2017. Interest income also increased from approximately RMB143 million for the year ended 31 December 2015 to approximately RMB203 million for the year ended 31 December 2017. The proportion of the interest income as compared to the profit for the year increased from approximately 6.1% for the year ended 31 December 2015 to approximately 7.4% for the year ended 31 December 2017.

Information of China Telecom Finance

As stated in the Letter from the Board, being an associate of China Telecom Group, China Telecom Finance is a registered company established in the PRC. On 22 June 2018, pursuant 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

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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.

Information of China Telecom Group

As stated in the Circular, China Telecom Group is a state-owned enterprise established under the laws of the PRC on 17 May 2000. Its principal business is investment holding of companies primarily involved in the provision of telecommunications services, the provision of specialized telecommunications support services and other business in the PRC.

As at the Latest Practicable Date, China Telecom Group held approximately 51.39% of the total issued share capital of the Company.

Information of China Telecom

As stated in the Circular, China Telecom is a joint stock limited company incorporated in the PRC with limited liability on 10 September 2002, with its issued H shares and American depositary 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.

As at the Latest Practicable Date, China Telecom Group held approximately 70.89% of the total issued share capital of China Telecom.

Background of the Non-exempt Continuing Connected Transactions

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 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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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 ^{Note}.

Note: Pursuant to Administrative Measures for Finance Companies of Enterprise Groups (Order No.8 of the China Banking Regulatory Commission in 2006), depending on actual development needs and subject to fulfillment of regulatory requirements, China Telecom Finance can apply to the CBIRC to carry on other businesses, which include providing consumer credits, buyer credits and financial leasing of the products of the member companies.

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.

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.

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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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.

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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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

As stated in the Letter from the Board, the Company believes the reasons for and benefits of entering into the Financial Services Framework Agreement are as follow:

- (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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (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.

As part of our due diligence work, we had reviewed (1) the Company's 2015, 2016 and 2017 annual reports and the Company's interim report as of 30 June 2018; (2) the Financial Services Framework Agreement; (3) the Circular and the other information within; (4) the member company list of the China Telecom Finance; (5) sample contracts and past transactions of the deposit services between the Group and independent commercial banks for the past three financial years; (6) PRC legal opinion relating to the China Telecom Finance; (7) the quotation on deposits interest rates from independent commercial banks in China; (8) the internal control information regarding the Company's continuing connected transactions; and (9) China Telecom's announcement, regarding the Financial Services Framework Agreement dated 1 February 2019.

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

The Management has confirmed that the Company will strictly follow the corresponding internal procedures and based on the reasons above, the Management believes that the deposit services contemplated under the Financial Services Framework Agreement are on normal commercial terms or better which are fair and reasonable. As part of our due diligence work, we had reviewed (i) the *Administrative Measures of Connected Transactions on Financial Services of China Communications Services Corporation Limited* (the "**Administrative Measures of Connected Transactions on Financial Services**") which stated the responsibility of each department in relation to the management of the Company's connected transaction on financial services and listed the corresponding policy that the framework agreement must follow in relation to the connected transactions carried out by the Company; (ii) the *Internal Control Guidance of China Communications Services Corporation Limited* (the "**Internal Control Guidance**") and

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

according to our review, after further discussion with the Management and confirmation by the Company, the deposit services contemplated under the Financial Services Framework Agreement entered into by the Group and China Telecom Finance will follow the Administrative Measures of Connected Transactions on Financial Services and the Internal Control Guidance, which can help to ensure the Company to follow the related policy when conducting specific connected transactions under the Financial Services Framework Agreement.

We are of the view that the deposit services contemplated under the Financial Services Framework Agreement have been entered into in the ordinary and usual course of business of the Group and on normal commercial terms or better, which are fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

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

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

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

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (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.

According to the *Administrative Measures for Finance Companies of Enterprise Groups* (the "**Administrative Measures**"), China Telecom Finance is obligated to follow the deposit reserve requirement imposed by the People's Bank of China which demand China Telecom Finance to set aside deposit reserve to place under the People's Bank of China according to a set percentage of the deposit balance. This bring an extra protection to the safety of the deposit in China Telecom Finance.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In addition, we had reviewed the legal opinion of the PRC legal advisers and discussed it with the Management. According to the PRC legal opinion report, China Telecom Finance is regulated by the CBIRC under the Administrative Measures which has a high standard of regulatory requirement to protect from defaults risk and liquidity risk. As stated in the Letter from the Board, we noticed that China Telecom 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. In other words, China Telecom Group will ultimately bear the default risk and liquidity risk of China Telecom Finance.

For our due diligence purpose, we have reviewed the public information of China Telecom Group. We noted that China Telecom Group is a state-owned enterprise established under the laws of the PRC on 17 May 2000. 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. The registered capital of China Telecom Group amounts to RMB213.1 billion and as at 31 December 2017, China Telecom Group has total assets of approximately RMB825.2 billion, total profit of approximately RMB25.5 billion, asset-liability ratio of approximately 42.9% and ranked in the 141st place of the *Fortune* 500 list in 2018. On the basis of the above financial figures, we are of the view that China Telecom Group has sufficient financial resources to fulfill its obligations under the undertakings given to China Telecom Finance.

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

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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

As stated in the Letter from the Board, we notice the Company establishes the internal control and risk management measures for the Financial Services Framework Agreement as follow:

- (i) **Effective connected transactions management system:** The Company has formulated and strictly implemented the *Administrative Measures of Connected Transactions of China Communications Services Corporation Limited*, the *Internal Control Guidance of China Communications Services Corporation Limited* and the *Administrative Measures of Connected Transactions on Financial Services of China Communications Services Corporation Limited* to make regular assessment on the effectiveness of the related internal control systems for connected transactions, thereby ensuring that the connected transactions are conducted on a regulated basis under fair and reasonable pricing principles and transaction methods and in the interests of the Company and the Shareholders as a whole, and that the continuing connected transactions under the 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. The cap alert will usually be set at 80% of the annual caps for the connected transactions, so as to effectively avoid the risk of exceeding the annual caps for connected transactions. The core business system of China Telecom Finance also facilitates and supports the Company to monitor relevant transaction information, thereby ensuring the transaction amounts will not exceed the relevant annual caps. The Finance Department will closely monitor the transaction status under the Financial Services Framework Agreement, and will check the implementation status of the cap alert on a daily basis.

- (iii) **Comparison with the terms offered by the major cooperative commercial banks to the Group:** 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 check on a monthly basis relevant rates and charges, and compare the interest rates for deposits, interest rates for loans and service fees charged in respect of the deposit services, loan services and other financial services by China Telecom Finance to the Group, China Telecom Group and China Telecom, to make sure that the transactions are conducted in accordance with the pricing policies under the Financial Services Framework Agreement. China Telecom Finance will provide the Finance Department with such information, and the Finance Department will also independently review such information.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (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 confirms 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) **Reflection of the legitimate interests in China Telecom Finance through various means, such as the shareholders' meeting of China Telecom Finance:** The Company holds 15% equity interest in China Telecom Finance and it can propose director and supervisor of China Telecom Finance pursuant to the Company Law of the PRC and other relevant laws and regulations, so as to facilitate the effective governance of China Telecom Finance. The Company

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

recommended one director and one supervisor at the board of directors (comprising five directors) and the supervisory committee (comprising three supervisors) of China Telecom Finance, respectively. The current director recommended by the Company 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.

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

After considering the internal control management and risks control measures of the Company under the Financial Services Framework Agreement, we agree with the Directors that the risks relating to the use of financial services provided by China Telecom Finance mainly include: (1) the risks faced by the banking industry in general; and (2) the risks resulting from the fact that China Telecom Finance is a group finance company controlled by China Telecom. 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, we agree with the Directors that the use of such financial services is in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

PROPOSED ANNUAL CAPS FOR 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:

	Proposed annual cap for the year ending 31 December 2019	Proposed annual cap for the year ending 31 December 2020	Proposed annual cap for the year ending 31 December 2021
Maximum daily balance of deposits under the deposit services provided by China Telecom Finance to the Group (including the interest accrued thereon)	<u>RMB7.5 billion</u>	<u>RMB8.0 billion</u>	<u>RMB8.5 billion</u>
Annual growth rate	<u>–</u>	<u>6.7%</u>	<u>6.3%</u>

BASIS FOR THE PROPOSED ANNUAL CAPS FOR DEPOSIT SERVICES

The Company has considered the main factors stated in the “Proposed Annual Caps” section of the Letter from the Board in determining the proposed annual caps for deposit services. We had reviewed the proposed annual cap for the deposit services and noticed the Company has considered the reasons below in determining the proposed annual caps:

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;

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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

According to the Company's 2015, 2016 and 2017 annual reports, the cash and cash equivalent of the Group increased from approximately RMB9.54 billion for the year ended 31 December 2015 to approximately RMB13.27 billion for the year ended 31 December 2017. The cash and cash equivalent and restricted deposits of the Group increased from approximately RMB12.09 billion for the year ended 31 December 2015 to approximately RMB16.62 billion for the year ended 31 December 2017. Profit for the year of the Group increased from approximately RMB2.34 billion in for the year ended 31 December 2015 to approximately RMB2.75 billion for the year ended 31 December 2017. Interest income also increased from approximately RMB143 million for the year ended 31 December 2015 to approximately RMB203 million for the year ended 31 December 2017. The proportion of the interest income as compared to the profit for the year increased from approximately 6.1% for the year ended 31 December 2015 to approximately 7.4% for the year ended 31 December 2017.

The Group has rich amount of cash and cash equivalent and restricted deposits, and the interest income has a relatively material impact on the Group's financial performance. Through entering into the Financial Services Framework Agreement, the Group has an extra option in optimizing its fund management.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

According to the interim report ended 30 June 2018, the cash and cash equivalent of the Group totaled to approximately RMB13.07 billion, we noticed that the highest amount of the proposed annual caps represents approximately 65.0% of the cash and cash equivalent of the Group as of 30 June 2018.

As the Directors confirmed, 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. The cash and cash equivalent and restricted deposits balance of the Group in the next few years may increase due to fund collected from its operating cash flow and net proceed of the loan facility provided by the China Telecom Finance. The proposed annual caps were set at a level with a certain degree of buffer in order to enable the Group with the flexibility to earn interest income through making deposits to the China Telecom Finance, according to the terms not worse than those deposits made with other major cooperative commercial banks in China.

As disclosed in the Company's 2018 interim report, although the global macro environment changes bring a certain level of uncertainty to the operating environment, the demand for digital economy and informatization of China and the 5G development bring favourable opportunities for the continual development of the Group in future. In addition, the Company was included in the list of the "Double-Hundred Action" state-owned enterprise reform by the State-owned Assets Supervision and Administration Commission of the State Council in August 2018, which bring a better opportunity to advance the reform of the Company.

As part of our analysis, we have also reviewed a number of Hong Kong Stock Exchange Main Board listed companies which had entered into continuing connected transactions involving the provision of deposit services by connected parties, where (i) the relevant proposed annual caps were not less than RMB5,000 million and not more than RMB20,000 million; and (ii) the date of the respective circulars fall within the preceding 12 months from the date of announcement of the Company dated 1 February 2019 (the "**Review Period**"). We have, to our best effort and so far as we are aware, identified an exhaustive list of five main board listed companies, comprising (i) Tianjin Port Development Holdings Limited (stock code:3382); (ii) China Datang Corporation Renewable Power Co., Limited (stock code: 1798); (iii) China Southern Airlines Company Limited (stock code: 1055); (iv) BAIC Motor Corporation Limited (stock code: 1958); and (v) China National Building Material Company Limited (stock code: 3323), entered into financial services framework agreement with connected person for deposit services during the Review Period (together the "**Market Precedents**").

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Company name (stock code)	Date of circular	Proposed maximum daily deposit balance (A) (Note 1) RMB million	Total cash and deposits balance on the latest published annual report or interim report of the Market Precedents as at the time of the circular (B) (Note 2) RMB million	Proposed maximum daily deposit balance to total cash and deposit balance (A/B) %
Tianjin Port Development Holdings Limited (3382)	2/11/2018	8,000	11,087.3	72.1
China Datang Corporation Renewable Power Co., Limited (1798)	21/09/2018	6,000	1,851.4	324.1
China Southern Airlines Company Limited (1055)	18/05/2018	10,000	6,826.0	146.5
BAIC Motor Corporation Limited (1958)	15/05/2018	16,000	36,824.9	43.4
China National Building Material Company Limited (3323)	25/04/2018	16,500	23,220.0	71.1
			Maximum	<u>324.1</u>
			Minimum	<u>43.4</u>
			Average	<u><u>131.4</u></u>
the Company (552)	27/02/2019	8,500	13,069.5	65.0

Notes:

- Where the maximum daily deposit balance of the Market Precedents under the respective annual caps are different, we have taken the maximum annual cap for the purpose of the above analysis.
- Total cash and deposits balance are calculated based on the total cash and deposits excluding restricted bank deposits.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As set out in the table above, the proposed maximum daily deposit balances (i.e. the annual caps) of the Market Precedents ranged from RMB6,000 million to RMB16,500 million and represented approximately 43.4% to 324.1% of their respective total cash and deposit balance (excluding restricted bank deposits) with an average of approximately 131.4%. The Group's highest amount of the proposed annual caps of RMB8.5 billion represents approximately 65.0% of the Group's total cash and cash equivalent as at 30 June 2018, which is within the range of the Market Precedents.

Based on the above review and analysis and considering (i) the financial performance, financial condition and cash flow of the Group for the three years ended 31 December 2015, 2016 and 2017 and interim financial performance for the period ended 30 June 2018; (ii) the capital risk management and internal monitoring measures policy which the Group put in place in related to the continuing connected transactions contemplated under the Financial Services Framework Agreement; (iii) the Group's forecast growth of deposits and its reasons for the three years ending 31 December 2021; (iv) the financial benefits brought by the deposit services contemplated under the Financial Services Framework Agreement; (v) the possible high efficient use of the cash in the member companies of the Group; and (vi) comparing to the major cooperative commercial banks or financial institutions, China Telecom Finance may provide more favorable interest rates and services to the Group, we are of the view that the proposed annual caps for the deposit services provided by China Telecom Finance to the Group under the Financial Services Framework Agreement are determined by the Directors after due and careful consideration and are fair and reasonable so far as the Independent Shareholders are concerned.

RECOMMENDATION

Having considered the principal reasons and factors discussed above, we are of the view that the deposit services contemplated under the Financial Services Framework Agreement (together with proposed annual caps thereof) have been entered into in the ordinary and usual course of business of the Group, and on normal commercial terms or better, and that the terms of the deposit services contemplated under the Financial Services Framework Agreement (together with proposed annual caps thereof) are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Shareholders, as well as recommend the Independent Board Committee to advise the Independent Shareholders, to vote in favor of the ordinary resolution to be proposed at the EGM to approve the deposit services (together with proposed annual caps thereof) contemplated under the Financial Services Framework Agreement.

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

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

1. RESPONSIBILITY STATEMENT

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

2. DIRECTORS' AND SUPERVISORS' INTERESTS

As at the Latest Practicable Date, none of the Directors, Supervisors and chief executive of the Company had any interest or short position in any shares, underlying shares of equity derivatives or debentures of the Company or its associated corporations (within the meaning of the SFO) (1) which were required to be notified to the Company and the Hong Kong 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 Hong Kong Stock Exchange.

As at the Latest Practicable Date, none of the Directors or Supervisors had any interest, direct or indirect, in any asset which since 31 December 2017, being the date of the latest published audited financial statements of the Company, have been acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group.

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

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

China Telecom 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.

3. SERVICE CONTRACTS

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

4. COMPETING INTEREST

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

5. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2017, being the date of the latest published audited financial statements of the Company.

6. QUALIFICATION OF EXPERTS

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

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

7. CONSENT

- (a) Pulsar Capital Limited issued a letter dated 27 February 2019 for the purpose of incorporation in this circular, in connection with its advice to the Independent Board Committee and the Independent Shareholders.
- (b) Pulsar Capital Limited has given and has not withdrawn its respective written consents to the issue of this circular with the inclusion of its advice, letters and references to their names and logos in the form and context in which it appears.

- (c) As at the Latest Practicable Date, Pulsar Capital Limited was not beneficially interested in the share capital of any member of the Group nor had any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group and did not have any interest, either directly or indirectly, in any assets which have been, since 31 December 2017 (the date to which the latest published audited financial statements of the Company were made up), acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

8. GENERAL

- (a) Mr. Chung Wai Cheung, Terence is the company secretary of the Company.
- (b) The Company's registered office is at Level 5 and B, No. 2 Fuxingmen South Avenue, Xicheng District, Beijing, the PRC and its principal place of business in Hong Kong is at Room 3203–3205, 32/F, Great Eagle Centre, 23 Harbour Road, Wanchai, Hong Kong.
- (c) The Company's share registrar and transfer office of the Company in Hong Kong is Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of the Company at Room 3203–3205, 32/F, Great Eagle Centre, 23 Harbour Road, Wanchai, Hong Kong during normal business hours from the date of this circular up to and including the date of the EGM and at the EGM:

- (a) the Financial Services Framework Agreement;
- (b) 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;
- (c) 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
- (d) the written consent referred to in the section headed "Consent" in this appendix.



中国通信服务
CHINA COMSERVICE

中國通信服務股份有限公司

CHINA COMMUNICATIONS SERVICES CORPORATION LIMITED

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

(Stock code: 552)

NOTICE OF THE EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of China Communications Services Corporation Limited (the “**Company**”) will be held at 10:00 a.m. on 18 April 2019, Thursday, at No. 19, Chaoyangmen Beidajie, Dongcheng District, Beijing, the PRC, to consider and, if thought fit, pass the following business:

ORDINARY RESOLUTION

1. **THAT** the deposit services under the Financial Services Framework Agreement entered into between the Company and China Telecom Group Finance Co., Ltd., and the proposed annual caps thereof for the three years ending 31 December 2021 be and are hereby approved, ratified and confirmed and that any director of the Company be and is hereby authorized to do all such further acts and things and execute such further documents and take all such steps which in their opinion may be necessary, desirable or expedient to implement and/or give effect to the terms of such agreement.

By Order of the Board

China Communications Services Corporation Limited

Chung Wai Cheung, Terence

Company Secretary

Beijing, PRC

27 February 2019

Notes:

- (1) Buyers who submit the share transfer application forms to the Company's share registrar before 4:30 p.m. on Monday, 18 March 2019 and then register as shareholders on the register of members of the Company are entitled to attend the extraordinary general meeting.
- (2) Each shareholder entitled to attend and vote at the extraordinary general meeting may appoint one or more proxies to attend and vote on his behalf at the extraordinary general meeting. A proxy need not be a shareholder. Each shareholder who wishes to appoint one or more proxies should first review the Circular, which is expected to be despatched to shareholders on or before Wednesday, 27 February 2019.
- (3) 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 notorially certified power of attorney must be delivered to the Office of the Board of the Company for holders of domestic shares or to 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 (i.e. on 17 April 2019, 10:00 a.m.). Completion and return of a form of proxy will not preclude a shareholder from attending in person and voting at the 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

- (4) China Telecom Group, being a connected person to the Company with material interests in the Financial Services Framework Agreement, will abstain from voting on the ordinary resolution to approve the deposit services (together with the proposed annual caps thereof) as described in the Circular and in this notice. Any vote of the Shareholders at the extraordinary general meeting shall be taken by poll.
- (5) 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 Thursday, 28 March 2019.
- (6) Closure of the register of members:

The H share register of members of the Company will be closed from Tuesday, 19 March 2019 to Thursday, 18 April 2019 (both days inclusive). In order to attend the extraordinary general meeting, all transfer documents, accompanied by the relevant share certificates, must be lodged for registration with Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, not later than 4:30 p.m. on Monday, 18 March 2019. H share shareholders who are registered with Computershare Hong Kong Investor Services Limited on Thursday, 18 April 2019 are entitled to attend the extraordinary general meeting.

- (7) 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.
- (8) 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