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中国通信服务
CHINA COMSERVICE

中國通信服務股份有限公司

CHINA COMMUNICATIONS SERVICES CORPORATION LIMITED

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

(Stock Code: 552)

**RENEWAL OF CONTINUING CONNECTED TRANSACTIONS
CONTINUING CONNECTED TRANSACTIONS AND
MAJOR TRANSACTIONS
UNDER THE FINANCIAL SERVICES FRAMEWORK AGREEMENT**

SUMMARY

We refer to (i) the announcement dated 28 September 2018 and the circular dated 19 November 2018 of the Company, in relation to the renewal of the continuing connected transactions between the Group and China Telecom and/or its associates which are governed by the 2018 Agreements; and (ii) the announcement dated 1 February 2019 and the circular dated 27 February 2019 of the Company, in relation to the 2019 Financial Services Framework Agreement entered into between the Company and China Telecom Finance. The above 2018 Agreements and the 2019 Financial Services Framework Agreement will expire on 31 December 2021.

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

LISTING RULES IMPLICATIONS

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

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

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

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

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

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

As one or more of the applicable percentage ratios of the proposed New Annual Caps for each of the Non-exempt Continuing Connected Transactions exceed 5%, the Non-exempt Continuing Connected Transactions (together with the proposed New Annual Caps thereof) are subject to the reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

GENERAL

The EGM will be convened to consider and, if thought fit, approve the Non-exempt Continuing Connected Transactions and the proposed New Annual Caps thereof. A circular containing, among other things, (i) a letter from the Board setting out the details on the Non-exempt Continuing Connected Transactions; (ii) a letter from the Independent Board Committee; (iii) a letter from the Independent Financial Adviser; and (iv) a notice of the EGM, is expected to be dispatched to the Shareholders on or before 12 November 2021.

1. INTRODUCTION

We refer to (i) the announcement dated 28 September 2018 and the circular dated 19 November 2018 of the Company, in relation to the renewal of the continuing connected transactions between the Group and China Telecom and/or its associates which are governed by the 2018 Agreements; and (ii) the announcement dated 1 February 2019 and the circular dated 27 February 2019 of the Company, in relation to the 2019 Financial Services Framework Agreement entered into between the Company and China Telecom Finance. The above 2018 Agreements and the 2019 Financial Services Framework Agreement will expire on 31 December 2021.

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

2. CONTINUING CONNECTED TRANSACTIONS WITH CHINA TELECOM

(1) Background

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

- (a) the Engineering Framework Agreement;

- (b) the Ancillary Telecommunications Services Framework Agreement;
- (c) the Operation Support Services Framework Agreement;
- (d) the IT Application Services Framework Agreement;
- (e) the Centralized Services Agreement;
- (f) the Property Leasing Framework Agreement; and
- (g) the Supplies Procurement Services Framework Agreement.

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

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

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

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

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

Content of Services

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

Pricing Policies

The charges for engineering services rendered under the Engineering Framework Agreement shall be determined at market price or prices obtained through tender process. According to the supplemental agreement to the Engineering Framework Agreement entered into between the Company and China Telecom, the thresholds which the project must be determined through tender process under the Engineering Framework Agreement include: whenever the value of any design or project supervision and management project exceeds RMB1 million, or the value of any construction project exceeds RMB4 million, the award of the relevant project must be subject to a tender process (with a minimum of three parties tendering bids) in accordance with the Bidding Law of the PRC and Regulation on the Implementation of the Bidding Law of the PRC, except as otherwise provided by other related laws and regulations. In determining the market price, the business and financial department of the relevant subsidiary of the Company shall collect the relevant market information (including but not limited to the change in price for the same or similar type of services), review and compare the costs and profits of transactions conducted in the most recent year of the same or similar type entered into with China Telecom Group or independent third parties, and prepare fee quotes for review by the marketing department of the relevant subsidiary of the Company. The marketing department or management of the relevant subsidiary of the Company shall primarily consider the following factors: (1) cost of service; (2) prices of the same or similar type of services provided to China Telecom Group by other service providers in the market; (3) prices of the same or similar type of services provided to China Telecom Group and independent third parties previously by the Company.

The Company will be given priority by China Telecom Group in the provision of the engineering services except in the tender process, provided that the terms and conditions offered by independent third parties to China Telecom Group are no more favorable than those offered by the Company for the same type of services, and in return, the Company has undertaken to China Telecom Group that the Company shall not provide services to it on terms which are less favorable than those offered by the Company to independent third parties. The payment for engineering services provided by the Company under the Engineering Framework Agreement is normally made in accordance with the work progress of practical work following the general market practice in the industry.

Historical Transaction Amounts

The Existing Annual Caps for the service charges receivable by the Company from China Telecom Group under the Engineering Framework Agreement for each of the three years of 2019, 2020 and 2021 are RMB26,000 million, RMB33,000 million and RMB35,000 million, respectively. The actual amounts for the service charges received by the Company from China Telecom Group under the Engineering Framework Agreement for the years ended 31 December 2019 and 2020 were RMB16,386 million and RMB17,668 million, respectively. Based on the Company's unaudited 2021 interim financial report, the actual amount for the service charges received by the Company from China Telecom Group under the Engineering Framework Agreement for the six months ended 30 June 2021 was RMB6,896 million.

Proposed Annual Caps and Basis for Determination

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

- (a) the historical annual transaction amounts for 2019 and 2020 and the estimated annual transaction amount for 2021 under the Engineering Framework Agreement;
- (b) that the demand for engineering services are subject to seasonal fluctuations to a certain extent. According to the financial reports of China Telecom Corporation, from 2018 to 2020, its capital expenditures mainly incurred in the second half of such years; according to the 2021 interim report of China Telecom Corporation, while maintaining its full year budget of capital expenditure unchanged, its capital expenditure in the first half of 2021 only accounted for approximately 31% of its annual plan. Accordingly, the Company's revenue from engineering services was recognized mainly in the second half of years. For the Company's revenue from China Telecom Group's telecommunications infrastructure services in the past three years, the proportion of such revenue in the second half of the year accounted for approximately 53% to 62% of such revenue of the full year;
- (c) that China Telecom Group proposed the "Cloudification and Digital Transformation" strategy to further promote internal and external digital transformation. According to prospectus of the A-share listing of China Telecom Corporation dated 6 August 2021, its proceeds will be used in expanding its 5G industrial Internet construction and new information infrastructure of cloud-network integration. It is expected that China Telecom Group will maintain the scale of its capital expenditure and the transactions under the Engineering Framework Agreement with the Group may increase for the coming three years;

(d) that a degree of buffer is built in when determining the New Annual Caps in relation to the engineering services, which (i) allows the Group to be flexible in case of unforeseen events; and (ii) caters for the possible inflations in the coming three years; and

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

As the highest applicable percentage ratio of the proposed New Annual Caps under the Engineering Framework Agreement and its supplemental agreements exceeds 5%, the Engineering Framework Agreement together with its supplemental agreements as well as the proposed New Annual Caps thereof are subject to the reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

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

Content of Services

Pursuant to the Ancillary Telecommunications Services Framework Agreement, the Company agreed to provide to China Telecom Group certain ancillary telecommunications services such as maintenance of network facilities including equipment, ducts and cables, server rooms and base stations; distribution of telecommunications products and services; provision of comprehensive logistics services, including purchasing agent, warehousing, transportation, delivery, testing and inspection, logistics information management and distribution; provision of application, content and other services such as fixed-line value added services, wireless value added services, Internet value added services, and electronic authentication. The scope of the Ancillary Telecommunications Services Framework Agreement covers transactions between the Company (and its subsidiaries) and China Telecom (and its subsidiaries but excluding the Group), as may be applicable from time to time.

Pricing Policies

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

(a) market price. In determining the market price, the business and financial department of the relevant subsidiary of the Company shall collect the relevant market information (including but not limited to the change in price for the same or similar type of services), review and compare the costs and profits of transactions conducted in the most recent year of the same or similar type entered into with China Telecom Group or independent third parties, and prepare fee quotes for review by the marketing department of the relevant subsidiary of the Company. The marketing department or management of the relevant subsidiary of the Company shall primarily

consider the following factors: (i) cost of service; (ii) prices of the same or similar type of services provided to China Telecom Group by other service providers in the market; (iii) prices of the same or similar type of services provided to China Telecom Group and independent third parties previously by the Company;

- (b) in the absence of market price or where the market price cannot be determined, the price shall be agreed between both parties, which shall be the aggregate amount of reasonable costs, the relevant taxes in sales and reasonable profits. In determining such cost and profits, the business and financial department of the relevant subsidiary of the Company will (i) review and compare the costs and profit margins of similar and comparable transactions conducted in the most recent year entered into with China Telecom Group or independent third parties, or (ii) where such comparison is not practicable, consider for reference the recent profit margins of comparable enterprises engaging in providing similar services in the relevant industry. Factors considered would also include, but not limited to, the scale of the comparable enterprises, quality of services, transaction size, supply and demand, labor cost, local commodity prices and economic development levels.

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

Historical Transaction Amounts

The Existing Annual Caps for the service charges receivable by the Company from China Telecom Group under the Ancillary Telecommunications Services Framework Agreement for the three years of 2019, 2020 and 2021 are RMB20,000 million, RMB24,000 million and RMB27,000 million, respectively. The actual amounts for the service charges received by the Company from China Telecom Group under the Ancillary Telecommunications Services Framework Agreement for the years 31 December 2019 and 2020 were RMB14,758 million and RMB14,888 million, respectively. Based on the Company's unaudited 2021 interim financial report, the actual amount for the service charges received by the Company from China Telecom Group under the Ancillary Telecommunications Services Framework Agreement for the six months ended 30 June 2021 was RMB7,996 million.

Proposed Annual Caps and Basis for Determination

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

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

As the highest applicable percentage ratio of the proposed New Annual Caps under the Ancillary Telecommunications Services Framework Agreement and its supplemental agreements exceeds 5%, the Ancillary Telecommunications Services Framework Agreement together with its supplement agreements as well as the proposed New Annual Caps thereof are subject to the reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

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

Content of Services

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

Pricing Policies

The Operation Support Services Framework Agreement shall adopt the same pricing policy as the Ancillary Telecommunications Services Framework Agreement. In addition, in determining the market price of the operation support services provided to the Company by the China Telecom Group, the Company primarily considered the following factors: (i) prices of the same or similar type of services provided to the Company by other service providers in the market; (ii) prices of the same or similar type of services provided to the Company by China Telecom Group and independent third parties previously. Subject to the terms and conditions set out above, the payment for the operation support services is made in the manner provided for in each specific contract entered into between the parties with reference to the market practices.

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

Historical Transaction Amounts

The Existing Annual Caps for the service charges receivable by the Company from China Telecom Group under the Operation Support Services Framework Agreement for the three years of 2019, 2020 and 2021 are RMB3,800 million, RMB4,000 million and RMB4,200 million, respectively. The actual amounts for the service charges received by the Company from China Telecom Group under the Operation Support Services Framework Agreement for the years ended 31 December 2019 and 2020 were RMB3,568 million and RMB3,422 million, respectively. Based on the Company's unaudited 2021 interim financial report, the actual amount for the service charges received by the Company from China Telecom Group under the Operation Support Services Framework Agreement for the six months ended 30 June 2021 was RMB1,489 million.

The Existing Annual Caps for the service charges payable by the Company to China Telecom Group under the Operation Support Services Framework Agreement for the three years of 2019, 2020 and 2021 are RMB1,600 million, RMB2,000 million and RMB2,400 million, respectively. The actual amounts for the service charges paid by the Company to China Telecom Group under the Operation Support Services Framework Agreement for the years ended 31 December 2019 and 2020 were RMB736 million and RMB878 million, respectively. Based on the Company's unaudited 2021 interim financial report, the actual amount for the service charges paid by the Company to China Telecom Group under the Operation Support Services Framework Agreement for the six months ended 30 June 2021 was RMB372 million.

Proposed Annual Caps and Basis for Determination

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

- (a) the historical annual transaction amounts for 2019 and 2020 and the estimated annual transaction amount for 2021 under the Operation Support Services Framework Agreement;
- (b) that there had been a high utilization rate of the Existing Annual Caps for the operation support services provided by China Telecom Group. In particular, the utilization rates were approximately 94% for 2019 and 86% for 2020, respectively. In order to seize future business opportunities and maintain flexibility for

development, a degree of buffer is built in when determining the New Annual Caps in relation to the operation support services, which (i) allows the Group to be flexible in case of unforeseen events; and (ii) caters for the possible inflations in the coming three years;

- (c) that with respect to the operation support services provided to China Telecom Group, along with its business development, China Telecom Group's demand for operation support services, such as property management, conference and training, has maintained a steady upward trend; at the same time, the Group possesses fine resources and service capability in respect of the abovementioned aspects, which are adaptive to meet the business needs of China Telecom Group;
- (d) that with respect to the operation support services provided by China Telecom Group, along with its business development, the Group's demand for operation support services, such as exhibition and training, has maintained a steady upward trend; at the same time, China Telecom Group possesses fine resources in respect of the abovementioned aspects, which are adaptive to meet the business needs of the Group; and
- (e) the Group's overall operation and development in related business fields.

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

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

Content of Services

The IT Application Services Framework Agreement governs the arrangements between the Group and China Telecom Group with respect to mutual provision of IT application services. Pursuant to this agreement, the Company agreed to provide China Telecom Group with telecommunications network support services, software and hardware development and other related IT services. China Telecom Group also agreed to provide to the Company certain IT application services including voice and data, value added services and information application services. The scope of the IT Application Services Framework Agreement covers transactions between the Company (and its subsidiaries) and China Telecom (and its subsidiaries but excluding the Group), as may be applicable from time to time.

Pricing Policies

The IT Application Services Framework Agreement shall adopt the same pricing policy as the Engineering Framework Agreement. In addition, in determining the market price of the IT application services provided to the Company by the China Telecom Group, the Company primarily considers the following factors: (i) prices of the same or similar type of services provided to the Company by other service providers in the market; (ii) prices of the same or similar type of services provided to the Company by China Telecom Group and independent third parties previously. Subject to the terms and conditions set out above, the payment for the IT application service is made in the manner provided for in each specific contract entered into between the parties with reference to the market practices.

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

Historical Transaction Amounts

The Existing Annual Caps for the service charges receivable by the Company from China Telecom Group under the IT Application Services Framework Agreement for the three years of 2019, 2020 and 2021 are RMB3,600 million, RMB4,300 million and RMB5,000 million, respectively. The actual amounts for the service charges received by the Company from China Telecom Group under the IT Application Services Framework Agreement for the year ended 31 December 2019 and 2020 were RMB3,095 million and RMB3,052 million, respectively. Based on the Company's unaudited 2021 interim financial report, the actual amount for the service charges received by the Company from China Telecom Group under the IT Application Services Framework Agreement for the six months ended 30 June 2021 was RMB1,514 million.

The Existing Annual Caps for the service charges payable by the Company to China Telecom Group under the IT Application Services Framework Agreement for each of the three years of 2019, 2020 and 2021 is RMB500 million. The actual amounts for the service charges paid by the Company to China Telecom Group under the IT Application Services Framework Agreement for the years ended 31 December 2019 and 2020 were RMB154 million and RMB148 million, respectively. Based on the Company's unaudited 2021 interim financial report, the actual amount for the service charges paid by the Company to China Telecom Group under the IT Application Services Framework Agreement for the six months ended 30 June 2021 was RMB23 million.

Proposed Annual Caps and Basis for Determination

The Directors proposed the New Annual Caps for the service charges receivable by the Company from China Telecom Group under the IT Application Services Framework Agreement in respect of the three years ending 31 December 2022, 2023 and 2024 to be RMB6,500 million, RMB8,000 million and RMB9,500 million, respectively. The Directors proposed the new annual cap for the service charges payable by the Company to China Telecom Group under the IT Application Services Framework Agreement in respect of the three years ending 31 December 2022, 2023 and 2024 to be RMB1,000 million, RMB1,500 million and RMB2,000 million, respectively. In determining the New Annual Caps, the Directors have considered:

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

- (d) that with respect to IT application services provided by China Telecom Group, along with the continuous enhancement of China Telecom Group's cloud network and platform capabilities, and its service capability to build network dedicated line, the Group's procurement of ICT application services of China Telecom Group, including but not limited to circuit, network, and cloud platform service capabilities, is conducive to improving the Group's integrated service capabilities and is expected to drive the substantial growth of the Group's IT application-related services; and
- (e) the Group's overall operation and development in related business fields.

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

(e) *Centralized Services Agreement and its supplemental agreements*

Content of Services

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

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

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

Pricing Policies

Except as otherwise agreed by the parties, the aggregate administrative expenses incurred by the Company for the provision of the centralized services referred to above (all expenses incurred in connection with the above-mentioned headquarters management functions excluding remuneration for the Directors, share appreciation rights and

provision of bad debts) will be apportioned pro rata between the Company and China Telecom Group according to the proportional net asset value of each of the relevant parties.

Historical Transaction Amounts

The Existing Annual Caps for the management fees (in the form of reimbursed apportioned cost received) of the Company for the centralized services provided to China Telecom Group under the Centralized Services Agreement for the three years of 2019, 2020 and 2021 are RMB450 million. The actual amounts of the management fees received by the Company from China Telecom Group under the Centralized Services Agreement for the years ended 31 December 2019 and 2020 were RMB370 million and RMB382 million, respectively. Based on the Company's unaudited 2021 interim financial report, the actual amount of the management fees received by the Company from China Telecom Group under the Centralized Services Agreement for the six months ended 30 June 2021 was RMB153 million.

Proposed Annual Caps and Basis for Determination

The Directors proposed the New Annual Cap for the management fees receivable by the Company from China Telecom Group under the Centralized Services Agreement in respect of each of the three years ending 31 December 2022, 2023, 2024 to be RMB550 million. In determining the New Annual Caps, the Directors have considered:

- (a) the historical annual transaction amounts for 2019 and 2020 and the estimated annual transaction amount for 2021 under the Centralized Services Agreement;
- (b) that there had been a high utilization rate of the Existing Annual Cap for the centralized services provided to China Telecom Group. In particular, the utilization rates were approximately 82% for 2019 and 85% for 2020, respectively. In order to seize future business opportunities and maintain flexibility for development, a degree of buffer is built in when determining the New Annual Caps in relation to the centralized services provided to China Telecom Group, which (i) allows the Group to be flexible in case of unforeseen events; and (ii) caters for the possible inflations in the coming three years; and
- (c) that the future demand of China Telecom Group for centralized services from the Group is expected to maintain stable.

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

reporting, announcement and annual review requirements, but exempt from the circular (including the independent financial advice) and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

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

Content of Services

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

Pricing Policies

The rental charges in respect of each property are determined at market price. In determining the market price, the business and financial department of the relevant subsidiary of the Company shall collect the relevant market information (including but not limited to the change in price for the same or similar type of services), review and compare the costs and profits of transactions conducted in the most recent year of the same or similar type entered into with China Telecom Group or independent third parties, and prepare fee quotes for review by the marketing department of the relevant subsidiary of the Company. The marketing department or management of the relevant subsidiary of the Company shall primarily consider the following factors: (1) cost of property depreciation; (2) rental charges of the same or similar type of property provided to China Telecom Group and the Company by independent third parties in the market; (3) rental charges of the same or similar type of property provided to China Telecom Group and independent third parties by the Company previously, or rental charges of the same or similar type of property provided to the Company by China Telecom Group and independent third parties previously. Rental charges are payable monthly in arrears, except as otherwise agreed by the parties. Both parties will review the rental every three years and decide, after negotiation, on whether to adjust the rental charges and the amount of such adjustment.

Historical Transaction Amounts

The Existing Annual Caps for the rents receivable by the Company from China Telecom Group under the Property Leasing Framework Agreement for the three years of 2019, 2020 and 2021 are RMB230 million, RMB240 million and RMB250 million, respectively. The actual amounts for the rents received by the Company from China Telecom Group under the Property Leasing Framework Agreement for the years ended 31 December 2019 and 2020 were RMB129 million and RMB138 million, respectively. Based on the Company's unaudited 2021 interim financial report, the actual amount for the rents received by the Company from China Telecom Group under the Property Leasing Framework Agreement for the six months ended 30 June 2021 was RMB52 million.

The Existing Annual Caps for the rents payable by the Company to China Telecom Group under the Property Leasing Framework Agreement for the three years of 2019, 2020 and 2021 are RMB270 million, RMB300 million and RMB330 million, respectively. The actual amounts for the rents paid by the Company to China Telecom Group under the Property Leasing Framework Agreement for the years ended 31 December 2019 and 2020 were RMB203 million and RMB158 million, respectively. Based on the Company's unaudited 2021 interim financial report, the actual amount for the rents paid by the Company to China Telecom Group under the Property Leasing Framework Agreement for the six months ended 30 June 2021 was RMB57 million.

According to International Financial Reporting Standard No. 16 — Leases (the “**New Lease Standards**”) adopted by the Group since 1 January 2019, the Group is required to recognise right-of-use assets and lease liabilities where the Group acts as a lessee. For the years ended 31 December 2019 and 2020, the Group recognised additional right-of-use assets under the Property Leasing Framework Agreement of RMB226 million and RMB250 million, respectively. Based on the Company's unaudited 2021 interim financial report, the Group recognised additional right-of-use assets under the Property Leasing Framework Agreement for the six months ended 30 June 2021 was RMB496 million.

Proposed Annual Caps and Basis for Determination

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

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

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

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

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

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

- (a) the historical annual transaction amounts for 2019 and 2020 and the estimated annual transaction amount for 2021 under the Property Leasing Framework Agreement;

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

- (b) that due to the business expansion and the rental rate is expected to increase, and that the demand for leased properties of the Group and China Telecom Group is expected to increase. In particular, it is expected that the China Telecom Group's demand for work place will increase and the Group could satisfy such demand with its new property purchased in 2020; and
- (c) that the right-of-use assets is calculated by discounting the total annual rent in the future, using the incremental borrowing rate as discount rate.

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

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

Content of Services

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

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

Pricing Policies

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

- (a) 1% of the contract value at the maximum for procurement services relating to imported telecommunications supplies;
- (b) 3% of the contract value at the maximum for procurement services relating to domestic telecommunications supplies and other domestic non-telecommunications materials;
- (c) for other services:
 - i. market price. In determining the market price, the business and financial department of the relevant subsidiary of the Company shall collect the relevant market information (including but not limited to the change in price for the same or similar type of services), review and compare the costs and profits of transactions conducted in the most recent year of the same or similar type entered into with China Telecom Group or independent third parties, and prepare fee quotes for review by the marketing department of the relevant subsidiary of the Company. The marketing department or management of the relevant subsidiary of the Company shall primarily consider the following factors: (i) cost of service; (ii) prices of the same or similar type of services provided to China Telecom Group or the Company by other service providers in the market; (iii) prices of the same or similar type of services provided to China Telecom Group and independent third parties by the Company, or prices of the same or similar type of services provided to the Company by China Telecom Group and independent third parties;
 - ii. in the absence of market price or where the market price cannot be determined, the price shall be agreed between both parties, which shall be the aggregate amount of reasonable costs, the taxes in sales and reasonable profits. In determining such price, the business and financial department of the relevant subsidiary of the Company will review and compare the costs and profits of transactions conducted in the most recent year of the same or similar type entered into with China Telecom Group or independent third parties, take into account factors such as historical price, transaction size, average profit ratio within the relevant industry, supply and demand, labor cost, local commodity prices and economic development levels, and prepare fee proposals for review by the marketing department of the relevant subsidiary of the Company.

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

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

Historical Transaction Amounts

The Existing Annual Caps for the service charges receivable by the Company from China Telecom Group under the Supplies Procurement Services Framework Agreement for the three years of 2019, 2020 and 2021 are RMB6,000 million, RMB6,500 million and RMB7,000 million, respectively. The actual amounts for the service charges received by the Company from China Telecom Group under the Supplies Procurement Services Framework Agreement for the years ended 31 December 2019 and 2020 were RMB2,697 million and RMB2,609 million, respectively. Based on the Company's unaudited 2021 interim financial report, the actual amount for the services charges received by the Company from China Telecom Group under the Supplies Procurement Services Framework Agreement for the six months ended 30 June 2021 was RMB1,173 million.

The Existing Annual Caps for the service charges payable by the Company to China Telecom Group under the Supplies Procurement Services Framework Agreement for the three years of 2019, 2020 and 2021 are RMB5,000 million, RMB5,200 million and RMB5,400 million, respectively. The actual amounts for the service charges paid by the Company to China Telecom Group under the Supplies Procurement Services Framework Agreement for the years ended 31 December 2019 and 2020 were RMB1,121 million and RMB1,027 million, respectively. Based on the Company's unaudited 2021 interim financial report, the actual amount for the service charges paid by the Company to China Telecom Group under the Supplies Procurement Services Framework Agreement for the six months ended 30 June 2021 was RMB988 million.

Proposed Annual Caps and Basis for Determination

The Directors proposed the New Annual Caps for the service charges receivable by the Company from China Telecom Group under the Supplies Procurement Services Framework Agreement in respect of three years ending 31 December 2022, 2023 and 2024 to be RMB6,800 million, RMB7,500 million and RMB8,500 million, respectively. The Directors proposed the New Annual Caps for the service charges payable by the Company to China Telecom Group under the Supplies Procurement Services Framework Agreement in respect of the three years ending 31 December 2022, 2023 and 2024 to be RMB4,000 million, RMB5,000 million and RMB6,000 million, respectively. In determining the New Annual Caps, the Directors have considered:

- (a) the historical annual transaction amounts for 2019 and 2020 and the estimated transaction amount for 2021 under the Supplies Procurement Services Framework Agreement;
- (b) that with respect to the supplies procurement services provided to China Telecom Group, China Comservice Supply Chain Management Company Ltd., a wholly-owned subsidiary of the Group, is the only enterprise with “5A” logistics qualification certificate in the domestic telecommunications industry. It introduced strategic investors with synergistic effect in 2021 and the Group expects that its capabilities for professional operations in the supply chain business will be enhanced. In addition, as mentioned above, it is expected that China Telecom Group’ demand for the IT application services of the Group will increase and the demand for supplies procurement services that are related to the IT application services will also increase accordingly;
- (c) that with respect to the supplies procurement services provided by China Telecom Group, along with the development of 5G network and the upgrade of mobile terminals, it is expected that the scale of the Group’s 5G-related product distribution business will increase in line with market demand, and the Group’s demand for 5G-related product procurement services will continue to increase in the coming years. The procurement volume will increase with the expansion of the business scale, and the Group’s demand for procurement services of 5G-related products will continue to grow in the coming years. The Group also spends more efforts on expanding the domestic non-telecom operator customers, and the Group’s revenue from such customers in the first half of 2021 increased by approximately 34% year-on-year. Hence, the Group expects its procurement of mobile phone terminals, other mobile terminal devices and Internet of Things devices will increase; and
- (d) the Group’s overall operation and development in related business fields.

As the highest applicable percentage ratio of the proposed New Annual Caps under the Supplies Procurement Services Framework Agreement and its supplemental agreements exceeds 5%, the Supplies Procurement Services Framework Agreement together with its supplemental agreements as well as the proposed New Annual Caps are subject to the reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

(3) Reasons for and Benefits of the Continuing Connected Transactions with China Telecom

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

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

It is expected that China Telecom Group will continue to expand its business operation, construct and optimize its telecommunications network as well as broaden its customer base. The Board considers that it is in the interest of the Company to enter into the 2021 Supplemental Agreements and cooperate with China Telecom Group to ensure a stable revenue source from one of the largest telecommunications operators in the PRC so as to benefit the Company's future growth and development. All the continuing connected transactions have been entered into in the ordinary and usual course of business of the Group on normal commercial terms or better which are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

3. CONTINUING CONNECTED TRANSACTIONS WITH CHINA TELECOM FINANCE

(1) Background

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

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

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

Content of Services

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

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

- (j) consumer credit, buyer credit and financial leasing services for the products of the Group; and
- (k) other businesses approved by the CBIRC.

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

Major Terms

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

- i. *Deposit Services*

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

ii. *Loan and Bill Discounting Services*

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

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

iii. *Other Financial Services*

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

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

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

(3) Historical Transaction Amounts

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

| | Existing Annual Caps for the | | | Actual Amount | | Actual |
|--|------------------------------|-------|-------|--------------------|-------|----------------|
| | Year ending 31 December | | | for the Year ended | | Amount for |
| | 2019 | 2020 | 2021 | 31 December | | the six months |
| | | | | 2019 | 2020 | ended 30 June |
| | | | | | | 2021 |
| Maximum daily balance of deposits (including the interest accrued thereon) | 7,500 | 8,000 | 8,500 | 2,148 | 4,003 | 4,003 |

(in RMB million)

(4) Proposed Annual Caps and Basis for Determination

Deposit Services

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

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

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

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

- (d) the Group has also considered the potential impact on the Group's collection and payment settlement brought by the macroeconomic changes in the future; and
- (e) the Group's historical interest rates for deposits, and the increase in the interest income from the increase in deposits as a result of the Group's business growth.

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

Loan and Bill Discounting Services

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

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

Other Financial Services

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

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

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

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

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

(6) Capital Risk Control, Internal Control and Risk Management Measures Adopted by China Telecom Finance

- (a) **Regulated and supervised by regulatory authorities:** As a non-banking financial institution established with the approval of the CBIRC, China Telecom Finance is subject to the direct routine supervision by the CBIRC Beijing Branch, and shall abide by all applicable regulatory provisions, including the restrictions on capital adequacy ratio, liquidity ratio and the ratio of borrowing balance and the amount of outstanding guarantees to total capital, as well as the ratio of short-term investment in securities and long-term investment to total capital. Meanwhile, China Telecom Finance is directly regulated by the People's Bank of China to pay deposit reserve in full and in a timely manner.
- (b) **Undertaking by China Telecom:** Pursuant to the regulatory requirements of the CBIRC, China Telecom undertakes to increase the capital of China Telecom Finance based on the actual needs of resolving payment difficulty upon the emergency of such difficulty, particularly including but not limited to, providing liquidity support to China Telecom Finance when China Telecom Finance has difficulty in making payment, and replenish the capital of China Telecom Finance in a timely manner upon the occurrence of capital erosion as a result of operating losses of China Telecom Finance.
- (c) **Establishment of a core business system with safe and stable operation:** China Telecom Finance is a subsidiary of China Telecom Corporation which is responsible for supervising the establishment of a core business system with safe and stable operation by China Telecom Finance. Currently, such system has passed the safety test for connecting online commercial banks, and has met the national safety standard for commercial banks, which assures fund safety by providing requisite facilities in respect of information technology and assuring functions and performance of the system.
- (d) **Adoption and optimization of information technology measures:** China Telecom Finance will adopt information technology measures to supervise the transactions conducted under the 2021 Financial Services Framework Agreement. China Telecom Finance will set alert values and notification rules in the core business system corresponding to the annual caps for the relevant transactions, and the core business system will collect the information on the relevant transaction scales timely, compare with the alert values automatically, and issue system notification and order to control the transaction behaviors according to the preset rules. Such system design will ensure that the actual transaction amount will not exceed the relevant annual caps under the 2021 Financial Services Framework Agreement.

- (e) **Regulated under China Telecom Corporation’s management system for connected transactions:** China Telecom Finance is a subsidiary of China Telecom Corporation. On the basis of the existing well-established management system for connected transactions of China Telecom Corporation, China Telecom Corporation and China Telecom Finance have developed supplemental regulations covering relevant measures for risk control and risk management. The continuing connected transactions in relation to financial services among China Telecom Finance and each of the Group, China Telecom and China Telecom Corporation will be conducted under effective control and regulation via China Telecom Corporation’s connected transaction management systems. China Telecom Corporation has existing internal control regulations covering fund management business, financing business and monetary fund management business, which could effectively regulate the relevant business activities on the commencement of financial services by leveraging on the extensive experience of financial management personnel of China Telecom Corporation in fund management sector for years.
- (f) **China Telecom Finance has set up a sound corporate governance structure:** Through shareholders’ meeting, the board, the supervisory committee and the management as well as the special committees under the board and the management, China Telecom Finance would be able to ensure its stable operation and effective supervision. China Telecom Finance has developed an internal control system with dynamic update mechanism covering all business sectors. Through strengthening measures such as audit and review, China Telecom Finance would be able to ensure the effectiveness of its internal control and strict implementation of its rules and regulations. Moreover, it has also set up relatively sound risk management organizational structures.

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

- (a) **Effective connected transactions management system:** The Company has formulated and strictly implemented the *Administrative Measures of Connected Transactions of China Communications Services Corporation Limited*, the *Internal Control Guidance of China Communications Services Corporation Limited* and the *Administrative Measures of Connected Transactions on Financial Services of China Communications Services Corporation Limited* to make regular assessment on the effectiveness of the related internal control systems for connected transactions, thereby ensuring that the connected transactions are conducted on a regulated basis under fair and reasonable pricing principles and transaction methods and in the interests of the Company and the Shareholders as a whole, and that the continuing connected transactions under the 2021 Financial Services Framework Agreement will be conducted under effective control and regulation via the Company’s connected transaction management systems.

- (b) **Day-to-day management by the Finance Department:** The Group determines reasonable annual caps for each of the financial service connected transactions with reference to the historical similar transaction data, strategic development plans and fund management objectives. The finance department of the Company (the “**Finance Department**”) is responsible for the day-to-day management of financial service connected transactions, including:
- i. formulating administrative measures and fundamental procedures for financial service connected transactions;
 - ii. determining the caps in respect of the relevant transactions;
 - iii. leading the preparation, adjustment and dissemination of the budget for financial service connected transactions;
 - iv. organizing accounting, checking, analysis and report of financial service connected transactions; and
 - v. supervising, reviewing and assessing the execution of financial service connected transactions.

The Finance Department will adopt effective measures 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, so as to effectively avoid the risk of exceeding the caps for connected transactions.

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

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

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

(8) Board Opinion

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

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

4. LISTING RULES IMPLICATIONS

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

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

The table below sets out the historical figures and the Existing Annual Caps relating to the 2018 Agreements and 2019 Financial Services Framework Agreement and the proposed New Annual Caps for the aforementioned agreements, the 2021 Supplemental Agreements and the 2021 Financial Services Framework Agreement.

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

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

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

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

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

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

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

As one or more of the applicable percentage ratios of the proposed New Annual Caps for each of the Non-exempt Continuing Connected Transactions exceed 5%, the Non-exempt Continuing Connected Transactions (together with the proposed New Annual Caps thereof) are subject to the reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Board (including the independent non-executive Directors) is of the opinion that, the Centralized Services Agreement and the Property Leasing Framework Agreement and their supplemental agreements have been carried out in the ordinary and usual course of business of the Group and on normal commercial terms or better which are fair and reasonable and in the interests of the Company and the Shareholders as a whole; and that the proposed New Annual Caps for the Centralized Services Agreement and the Property Leasing Framework Agreement and their supplemental agreements are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Board (including the independent non-executive Directors) is of the opinion that, the loan and bill discounting services as well as other financial services contemplated under the 2021 Financial Services Framework Agreement are in the ordinary and usual course of business of the Group and on normal commercial terms or better which are fair and reasonable and in the interests of the Company and the Shareholders as a whole; and that the proposed New Annual Caps applicable to the loan and bill discounting services as well as other financial services are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Board (excluding the members of the Independent Board Committee, and the Independent Board Committee will give their view on the terms and proposed New Annual Caps in respect of the Non-Exempt Continuing Connected Transactions after considering the advice from the Independent Financial Adviser on the same, and their view will be given in the circular to be despatched to the Shareholders) is of the opinion that the Non-exempt Continuing Connected Transactions have been carried out in the ordinary and usual course of business of the Group and on normal commercial terms or better which are fair and reasonable and in the interests of the Company and the Shareholders as a whole; and that the proposed New Annual Caps for the Non-exempt Continuing Connected Transactions are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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

China Telecom and its associates, being connected persons to the Company, will abstain from voting at the EGM on the ordinary resolutions to approve the Non-exempt Continuing Connected Transactions (together with the proposed New Annual Caps thereof). Any voting by the Independent Shareholders at the EGM will be taken by poll.

The Company has formulated and strictly implemented various systems including the *Administrative Measures of Connected Transactions of China Communications Services Corporation Limited* and the *Internal Control Guidance of China Communications Services Corporation Limited* and regularly assesses the effectiveness of these systems relating to connected transactions and internal control to ensure that connected transactions are entered into in accordance with pricing mechanisms and transactions models that are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

The Company will comply with the rules in relation to annual review of continuing connected transactions set out in the Listing Rules. The Company will comply with all applicable requirements set out in Chapter 14A of the Listing Rules upon any further material variation or renewal of the 2018 Agreements, the 2021 Supplemental Agreements and the 2021 Financial Services Framework Agreement.

The Independent Board Committee comprising all of the independent non-executive Directors has been formed to advise the Independent Shareholders on the Non-exempt Continuing Connected Transactions (together with the proposed New Annual Caps thereof). Pulsar Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on the same.

5. GENERAL INFORMATION

Information of the Company

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

Information of China Telecom

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

As at the date of this announcement, China Telecom holds approximately 51.39% of the issued share capital of the Company.

Information of China Telecom Finance

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

As at the date of this announcement, China Telecom Finance is held as to 15%, 15% and 70% by the Company, China Telecom and China Telecom Corporation, respectively.

6. THE EGM

The EGM will be convened to consider and, if thought fit, approve the Non-exempt Continuing Connected Transactions and the proposed New Annual Caps thereof. A circular containing, among other things, (i) a letter from the Board setting out the details on the Non-exempt Continuing Connected Transactions; (ii) a letter from the Independent Board Committee; (iii) a letter from the Independent Financial Adviser; and (iv) a notice of the EGM, is expected to be dispatched to the Shareholders on or before 12 November 2021.

7. DEFINITIONS

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

| | |
|---|---|
| “2015 Agreements” | the Engineering Framework Agreement, the Ancillary Telecommunications Services Framework Agreement, the Operation Support Services Framework Agreement, the IT Application Services Framework Agreement, the Centralized Services Agreement, the Property Leasing Framework Agreement and the Supplies Procurement Services Framework Agreement entered into between the Company and China Telecom on 29 September 2015 |
| “2018 Supplemental Agreements” | the supplemental agreements of 2015 Agreements entered into between the Company and China Telecom on 28 September 2018 in respect of, among other things, the renewal of the terms of each of the 2015 Agreements to 31 December 2021 |
| “2018 Agreements” | 2015 Agreements and 2018 Supplemental Agreements |
| “2019 Financial Services Framework Agreement” | the CCS financial services framework agreement entered into between the Company and China Telecom Finance on 1 February 2019 in connection with the provision of a range of financial services for a period ending 31 December 2021 |
| “2021 Supplemental Agreements” | the supplemental agreements of the 2018 Agreements entered into between the Company and China Telecom on 22 October 2021 in respect of, among other things, the renewal of the terms of each of the 2018 Agreements to 31 December 2024 |
| “2021 Financial Services Framework Agreement” | the CCS financial services framework agreement entered into between the Company and China Telecom Finance on 22 October 2021 in connection with the provision of a range of financial services for a period ending 31 December 2024 |

| | |
|---|---|
| “Ancillary Telecommunications Services Framework Agreement” | the ancillary telecommunications services framework agreement entered into between the Company and China Telecom on 29 September 2015 |
| “Board” | the board of Directors of the Company |
| “CBIRC” | China Banking and Insurance Regulatory Commission |
| “Centralized Services Agreement” | the centralized services agreement entered into between the Company and China Telecom on 29 September 2015 |
| “China” or “PRC” | the People’s Republic of China (excluding, for the purposes of this announcement, Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan) |
| “China Telecom” | China Telecommunications Corporation (中國電信集團有限公司), a state-owned enterprise established under the laws of the PRC on 17 May 2000 and a substantial shareholder of the Company |
| “China Telecom Corporation” | China Telecom Corporation Limited (中國電信股份有限公司), a joint stock limited company incorporated in the PRC with limited liability on 10 September 2002, with its issued H shares and A shares listed on the Stock Exchange and the Shanghai Stock Exchange, respectively. Its principal business is the provision of fundamental telecommunications services including comprehensive wireline telecommunications services and mobile telecommunications services, and value-added telecommunications services such as Internet access services and information services, as well as other related services |
| “China Telecom Finance” | China Telecom Group Finance Co., Ltd. (中國電信集團財務有限公司), a non-banking financial institution legally established in the PRC on 8 January 2019 with the approval by the CBIRC, is a limited liability company approved by the relevant PRC government authorities (including but not limited to the CBIRC) to provide funds and financial management services to the member companies of China Telecom |
| “China Telecom Group” | China Telecom and its subsidiaries (excluding the Group where applicable) |

| | |
|---|---|
| “Company” or “CCS” | China Communications Services Corporation Limited (中國通信服務股份有限公司), a joint stock limited company incorporated in the PRC with limited liability on 30 August 2006, whose H shares are listed on the Stock Exchange |
| “Director(s)” | the director(s) of the Company |
| “EGM” | the extraordinary general meeting of the Company to be held on 22 December 2021 |
| “Engineering Framework Agreement” | the engineering framework agreement entered into between the Company and China Telecom on 29 September 2015 |
| “Existing Annual Caps” | the existing annual caps applicable to the transactions under each of the 2018 Agreements and the 2019 Financial Services Framework Agreement for the applicable period ending 31 December 2021 |
| “Group” | the Company and its subsidiaries |
| “Hong Kong” | Hong Kong Special Administrative Region of the PRC |
| “IT Application Services Framework Agreement” | the IT application services framework agreement entered into between the Company and China Telecom on 29 September 2015 |
| “Independent Board Committee” | an independent board committee, consisting of Mr. Siu Wai Keung, Francis, Mr. Lv Tingjie, Mr. Wu Taishi and Mr. Liu Linfei who are independent non-executive Directors, which has been formed to advise the Independent Shareholders on the Non-exempt Continuing Connected Transactions (together with the proposed New Annual Caps thereof) |
| “Independent Financial Adviser” | Pulsar Capital Limited, a corporation licensed to carry out Type 1 (Dealing in Securities) and Type 6 (Advising on Corporate Finance) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) |
| “Independent Shareholders” | Shareholders other than China Telecom and its associates |
| “Listing Rules” | the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited |

| | |
|---|---|
| “member companies” | has the meaning as defined in Article 3 of the Administrative Measures for Finance Companies of Enterprise Groups (企業集團財務公司管理辦法, the Order No. 8 of the China Banking Regulatory Commission in 2006), and with respect to China Telecom, including China Telecom and its subsidiaries (in which China Telecom holds more than 51% equity interests), any company in which China Telecom and/or its subsidiaries individually or jointly holds more than 20% equity interest, or a company in which China Telecom and/or its subsidiaries individually or jointly holds less than 20% of the equity interests but is the largest shareholder |
| “New Annual Caps” | the new annual caps proposed for the transactions under each of the 2018 Agreements, the 2021 Supplemental Agreements and the 2021 Financial Services Framework Agreement for the three years ending 31 December 2022, 2023 and 2024, where applicable, the Independent Shareholders’ approval of which will be sought at the EGM |
| “Non-exempt Continuing Connected Transactions” | the continuing connected transactions under the 2015 Agreements and their supplemental agreements (other than those under the Centralized Services Agreement and the Property Leasing Framework Agreement), and the deposit services under the 2021 Financial Services Framework Agreement |
| “Operation Support Services Framework Agreement” | the operation support services framework agreement entered into between the Company and China Telecom on 29 September 2015 |
| “Property Leasing Framework Agreement” | the property leasing framework agreement entered into between the Company and China Telecom on 29 September 2015 |
| “RMB” | Renminbi, the lawful currency of the PRC |
| “Shareholders” | shareholders of the Company |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “Supplies Procurement Services Framework Agreement” | the supplies procurement services framework agreement entered into between the Company and China Telecom on 29 September 2015 |

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

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

Beijing, PRC
22 October 2021

As at the date of this announcement, our executive directors are Mr. Huang Xiaoqing and Ms. Zhang Xu, our non-executive directors are Mr. Gao Tongqing and Mr. Mai Yanzhou, and our independent non-executive directors are Mr. Siu Wai Keung, Francis, Mr. Lv Tingjie, Mr. Wu Taishi and Mr. Liu Linfei.