

Prior to the completion of the Acquisition on 31 December 2003, relevant transactions entered into by the Acquired Companies and their subsidiaries with any connected persons of the Company do not constitute connected transactions within the meaning of the Listing Rules. Accordingly, the combined transaction amounts with respect to the telecom limited companies in Shanghai municipality, Guangdong province, Jiangsu province, Zhejiang province, Anhui province, Fujian province, Jiangxi province, Guangxi Zhuang autonomous region, Chongqing municipality and Sichuan province (the "Ten Provincial Telecom Limited Companies"), are presented herein for information purpose only.

### CONNECTED TRANSACTIONS AGREEMENTS BETWEEN THE COMPANY AND CHINA TELECOMMUNICATIONS CORPORATION

The Company and China Telecommunications Corporation entered into certain connected transactions agreements set out below on 10 September 2002 and entered into a supplemental connected transactions agreement (the "Supplemental Connected Transactions Agreement") for the said acquisition on 26 October 2003, the Supplemental Connected Transactions Agreement extends the terms of Trademark Licence Agreement, Centralised Services Agreement, Interconnection Agreement and Optic Fibers Leasing Agreement to 31 December 2005, automatically renewable for further periods of three years unless the Company provides three months' prior

written notification to China Telecommunications Corporation of its intention not to renew the agreements upon expiry of their current term.

#### Trademark Licence Agreement

Pursuant to the Trademark Licence Agreement, China Telecommunications Corporation has granted to the Company the right, on a royalty-free basis, to use certain trademarks set out in a list appended to the Trademark License Agreement. On 26 October 2003, the Company and China Telecommunications Corporation entered into a supplemental trademark licence agreement to extend the scope of the licensees to include the Acquired Companies and to amend the list of trademarks as set out in the Trademark Licence Agreement.

#### Centralised Services Agreement

Centralised Services include:

- the provision of management services in relation to certain large enterprise customers of the headquarters of China Telecommunications Corporation and the operation of business support centre and network management centre; and
- the use of the international telecommunications transmission facilities.

The settlement of any net amount due to or due from the Company is made once a year.

## CONNECTED TRANSACTIONS

### *The provision of management services relating to certain large enterprise customers of the headquarters of China Telecommunications Corporation, and the operation of the business support centre and the network management center.*

Under the Centralised Services Agreement, the Company and China Telecommunications Corporation share certain overhead costs and the Company has agreed to provide human resources relating to administrative functions of China Telecommunications Corporation. Assets relating to the Centralised Services are used by both the Company and China Telecommunications Corporation. The Company has also agreed to provide the necessary human resources responsible for the upkeep and maintenance with respect to these assets, in addition to providing maintenance services in relation to the international transmission facilities.

The Supplemental Connected Transactions Agreement modifies the scope of the centralised services to include sharing the use and costs of headquarters and certain network support premises and related facilities such as air-conditioning, electricity and certain ancillary facilities. Costs of centralised services such as the management of large enterprise customers, network management center, business support center by the Company and sharing the use of headquarters, international gateways and certain other premises together with costs such as labor costs, depreciation of equipment and premises, daily expenses, costs relating to maintenance and research, are to be apportioned between China Telecommunications Corporation and the

Company per annum according to their respective proportional income or aggregate volume of inbound and outbound international calls, where appropriate.

For the year ended 31 December 2003, the Company's portion of the costs in respect of the provision of such services was RMB105 million.

### *The use of the international telecommunications facilities*

China Telecommunications Corporation has retained the assets associated with international telecommunications facilities, such as international gateways, undersea cables and satellite facilities, and has granted a licence to the Company to use such facilities. The Company has agreed to provide the necessary human resources responsible for the upkeep and maintenance with respect to the international telecommunications facilities. The Supplemental Connected Transactions Agreement amends the scope of international telecommunications facilities to include international land cables and related domestic extended portions. The Company and China Telecommunications Corporation agreed to apportion the costs associated with operating such assets pro rata according to the aggregate volume of the inbound international calls terminated by and outbound international calls originating from, the Company and China Telecommunications Corporation, respectively.

For the year ended 31 December 2003, the Company's portion of the costs in respect of the use of international telecommunications facilities was RMB264 million.

### Interconnection Agreement

In order to facilitate interconnection between subscribers within the Company's service regions and subscribers outside the service regions which are serviced by China Telecommunications Corporation, China Telecommunications Corporation and the Company entered into an interconnection settlement agreement (the "Interconnection Agreement"). The Interconnection Agreement does not provide for early termination or non-renewal by the China Telecommunications Corporation.

Pursuant to the Interconnection Agreement, the telephone operator terminating a telephone call made to its local network shall be entitled to receive from the operator from which the telephone call originated a fee prescribed by the MII from time to time, which is currently RMB0.06 per minute. The formula for settlement is based on the net volume of telephone calls originating from the Company to China Telecommunications Corporation or originating from China Telecommunications Corporation to the Company multiplied by the MII prescribed settlement fee.

The settlement is made between the Company and China Telecommunications Corporation on a monthly basis, with the operator who has originated more calls paying the net amount to the operator who has terminated more calls. Apart from an extension of term of agreement as described in the Supplemental Connected Transactions Agreement, the remaining terms and conditions of the original Interconnection Agreement remain unchanged.

For the year ended 31 December 2003, the net settlement payment made by the Company to China Telecommunications Corporation pursuant to the Interconnection Agreement was RMB432 million.

### Optic Fibers Leasing Agreement

Pursuant to the Optic Fibers Leasing Agreement, the Company agreed to lease the relevant parts of the inter-provincial transmission optic fibers within Shanghai municipality, Guangdong province, Jiangsu province and Zhejiang province from China Telecommunications Corporation.

The amount payable by the Company to China Telecommunications Corporation for the leasing of the inter-provincial transmission optic fibers is based on the depreciation charge for the optic fibers. In addition, the Company agreed to be responsible for the maintenance of these optic fibers within Shanghai municipality, Guangdong province, Jiangsu province and Zhejiang province. Apart from an extension of term of agreement as described in the Supplemental Connected Transactions Agreement, the remaining terms and conditions of the original Optic Fibers Leasing Agreement remain unchanged.

For the year ended 31 December 2003, the total amount paid by the Company to China Telecommunications Corporation with respect to optic fibers leasing was RMB91 million.

### PROVISIONS OF THE CONNECTED TRANSACTIONS AGREEMENT BETWEEN CHINA TELECOMMUNICATIONS CORPORATION AND TEN PROVINCIAL TELECOM COMPANIES

The telecom limited companies in Shanghai municipality, Guangdong province, Jiangsu province and Zhejiang province, being subsidiaries of the Company, (the "Four Provincial Telecom Limited Companies"), each entered into the connected transactions agreements mentioned below in October 2002 with certain subsidiaries of China Telecommunications Corporation respectively within the service areas of the Company (the "Provincial Subsisting Companies"). The Four Provincial Telecom Limited Companies and the Provincial Subsisting Companies also entered into respective supplemental connected transactions agreement on 26 October 2003 in connection with the said acquisition, each of which continues to be effective until 31 December 2005 and is automatically renewable for further periods of three years unless any of the Four Provincial Telecom Limited Companies provides three months' prior written notification to the respective Provincial Subsisting Company in the respective service area of its intention not to renew the agreements upon expiry of the current term.

Each of the Acquired Companies entered into the following connected transactions agreements with the respective Provincial Subsisting Company within its service areas. Such agreements are effective until 31 December 2005 and are automatically renewable for further periods of three years unless any of the Acquired Companies provides three months' prior written notification to the respective Provincial Subsisting Company in the respective service

area of its intention not to renew the agreements upon expiry of the current term.

### Engineering Framework Agreements

The Ten Provincial Telecom Limited Companies entered into engineering framework agreements (the "Engineering Framework Agreements") with the Provincial Subsisting Companies to govern the tendering for the right to provide the Ten Provincial Telecom Limited Companies with construction, design, equipment installation and testing services and/or to act as general contractors in relation to construction and supervision of engineering projects and other services commissioned by the Ten Provincial Telecom Limited Companies.

The charges payable for engineering related services rendered under the Engineering Framework Agreements shall be determined by reference to the market price or market rates as reflected by prices obtained through a tendering process. The Ten Provincial Telecom Limited Companies do not accord any priority to any of the Provincial Subsisting Companies to provide such services, and the tender may be awarded to an independent third party. However, if the terms of an offer from a Provincial Subsisting Company are at least as favourable as those offered by another tenderer, it is expected that the Ten Provincial Telecom Limited Companies would award the tender to the relevant Provincial Subsisting Company.

For the year ended 31 December 2003, the expenditure of the Four Provincial Telecom Limited Companies for engineering services was RMB3,493 million and the combined transaction amount with respect to the Ten Provincial Telecom Limited Companies was RMB5,280 million.

## Property Leasing Framework Agreements

### *Mutual leasing of properties*

Under the Property Leasing Framework Agreements between the Ten Provincial Telecom Limited Companies and the Provincial Subsisting Companies (the "Property Leasing Framework Agreements"), the Ten Provincial Telecom Limited Companies lease properties from the Provincial Subsisting Companies for use as its business premises, offices, equipment storage facilities and sites for network equipment. Under the Property Leasing Framework Agreements, the Ten Provincial Telecom Limited Companies also lease certain properties to the Provincial Subsisting Companies.

The rental charges in respect of each property are based on market rates, with reference to amounts stipulated by local price bureaus. Rental charges are payable monthly in arrears and subject to review every three years.

For the year ended 31 December 2003, the expenditure for the property leasing of the Four Provincial Telecom Limited Companies was RMB256 million and the combined transaction amount with respect to the Ten Provincial Telecom Limited Companies was RMB290 million. For the same period, expenditure of the Provincial Subsisting Companies in the service regions of the Four Provincial Telecom Limited Companies for the property leasing was RMB16 million and the combined transaction amount with respect to the Ten Provincial Telecom Limited Companies was RMB16 million.

## Properties Sub-Leasing Framework Agreements

The Provincial Subsisting Companies sub-let to the Ten Provincial Telecom Limited

Companies certain properties owned by and leased from independent third parties for use as offices, retail outlets, spare parts storage facilities and sites for network equipment (the "Third Party's Properties"). To formalise the arrangement, the Ten Provincial Telecom Limited Companies have entered into properties sub-leasing framework agreements (the "Properties Sub-Leasing Framework Agreements") with the Provincial Subsisting Companies agreeing to give the Ten Provincial Telecom Limited Companies an indemnity with respect to any claims or costs incurred in connection with any defect in the titles to any such Third Party's Properties.

The amounts payable by the Ten Provincial Telecom Limited Companies to the Provincial Subsisting Companies under the Properties Sub-Leasing Framework Agreements are the same as the amounts payable by the Provincial Subsisting Companies to the relevant third parties. The rental charges for the Third Party's Properties are based on market rates negotiated between the Provincial Subsisting Companies and the relevant third party on an arm's length basis.

For the year ended 31 December 2003, the expenditure of the Four Provincial Telecom Limited Companies in relation to properties sub-leasing was RMB187 million and the combined transaction amount with respect to the Ten Provincial Telecom Limited Companies was RMB247 million.

## IT Services Framework Agreements

The Ten Provincial Telecom Limited Companies entered into framework agreements with the Provincial Subsisting Companies pursuant to which the Provincial

## CONNECTED TRANSACTIONS

Subsisting Companies agreed to provide the Ten Provincial Telecom Limited Companies with certain information technology services such as office automation and software adjustment (the "IT Services Framework Agreements").

The Provincial Subsisting Companies are entitled to tender for the right to provide the Ten Provincial Telecom Limited Companies with information technology services. The charges payable for such information technology services under the IT Services Framework Agreements shall be determined by reference to market rates as reflected by prices obtained through a tendering process. The Ten Provincial Telecom Limited Companies do not accord any priority to the Provincial Subsisting Companies to provide such services, and the tender may be awarded to an independent third party. However, if the terms of an offer from a Provincial Subsisting Company are at least as favourable as those offered by another tenderer, the Company may award the tender to the relevant Provincial Subsisting Company.

For the year ended 31 December 2003, the expenditure of the Four Provincial Telecom Limited Companies for information technology services was RMB100 million and the combined transaction amount with respect to the Ten Provincial Telecom Limited Companies was RMB130 million.

### Equipment Procurement Services Framework Agreements

Pursuant to the equipment procurement framework agreements entered into between the Ten Provincial Telecom Limited Companies and the Provincial Subsisting Companies (the "Equipment Procurement

Framework Agreements"), the Provincial Subsisting Companies agreed to provide comprehensive procurement services, including the management of tenders, verification of technical specifications and installation services.

Pursuant to the Equipment Procurement Framework Agreements, the Ten Provincial Telecom Limited Companies may request that the Provincial Subsisting Companies act as their agents in procuring foreign and domestic telecommunications equipment and other domestic non-telecommunications materials.

Commission charges for these services are calculated at the maximum rate of:

- (1) 1% of the contract value, in the case of imported telecommunications equipment; or
- (2) 1.8% of the contract value, in the case of domestic telecommunications equipment and other domestic non-telecommunications materials.

For the year ended 31 December 2003, the expenditure of the Four Provincial Telecom Limited Companies for equipment procurement services was RMB171 million and the combined transaction amount with respect to the Ten Provincial Telecom Limited Companies was RMB213 million.

### Community Services Framework Agreements

China Telecommunications Corporation, through the Provincial Subsisting Companies, provides certain cultural, educational, property management, vehicles, health and medical services, hotel

and conference, community and sanitary services to the Ten Provincial Telecom Limited Companies. The arrangements are set out in the community services framework agreements between the Ten Provincial Telecom Limited Companies and the Provincial Subsisting Companies (the "Community Services Framework Agreements"). If the Ten Provincial Telecom Limited Companies cannot, without incurring significant additional costs and expenses, obtain these services from a third party after such termination, the Provincial Subsisting Companies cannot terminate the provision of such services.

Although the Community Services Framework Agreements are on a non-exclusive basis, the following conditions are to apply:

- (1) the Ten Provincial Telecom Limited Companies may give priority to the Provincial Subsisting Companies in using the services, provided that the terms and conditions offered by independent third parties to the Company are no more favourable than those offered by the Provincial Subsisting Companies for the same services;
- (2) in return, the Provincial Subsisting Limited Companies have undertaken to the Ten Provincial Telecom Limited Companies that the Provincial Subsisting Companies shall not provide services to the Company on terms which are less favourable than those offered by them to third parties;
- (3) the Provincial Subsisting Companies are only entitled to provide the relevant services to third parties provided that it would not affect the provision of services to the Ten

Provincial Telecom Limited Companies under the Community Services Framework Agreements; and

- (4) if the Provincial Subsisting Companies cannot satisfy the needs of the Ten Provincial Telecom Limited Companies for the services to be provided under the Community Services Framework Agreements or the terms offered by independent third parties are more favourable, the Ten Provincial Telecom Limited Companies may obtain such services from independent third parties.

The Community Services Framework Agreements stipulate that the above community services be provided at:

- (1) the government prescribed price;
- (2) where there is no government-prescribed price but where there is a government-guided price, the government-guided price applies;
- (3) where there is neither a government-prescribed price nor a government-guided price, the market price applies. The market price is defined as the price at which the same type of services are provided by independent third parties in the ordinary course of business; or
- (4) where none of the above is applicable, the price is to be agreed between the relevant parties for the provision of the above services, which shall be the reasonable cost incurred in providing the same plus a reasonable marginal profit (for this purpose, reasonable costs mean the costs confirmed by both parties after negotiations).

## CONNECTED TRANSACTIONS

For the year ended 31 December 2003, the expenditure of the Four Provincial Telecom Limited Companies for community services was RMB1,403 million and the combined transaction amount with respect to the Ten Provincial Telecom Limited Companies was RMB1,850 million.

### **Ancillary Telecommunications Services Framework Agreements**

The Provincial Subsisting Companies provide certain repair services to the Ten Provincial Telecom Limited Companies, such as the repair of certain telecommunications equipments, the maintenance of the fire prevention equipments and telephone booths and other customers services (the "Ancillary Telecommunications Services") on a non-exclusive basis.

Under the framework agreements between the Ten Provincial Telecom Limited Companies and the Provincial Subsisting Companies for the provision of Ancillary Telecommunications Services (the "Ancillary Telecommunications Services Framework Agreements"), the Provincial Subsisting Companies agreed to provide Ancillary Telecommunications Services to the Ten Provincial Telecom Limited Companies. However, if the Ten Provincial Telecom Limited Companies cannot, without incurring significant additional costs and expenses, obtain these services from a third party, the Provincial Subsisting Companies cannot terminate the provision of such services.

The Ancillary Telecommunications Services Framework Agreements contain the same conditions as set out in (1) to (4) in the second paragraph under the heading "Community Services Framework Agreements" above.

The Ancillary Telecommunications Services under the Ancillary Telecommunications Services Framework Agreements are provided

in accordance with the same pricing policy as that of the Community Services Framework Agreements.

For the year ended 31 December 2003, the expenditure of the Company in the Four Provincial Telecom Limited Companies for Ancillary Telecommunications Services was RMB751 million and the combined transaction amount with respect to the Ten Provincial Telecom Limited Companies was RMB986 million.

### **Special Communications Network Leasing and Equipment Services Agreements**

The Provincial Subsisting Companies continue to be responsible for providing emergency network services and network services dedicated to the Chinese government (the "Special Communications Services"). The Provincial Subsisting Companies agreed to lease the infrastructure in connection with the Special Communications Services from the Four Provincial Telecom Limited Companies at a fee prescribed by the MII. On the other hand, the Four Provincial Telecom Limited Companies agreed to provide the necessary human resources to maintain and operate the Special Communications Services within the service regions in return for China Telecommunications Corporation reimbursing the Four Provincial Telecom Limited Companies its actual costs, including the costs for network operations and support, general and administrative expenses and certain other operating expenses.

For the year ended 31 December 2003, the Four Provincial Telecom Limited Companies was paid RMB56 million for Special Communications Services provided to the Provincial Subsisting Companies.