

21 November 2024

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

Dear Sirs,

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS AND PROPOSED NEW ANNUAL CAPS

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the renewal of the Non-exempt Continuing Connected Transactions which includes (i) the Engineering Framework Agreement, (ii) the Ancillary Telecommunications Services Framework Agreement, (iii) the Operation Support Services Framework Agreement, (iv) the IT Application Services Framework Agreement; and (v) the Supplies Procurement Services Framework Agreement, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company dated 21 November 2024 (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise defined.

As at the Latest Practicable Date, China Telecom is a substantial shareholder of the Company holding approximately 48.99% 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 2024 Supplemental Agreements (together with the proposed New Annual Caps) constitute continuing connected transactions of the Company. 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.

China Telecom, being a connected person to the Company with material interests which holds approximately 48.99% of the issued share capital of the Company as at the Latest Practicable Date, 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.

As stated in the Letter from the Board, two Directors of the Company, Mr. Luan Xiaowei and Mr. Yan Dong hold positions at China Telecom and/or its associates, therefore they had abstained from voting at the resolutions of the Board approving the continuing connected transactions under the 2024 Supplemental Agreements. The Company confirms that, save as disclosed above, none of other Directors has any material interests in the continuing connected transactions under the 2024 Supplemental Agreements.

INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising all of the independent non-executive Directors (namely, Mr. Siu Wai Keung, Francis, Mr. Lv Tingjie, Mr. Wang Qi and Mr. Wang Chung) has been formed to advise the Independent Shareholders on the Non-exempt Continuing Connected Transactions (together with the proposed New Annual Caps thereof).

We have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders as to whether the Non-exempt Continuing Connected Transactions have been carried out in the ordinary and usual course of business of the Group, on normal commercial terms or better and in the interests of the Company and the Shareholders as a whole, and whether the terms of the Non-exempt Continuing Connected Transactions and the proposed New Annual Caps thereof are fair and reasonable so far as the Independent Shareholders are concerned.

As at the Latest Practicable Date, we were not connected with the Directors, chief executive and substantial shareholders of the Company or any of its subsidiaries or their respective associates and are therefore considered suitable to give independent advice to the Independent Board Committee and the Independent Shareholders. We have acted as the independent financial adviser to the Company regarding the renewal of continuing connected transactions and major transactions under the 2024 Financial Services Framework Agreement, details of which were set out in the circular of the Company dated 16 August 2024 (the “**Previous Transaction**”). Save for the Previous Transaction and this transaction, we had not (i) acted as the independent financial adviser or financial adviser to the Company for any other transactions; and (ii) provided any other services to the Company in the last two years. Apart from normal professional fees payable to us by the Company in connection with our appointment as independent financial adviser in relation to the Previous Transaction and this transaction, no arrangement exists whereby we have received or will receive any fees, benefits or interests from the Company or the Directors, chief executive and substantial shareholders of the Company or any of its subsidiaries or their respective associates or any other parties that could reasonably be regarded as relevant to our independence as at the Latest Practicable Date. Accordingly, we consider that we are independent pursuant to Rule 13.84 of the Listing Rules.

BASIS OF OUR OPINION

In formulating our opinion, we have relied on the information, statements, opinions and representations provided to us by the Company, its representatives, its management (the “**Management**”) and the Directors for which they are solely and wholly responsible for and we have assumed that all such information, statements, opinions and representations contained or referred to in the Circular were true, accurate and complete at the time they were made and continue to be true, accurate and complete as at the date of the Circular. We have reviewed documents including, among other things, (i) the Engineering Framework Agreement; (ii) the Ancillary Telecommunications Services Framework Agreement; (iii) the Operation Support Services Framework Agreement; (iv) the IT Application Services Framework Agreement; (v) the Supplies Procurement Services Framework Agreement; (vi) the annual reports of the Company for the year ended 31 December 2021 (the “**2021 Annual Report**”), the year ended 31 December 2022 (the “**2022 Annual Report**”) and the year ended 31 December 2023 (the “**2023 Annual Report**”) and the interim report of the Company for the six months ended 30 June 2024 (the “**2024 Interim Report**”); (vii) the annual reports of China Telecom Corporation (together with its subsidiaries, known as the “**China Telecom Corporation Group**”) for the years ended 31 December 2021, 2022 and 2023 and the interim report of China Telecom Corporation for the six months ended 30 June 2024; and (viii) the Circular and the information as set out in the Circular.

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

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

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation in respect of the Non-exempt Continuing Connected Transactions (together with the proposed New Annual Caps thereof), we have considered the following principal factors and reasons:

Information of the Company

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

Set out below is certain audited financial information of the Group for the three years ended 31 December 2023 as extracted from the 2021 Annual Report, 2022 Annual Report and 2023 Annual Report and certain unaudited financial information of the Group for the six months ended 30 June 2023 and 2024 as extracted from the 2024 Interim Report:

	For the year ended 31 December			For the six months ended 30 June	
	2021 (RMB million) (audited)	2022 (RMB million) (audited) (restated)	2023 (RMB million) (audited)	2023 (RMB million) (unaudited)	2024 (RMB million) (unaudited)
Total revenue	133,991	140,748	148,615	73,170	74,412
— Revenue from China					
Telecom Group	46,047	50,268	54,399	25,823	27,082
— Revenue from domestic non-telecom operator customers and domestic telecommunications operator customers other than China					
Telecom Group	85,202	87,482	90,760	45,777	45,351
— Revenue from overseas customers	2,742	2,998	3,456	1,570	1,979
Profit for the year/period	<u>3,186</u>	<u>3,481</u>	<u>3,732</u>	<u>2,112</u>	<u>2,198</u>

The total revenue of the Group increased from approximately RMB134.0 billion for the year ended 31 December 2021 to approximately RMB148.6 billion for the year ended 31 December 2023, in which (i) revenue from China Telecom Group increased from approximately RMB46.0

billion for the year ended 31 December 2021 to approximately RMB54.4 billion for the year ended 31 December 2023; (ii) revenue from domestic non-telecom operator customers and domestic telecommunications operator customers other than China Telecom Group increased from approximately RMB85.2 billion for the year ended 31 December 2021 to approximately RMB90.8 billion for the year ended 31 December 2023; and (iii) revenue from overseas customers increased from approximately RMB2.7 billion for the year ended 31 December 2021 to approximately RMB3.5 billion for the year ended 31 December 2023. As mentioned in the 2023 Annual Report, the increase in the total revenue of the Group for the three years ended 31 December 2023 was due to (a) in relation to the domestic telecommunications operator market, the Group seized opportunities of AI computing power construction, industrial digitalization, 5G+ and cloud-network construction and further developed the traditional CAPEX businesses; endeavoured to increase OPEX market share by penetrating the market opportunities and fully supported operators' demand for industrial digitalization; (b) in relation to the domestic non-operator market, the Group seized the development opportunities of the digital transformation across industries and focused on strategic emerging industries such as digital infrastructure, smart city, green and low-carbon, emergency management and security; and (c) in relation to the overseas market, the Group strengthened synergistic expansion and ecological cooperation with "go broad" Chinese enterprises and replicated its domestic advantages and capabilities to provide digital infrastructure construction, new energy construction and smart services.

The total revenue of the Group increased from approximately RMB73.2 billion for the six months ended 30 June 2023 to approximately RMB74.4 billion for the six months ended 30 June 2024, in which (i) revenue from China Telecom Group increased from approximately RMB25.8 billion for the six months ended 30 June 2023 to approximately RMB27.1 billion for the six months ended 30 June 2024; (ii) revenue from domestic non-telecom operator customers and domestic telecommunications operator customers other than China Telecom Group decreased from approximately RMB45.8 billion for the six months ended 30 June 2023 to approximately RMB45.3 billion for the six months ended 30 June 2024; and (iii) revenue from overseas customers increased from approximately RMB1.6 billion for the six months ended 30 June 2023 to approximately RMB2.0 billion for the six months ended 30 June 2024. As mentioned in the 2024 Interim Report, the increase in the total revenue of the Group for the six months ended 30 June 2024 was due to (a) in relation to the domestic telecommunications operator market, the Group overcame the difficulties brought by the declining network investment of operators, and actively served the new business needs of domestic telecommunications operators, such as computing power network construction, 5G network construction and optimization, green transformation and industrial digitalization, assisting its customers to fortify their network quality and providing solid support for its customers to achieve high-quality development; (b) in relation to the domestic non-operator market, the Group continued to advance on the expansion of domestic non-operator market by leveraging its integrated service advantages, focusing on strategic emerging industries represented by digital infrastructure, green and low-carbon, smart city, and emergency management and security, and adhering to leading through consultation and design as well as empowerment by digitalization advantages; and (c) in relation to the overseas market, the Group provided its customers with digital infrastructure construction, new energy services, smart products and services as well as industry informatization solutions and secured multiple important projects.

The profit for the year of the Group increased from approximately RMB3.2 billion for the year ended 31 December 2021 to approximately RMB3.7 billion for the year ended 31 December 2023. The profit for the period of the Group increased from approximately RMB2.1 billion for the six months ended 30 June 2023 to approximately RMB2.2 billion for the six months ended 30 June 2024. We noted from the 2022 Annual Report, 2023 Annual Report and 2024 Interim Report that the increase in the Group's profit was mainly due to increase in revenue as mentioned above and the increase in gross profit, which was due to the reasons that the Group focused on improving quality and efficiency while balancing its development scale and guided the Group's subsidiaries to strictly select and develop high-margin projects through appraisal. At the same time, the Group continuously strengthened project management and cost control and strived to enhance the value creation capability of its business.

	As at 31 December			As at 30 June
	2021	2022	2023	2024
	(RMB million)	(RMB million)	(RMB million)	(RMB million)
	(audited)	(audited)	(audited)	(unaudited)
	(restated)	(restated)		
Total assets	100,032	110,269	121,790	128,202
Total liabilities	60,422	68,645	78,122	83,354
Equity attributable to equity shareholders of the Company	38,407	40,361	42,577	43,684

The Group's total assets increased from approximately RMB100.0 billion as at 31 December 2021 to approximately RMB110.3 billion as at 31 December 2022 and approximately RMB121.8 billion as at 31 December 2023 primarily due to increases in time deposits, cash and cash equivalents and accounts and bills receivable. The Group's total assets increased from approximately RMB121.8 billion as at 31 December 2023 to approximately RMB128.2 billion as at 30 June 2024 primarily due to increases in accounts and bills receivable and time deposits. The Group's total liabilities increased from approximately RMB60.4 billion as at 31 December 2021 to approximately RMB68.6 billion as at 31 December 2022 and approximately RMB78.1 billion as at 31 December 2023 primarily due to increases in accounts and bills payable, accrued expenses and other payables. The Group's total liabilities increased from approximately RMB78.1 billion as at 31 December 2023 to approximately RMB83.4 billion as at 30 June 2024 primarily due to increases in accounts and bills payable, accrued expenses and other payables. The equity attributable to equity shareholders of the Company increased from approximately RMB38.4 billion as at 31 December 2021 to approximately RMB40.4 billion as at 31 December 2022 and approximately RMB42.6 billion as at 31 December 2023 and approximately RMB43.7 billion as at 30 June 2024.

Information of China Telecom

As stated in the Letter from the Board, China Telecom is a state-owned enterprise, and its principal business is integrated information services including mobile communications, Internet access and application, wireline communications, satellite communications and ICT integration. As at the Latest Practicable Date, China Telecom held approximately 48.99% of the total issued share capital of the Company.

Background of the Non-exempt Continuing Connected Transactions

The 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 2018 Supplemental Agreements were further renewed by way of the 2021 Supplemental Agreements. 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 2021 Agreements were approved by the Independent Shareholders at the extraordinary general meeting of the Company convened on 22 December 2021.

As each of the 2021 Agreements will expire on 31 December 2024, the Company entered into the 2024 Supplemental Agreements with China Telecom on 16 October 2024 to, among other things, extend the term for a further three years from 1 January 2025 to 31 December 2027. Other key terms of each of the 2021 Agreements remain unchanged.

According to internal estimates and historical transaction amounts, the Directors also proposed the New Annual Caps for the transactions under the 2015 Agreements and their supplemental agreements.

Reasons for and benefits of Non-exempt Continuing Connected Transactions

As stated in the Letter from the Board, 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.

As stated in the Letter from the Board, 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 2024 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 and in the interests of the Company and the Shareholders as a whole.

Having considered that the Non-exempt Continuing Connected Transactions allow the Group to capture the business opportunity and strengthen its strategic relationship with China Telecom Group, we are of the view that the Non-exempt Continuing Connected Transactions have been entered into in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

Details of the Non-exempt Continuing Connected Transactions contemplated under the 2021 Agreements and the 2024 Supplemental Agreements are set out below:

1. *Engineering Framework Agreement*

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

Pursuant to the Engineering Framework Agreement, the Company agreed to provide certain engineering related services, including 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.

(b) *Pricing policies of the Engineering Framework Agreement*

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 related laws and regulations. In determining the market price, the business and financial departments 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 at least three comparable transactions of the same or similar type of services provided to China Telecom

Group by other service providers in the market, which are primarily obtained from public bidding websites and bidding result announcements; (3) prices of at least three comparable transactions 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.

In assessing the terms of the new 2024 Supplemental Agreement in respect of the Engineering Framework Agreement, we noted that, save for the extension of the term and the change in contact information of the parties, all other terms and conditions of the new 2024 Supplemental Agreement remain the same as those of the existing 2021 Agreements. As advised by the Management, most of past specific contracts were entered into between the Group and China Telecom Group through tender process. We have discussed with the Management and understood that the Group assessed cost of services, reviewed past bidding prices made to China Telecom Group and collected from market latest price information in respect of same or similar type of services before it determined the final bidding price for each tender process. We have reviewed (i) the Company's Internal Measures on Bidding Management (the "**Internal Bidding Management Measures**"), which sets out its internal bidding approval process; and (ii) sample records of past internal approvals for certain specific transactions entered into by the Group under the Engineering Framework Agreement covering each of the two years ended 31 December 2023 and the period starting from 1 January 2024 and up to the Latest Practicable Date (the "**Review Period**").

Based on our review, discussion with the Management and further confirmation by the Management, past specific transactions entered into between the Group and China Telecom Group through tender process under the Engineering Framework Agreement were in compliance with the Internal Bidding Management Measures. For those past specific contracts entered into between the Group and China Telecom Group under the Engineering Framework Agreement through tender process or market price, we have reviewed 20 sample contracts (the "**Engineering Sample Contracts**") and their internal approval records over the Review Period, on a non-exhaustive and random basis, previously entered into (a) between the Group and China Telecom Group under the Engineering Framework Agreement; and (b) between the Group and independent third parties in respect of provision of engineering related services by the Group. As such contracts included different types of engineering related services under the Engineering Framework Agreement covering the entire Review Period, we consider that the current sample contracts we have chosen are sufficient and representative.

We noted that save for the fee quotes, other principal terms specified in the Engineering Sample Contracts entered into with China Telecom Group by the Group were no less favorable to the Company than those specified in the Engineering Sample Contracts entered into with independent third parties by the Group.

Accordingly, we further discussed with the Management and understood that as each transaction under the Engineering Framework Agreement involved highly customized combination of services specifically required by each certain customer, the fee quotes offered by the Group in different transactions could substantially differ as the bidding prices are project specific depending on various factors such as technical requirements, estimated expenses, project execution standards etc. Based on the tender documents submitted by the Company to China Telecom Group and other independent third parties we have collected randomly from the Company, we observed the Company normally bid those engineering service projects using a discount to a benchmark ceiling price set by the tenderee. According to the Management, for the case of tender invited by the China Telecom Group, such benchmark ceiling price represented the estimated project price arrived at after formal internal discussions by experts within the China Telecom Group.

For sample contracts based on tender process, we have compared the tender prices in the form of discount to the benchmark ceiling prices of the Engineering Framework Agreement and noted that such pricing terms were no less favorable to the Group than those with independent third parties. In addition, the price and the tender and bidding process are conducted in accordance with the Bidding Law of the PRC and other applicable PRC laws, rules and regulations. The Company also implemented the Internal Bidding Management Measures to manage the tender and bidding processes. The tender and bidding process is an open and transparent process based on market participation and the tender and bidding price under such process reflects the applicable price available in the open market. For sample contracts between the Group and China Telecom Group based on market price, we have compared the unit prices for labour or equipment of such sample contracts with those between the Group and independent third parties and noted that such pricing terms were no less favorable to the Group than those offered to independent third parties.

The Management confirmed that the Company determined the pricing terms for each specific transaction thereunder strictly in accordance with the corresponding internal procedures and consideration factors as mentioned above and therefore was of the view that the pricing basis under the Engineering Framework Agreement was on commercial terms and was fair and reasonable.

We have also reviewed (i) the *Administrative Measure of Connected Transaction of China Communications Services Corporation Limited* (the “**Connected Transactions Administrative Measures**”), which specified the responsibilities of each involved department in managing connected transactions of the Company and set out that connected transactions of the Company must conform to the relevant pricing policies as stated in the corresponding framework agreements; (ii) the *Internal Control Guidance of China Communications Services*

Corporation Limited (the “**Internal Control Guidance**”) which sets out the Company’s internal control workflow steps and standard operating procedures including but not limited to contract management, budget management, connected transactions, internal bidding, information disclosure etc; and (iii) sample records of past internal approvals for certain specific transactions entered into by the Group under the Engineering Framework Agreement covering each of the Review Period, and based on our review, discussion with the Management and further confirmation by the Company, past specific transactions entered into between the Group and China Telecom Group under the Engineering Framework Agreement were in compliance with the Connected Transactions Administrative Measures and the Internal Control Guidance which, as advised by the Management, were set to ensure that the Company conformed to the relevant pricing policies of each connected transaction framework agreement in entering into each specific connected transaction.

For transactions made under the Engineering Framework Agreement, we also examined other independent information by reviewing the letters issued by the auditors of the Company (the “**Auditors**”) to the Board and noted that the Auditors had performed procedures in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) and with reference to Practice Note 740 (Revised) and confirmed that they had performed sample checks on the continuing connected transactions entered into between the Group and China Telecom Group during the years ended 31 December 2021, 2022 and 2023 and had not found that the continuing connected transactions were not entered into, in all material respects, in accordance with the pricing policies as stated in the relevant agreements.

Based on the above, we consider that the pricing basis under the Engineering Framework Agreement is on normal commercial terms or better and is fair and reasonable so far as the Independent Shareholders are concerned.

(c) *Historical amounts and the New Annual Caps*

The table below shows the historical transaction amounts, the Existing Annual Caps and the New Annual Caps under the Engineering Framework Agreement. As confirmed by the Management, none of the Existing Annual Caps under the Engineering Framework Agreement had been exceeded as at the Latest Practicable Date:

Unit : RMB million

Transactions	Year ended 31 December				For the six months		Year ending 31 December		
	2022		2023		ended 30 June 2024		2025	2026	2027
Engineering Framework Agreement	Existing Annual Cap	Actual amounts	Existing Annual Cap	Actual amounts	Existing Annual Cap	Actual amounts	New Annual Cap	New Annual Cap	New Annual Cap
Revenue	24,000	18,934	26,000	20,743	28,000	10,860	30,000	32,000	34,000
% of utilization		78.9%		79.8%		38.8%			
% of increase			8.3%		7.7%		7.1%	6.7%	6.3%

As shown from the table above, we noted that the actual amounts for the service charges received by the Company from China Telecom Group under the Engineering Framework Agreement for the two years ended 31 December 2023 were approximately RMB18,934 million and RMB20,743 million, respectively, representing a utilization rate of approximately 78.9% and 79.8%, respectively. 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 2024 was approximately RMB10,860 million, representing a utilization rate of approximately 38.8%.

We also noted that there would be an approximately 7.1% increase in the 2025 New Annual Cap as compared to the 2024 Existing Annual Cap and approximately 6.7% increase in the 2026 New Annual Cap as compared to the 2025 New Annual Cap and approximately 6.3% increase in the 2027 New Annual Cap as compared to the 2026 New Annual Cap.

As stated in the Letter from the Board, in determining the New Annual Caps, the Directors have considered (1) the historical annual transaction amounts for 2022 and 2023, and the estimated annual transaction amount for 2024 under the Engineering Framework Agreement. The actual amounts for the service charges received by the Company from China Telecom Group under the Engineering Framework Agreement had increased by 9.6% from 2022 to 2023; (2) the demands for engineering services are subject to seasonal fluctuations to a certain extent, where revenue derived from the Engineering Framework Agreement in the second half of the year were higher than that of the first half of the year during the past two years; (3) the expected increasing demand from China Telecom Group for engineering services in the coming three years. China Telecom Group persists in steady and precise investment strategy to better adapt to business development. Its investment structure continues to tilt towards new types of infrastructure and strategic emerging industries, such as computing power, cloud, connectivity. China Telecom Group strengthens support and assurance for strategic emerging businesses, and deploys computing power infrastructure appropriately in advance, which will drive the growth of engineering services related transactions for the coming three years; (4) the utilization rates of the Existing Annual Caps for engineering services provided by the Group were relatively high; and (5) a buffer of approximately 10% is built in according to the past customary practices of the Company, which allows the Group to be flexible in case of unforeseen events in the future and caters for the possible inflations in the coming three years.

In assessing the reasonableness of the New Annual Caps for the Engineering Framework Agreement, in addition to the foregoing factors considered by the Directors, we have taken into consideration the following:

- (i) we noted that the historical utilization rates of the 2022, 2023 and 2024 Existing Annual Caps was approximately 78.9%, 79.8% and 38.8% respectively. We noted that the increase of the proposed New Annual Caps for the three years ending 31 December 2025, 2026 and 2027 of RMB2,000 million in each year is the same as the historical increase of the Existing Annual Caps of RMB2,000 million in each

year for 2023 and 2024 respectively. In addition, the actual amounts for the service charges received by the Company from China Telecom Group under the Engineering Framework Agreement had increased by 9.6% from 2022 to 2023, which is higher than the compound annual growth rate of the New Annual Caps of 6.7% from 2024 to 2027;

- (ii) we have discussed with the Management and understood that the Non-exempt Continuing Connected Transactions were generally subject to seasonality as they were 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 part of our due diligence, we prepared a half-year breakdown of historical actual transaction amounts for the two years ended 31 December 2023 in respect of the Non-exempt Continuing Connected Transactions (the “**Historical Transaction Breakdown**”) and noted that actual transaction amounts under the Engineering Framework Agreement for each of the second half of 2022 and 2023 represented approximately 58.3% and 54.1% of the corresponding total actual annual transaction amount, respectively. Thus, the estimated transaction amount for the second half of 2024 is expected to be higher than the actual transaction amount for the first half of 2024 under the Engineering Framework Agreement due to the seasonality;
- (iii) we noted from an article dated 27 February 2023 published on the official website of the Central People’s Government of the People’s Republic of China (https://www.gov.cn/zhengce/2023-02/27/content_5743484.htm), the “Overall plan for the construction of digital China” (《數字中國建設整體佈局規劃》) (the “**Digitalisation Plan**”), which was published by the Central Committee of the Communist Party of China and the State Council, that the PRC Government aims to accelerate the coordinated construction of 5G networks and gigabit broadband networks, promote the large-scale deployment and application of IPv6, advance the comprehensive development of the mobile Internet of Things, enhance the overall level of application infrastructure and strengthen the digital and intelligent transformation of traditional infrastructure facilities. It is expected that significant progress will be achieved in the construction of digital China by 2025 and significant achievements will be made in the construction of digital China with the level of digital development entering the forefront of the world by 2035. In addition, the release of the Action Plan for the High Quality Development of Computing Infrastructure (《算力基礎設施高品質發展行動計畫》) in October 2023 and the Three-year Action Plan for “Data Elements x” (2024–2026) (《“數據要素x”三年行動計畫(2024–2026年)》) in December 2023 (collectively known as the “**Action Plans**”) by the PRC government aims to vigorously promote the building of modern industrial systems, actively cultivate emerging industries and future industries, and further promote the innovative development of digital economy. According to the Development Report of Digital China (2023) (《數字中國發展報告(2023年)》) (the “**Digital Report**”) published by the National Data Administration in June 2024, digital development in

China will further improve in terms of quality and speed and the deep integration of digital technology and data elements has become a new driving force for the growth of the digital economy; and

- (iv) according to the 2023 annual report of China Telecom Corporation, in order to support the construction of 5G network at scale and strengthen the support and assurance for strategic emerging businesses, China Telecom Corporation increased the investment in cloud-network integrated digital information infrastructure, proactively grasped the development trends of AI and stepped up the investment and building of intelligent computing capabilities in 2023. According to the 2022 and 2023 annual reports of China Telecom Corporation, the capital expenditure of China Telecom Corporation Group increased from approximately RMB92,528 million for the year ended 31 December 2022 to approximately RMB98,838 million for the year ended 31 December 2023, representing an increase of approximately 6.8% year-on-year. According to the 2024 interim report of China Telecom Corporation, the capital expenditure of China Telecom Corporation Group amounted to approximately RMB47,222 million for the six months ended 30 June 2024, representing an increase of approximately 13.5% over the same period in the previous year.

Given that (1) the Company was ranked 1429th in Fortune 2000 in 2024 and was ranked 4th place in “China Software 100” for three consecutive years as of 2023; (2) with its “CAPEX+OPEX+Smart Applications” strategy, the Company has uniquely positioned itself within the domestic telecommunications operator supporting market and actively address emerging business needs such as computing power network construction, 5G network construction and optimization and industrial digitalization; (3) the Company continuously invests in technological research and development to improve its unique integrated solution capabilities, with research and development expenses totalling over RMB12.8 billion from 2022 to first half of 2024 in the fields of digital infrastructure, smart city, green and low-carbon, emergency management, security and artificial intelligence; and (4) leveraging over years of collaboration with China Telecom Group, the Company has developed a deep understanding of its network characteristics and business requirements, the Group has clear business advantages over other third-party service providers in the industry and can meet the future demand of China Telecom Group. In addition, the Group will capture the opportunities brought by the increase in capital expenditure by telecommunication operators, and fully support the digital information infrastructure and cloud infrastructure upgrade and transformation. Under the Digitalisation Plan, the Action Plans and the Digital Report, it is expected that China Telecom Group will upgrade its 5G network, digital information infrastructure, AI and cloud infrastructure and networks, and so both the capital expenditure of China Telecom Group and the transactions under the Engineering Framework Agreement may increase for the two years ending 31 December 2027.

Taking into the facts and reasons discussed above as well as the historical high utilization rates of the Existing Annual Caps, we consider that it is reasonable for the Company to increase the caps during the three years ending 31 December 2027 and therefore the New Annual Caps under the Engineering Framework Agreement are fair and reasonable so far as the Independent Shareholders are concerned.

2. *Ancillary Telecommunications Services Framework Agreement*

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

Pursuant to the Ancillary Telecommunications Services Framework Agreement, the Company agreed to provide to China Telecom Group certain ancillary telecommunications services including 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.

(b) *Pricing policies of the Ancillary Telecommunications Services Framework Agreement*

Pursuant to the Ancillary Telecommunications Services Framework Agreement, the pricing policies shall be provided at:

- (1) market price. In determining the market price, the business and financial departments 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 at least three comparable transactions of the same or similar type of services provided to China Telecom Group by other service providers in the market, which are primarily obtained from public bidding websites and bidding result announcements; (iii) prices of at least three comparable transactions of the same or similar type of services provided to China Telecom Group and independent third parties previously by the Company;

- (2) 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 departments 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.

Furthermore, 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.

In assessing the terms of the new 2024 Supplemental Agreement in respect of the Ancillary Telecommunications Services Framework Agreement, we noted that, save for the extension of the term and the change in contact information of the parties, all other terms and conditions of the new 2024 Supplemental Agreement remain the same as those of the existing 2021 Agreements. It is stated in the Ancillary Telecommunications Services Framework Agreement that the pricing of the transactions thereunder was determined based on either market price or agreed price between the two parties (cost-plus approach). Based on our discussion with the Management, we understood that almost all of the contracts entered into between the Group and China Telecom Group historically under the Ancillary Telecommunications Services Framework Agreement were made through market price and the Company rarely used cost-plus approach to determine the pricing of the ancillary telecommunications services during the Review Period as there were rare circumstances where market price was absent or could not be determined. In light of the considerable number of market participants providing the relevant services, the Company did not encounter significant difficulty in obtaining price quotations of same or similar services or products provided by independent third parties as reference for determining market rates.

In addition, we have reviewed the (i) the Ancillary Telecommunications Services Framework Agreement entered into between the Company and China Telecom; and (ii) with respect to past specific contracts entered into between the Group and China Telecom Group based on market price under the Ancillary Telecommunication Services Framework Agreement, we have reviewed 21 sample contracts (the “**Ancillary Sample Contracts**”) and

their internal approval records over the Review Period, on a non-exhaustive and random basis, previously entered into (a) between the Group and China Telecom Group under the Ancillary Telecommunication Services Framework Agreement; and (b) between the Group and independent third parties in respect of provision of ancillary telecommunication services by the Group. As such contracts included different types of ancillary telecommunications services under the Ancillary Telecommunications Services Framework Agreement covering the entire Review Period, we consider that the current sample contracts we have chosen are sufficient and representative.

We noted that save for the fee quotes, other principal terms specified in the Ancillary Sample Contracts entered into with China Telecom Group by the Group were no less favorable to the Company than those specified in the Ancillary Sample Contracts entered into with independent third parties by the Group. Accordingly, we further discussed with the Management and understood that as each transaction under the Ancillary Telecommunication Services Framework Agreement involved highly customized combination of services specifically required by each certain customer, the fee quotes offered by the Group in different transaction could substantially differ. The fee quotes were mainly construed as one lump sum in the contracts and one need to calculate the unit prices of labour or equipment for comparison, which can only be calculated by dividing the respective contract sum by the total number of man-hours to be spent/number of equipment to be purchased or found directly in the appendix thereto. We have compared the unit prices for labour or equipment of the Ancillary Sample Contracts between the Group and China Telecom Group with those between the Group and independent third parties and noted that such pricing terms were no less favorable to the Group than those offered to independent third parties.

In the rare circumstances that the Group could not obtain a market price or historical price of the same or similar services, we understood from the Management that the Company and China Telecom Group would determine the pricing terms to such transactions by reference to (i) the actual cost of service including but not limited to equipment, accessories, salary and depreciation; plus (ii) a reasonable profit margin which varies depending on the type of services offered. Such circumstances would only occur if the ancillary telecommunications services provided by the Group is so uniquely tailored that there are no precedent transactions of similar kind and there would be no market quotations considered comparable. Although the margin level is not fixed in the Ancillary Telecommunication Services Framework Agreement for transactions contemplated thereunder, we understood from the Management that the Group would calculate a reasonable margin by averaging the profit margins of comparable companies engaging in provision of similar services in the relevant industry obtained from their respective most recent financial statements. We have reviewed one sample contract entered into between the Group and the China Telecom Group based on the cost-plus approach under the Ancillary Telecommunication Services Framework Agreement and their internal approval records over the Review Period and found that the profit margin adopted was within the range of profit margins of comparable companies engaging in provision of similar services. On this basis, we consider the cost-plus approach, the pricing terms of which were determined by reference to an objective benchmark of market average profit margin, to be fair and reasonable and on normal commercial terms to be arrived at after arm's length negotiations.

The Management confirmed that the Company determined the pricing terms for each specific transaction thereunder strictly in accordance with the corresponding internal procedures and consideration factors as mentioned above and therefore was of the view that the pricing basis under the Ancillary Telecommunication Services Framework Agreement was on commercial terms and was fair and reasonable. We have also reviewed (i) the Company's Connected Transactions Administrative Measures; (ii) the Company's Internal Control Guidance; and (iii) sample records of past internal approvals for certain specific transactions entered into by the Group under the Ancillary Telecommunications Services Framework Agreement covering each of the Review Period, and based on our review, discussion with the Management and further confirmation by the Company, past specific transactions entered into between the Group and China Telecom Group under the Ancillary Telecommunications Services Framework Agreement were generally in compliance with the Connected Transactions Administrative Measures and the Internal Control Guidance.

For transactions made under the Ancillary Telecommunications Services Agreement, we also examined other independent information by reviewing the letter issued by the Auditors to the Board and noted that the Auditors had performed procedures in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) and with reference to Practice Note 740 (Revised) and confirmed that they had performed sample checks the continuing connected transactions entered into between the Group and China Telecom Group during the years ended 31 December 2021, 2022 and 2023 and had not found that the continuing connected transactions were not entered into, in all material respects, in accordance with the pricing policies as stated in the relevant agreements.

Based on the above, we consider that the pricing basis under the Ancillary Telecommunications Services Framework Agreement is on normal commercial terms or better and is fair and reasonable so far as the Independent Shareholders are concerned.

(c) *Historical amounts and the New Annual Caps*

The table below shows the historical transaction amounts, the Existing Annual Caps and the proposed New Annual Caps under the Ancillary Telecommunications Services Framework Agreement. As confirmed by the Management, none of the Existing Annual Caps under the Ancillary Telecommunications Services Framework Agreement had been exceeded as at the Latest Practicable Date:

Unit : RMB million

	Year ended 31 December				For the six months		Year ending 31 December		
Transactions	2022		2023		ended 30 June 2024		2025	2026	2027
Ancillary	Existing		Existing		Existing		New	New	New
Telecommunications Services	Annual	Actual	Annual	Actual	Annual	Actual	Annual	Annual	Annual
Framework Agreement	Cap	amounts	Cap	amounts	Cap	amounts	Cap	Cap	Cap
Revenue	23,000	17,825	26,000	18,222	28,000	9,194	29,000	30,000	31,000
% of utilization		77.5%		70.1%		32.8%			
% of increase			13.0%		7.7%		3.6%	3.4%	3.3%

As shown from the table above, we noted that the actual amounts for the service charges received by the Company from China Telecom Group under the Ancillary Telecommunications Services Framework Agreement for the two years ended 31 December 2023 were approximately RMB17,825 million and RMB18,222 million, respectively, representing a utilization rate of approximately 77.5% and 70.1%, respectively. 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 2024 was approximately RMB9,194 million, representing a utilization rate of approximately 32.8%.

We also noted that there would be an approximately 3.6% increase in the 2025 New Annual Cap as compared to the 2024 Existing Annual Cap, an approximately 3.4% increase in the 2026 New Annual Cap as compared to the 2025 New Annual Cap and an approximately 3.3% increase in the 2027 New Annual Cap as compared to the 2026 New Annual Cap.

As stated in the Letter from the Board, in determining the New Annual Caps, the Directors have considered (1) the historical annual transaction amounts for 2022 and 2023 and the estimated annual transaction amount for 2024 under the Ancillary Telecommunications Services Framework Agreement; (2) that China Telecom Group continues to improve the quality and capability building of its network to support the further development of 5G and industrial digitalization. According to the 2024 interim report of China Telecom Corporation, its network operations and support expenses for the six months ended 30 June 2024 increased by approximately 5.4% year-on-year; (3) the expected increasing demand from China Telecom Group for ancillary telecommunications services in the coming three years. China Telecom Group actively promotes the upgrades of connectivity, applications and user experience within its fundamental businesses. Its user base, business volume, network scale, etc. expand year by year, leading to the continued increase in business volume of the services for customer development and retention as well as outsourced maintenance; (4) the growth of the historical transaction amounts for the years ended 31 December 2022 and 2023; (5) the utilization rates of the Existing Annual Caps for ancillary telecommunications services provided by the Group were approximately 77.5% and 70.1% for the years ended 31 December 2022 and 2023 respectively; (6) the expected development of new types of infrastructure and strategic emerging industries of China Telecom Group, such as computing power, cloud, connectivity, which will bring business opportunities for the expansion of scale of the ancillary telecommunications business; and (7) a buffer of approximately 10% is built in according to the past customary practices of the Company, which allows the Group to be flexible in case of unforeseen events in the future, and caters for the possible inflations in the coming three years.

In assessing the reasonableness of the New Annual Caps for the Ancillary Telecommunications Services Framework Agreement, in addition to the foregoing factors considered by the Directors, we have taken into consideration the following:

- (i) we noted that the historical utilization rates of the 2022, 2023 and 2024 Existing Annual Caps was approximately 77.5%, 70.1% and 32.8% respectively. As discussed with the Management, the estimated transaction amount for the second half of 2024 is expected to be higher than the actual transaction amount for the first half of 2024 under the Ancillary Telecommunications Services Framework Agreement and a degree of buffer was built in the Existing Annual Caps to allow the Group's flexibility to cater for unforeseen events;
- (ii) based on our review of the 2023 annual report and 2024 interim report of China Telecom Corporation, we noted that network operations and support expenses of China Telecom Corporation Group for the year ended 31 December 2023 and the six months ended 30 June 2024 amounted to approximately RMB160.4 billion and RMB80.1 billion respectively, representing an increase of approximately 8.7% and 5.4% respectively as compared to the same period in the previous year. China Telecom Corporation Group persistently enhanced the development of network quality and intelligent service capabilities to support the rapid development of industrial digitalization and broadband services called Smart Family. Revenue from industrial digitalization increased from approximately RMB 98.9 billion in 2021 to approximately RMB 138.9 billion in 2023, representing a CAGR of approximately 18.5%. Revenue from Smart Family increased from approximately RMB 13.9 billion in 2021 to approximately RMB 19.0 billion in 2023, representing a CAGR of approximately 16.9%;
- (iii) we noted from the annual reports of the China Telecom Corporation that the number of mobile subscribers of China Telecom Corporation Group increased from approximately 372 million in 2021 to approximately 408 million in 2023, representing a CAGR of approximately 4.7%. The net addition of mobile subscribers in 2023 was 16.59 million, maintaining the industry-leading position for six consecutive years. The number of broadband subscribers of China Telecom Corporation Group increased from approximately 170 million in 2021 to approximately 190 million in 2023, representing a CAGR of approximately 5.7%. It is expected that both the mobile and broadband subscribers, business volume and network scale of China Telecom Corporation will continue to grow and as a result, the high amount of traffic will put more pressure on its network and therefore the demand for maintenance services, outsourced network repairs, installation and relocation of equipment will continue to grow. In order to provide reliable services to its growing customers demand, the demand for ancillary telecommunications services is also expected to grow for the two years ending 31 December 2027; and

- (iv) according to the Statistical Report on the Telecommunication Industry in 2023 《2023年通訊業統計公報》(the “**Statistical Report**”) published by the Ministry of Industry and Information Technology of the PRC (the “**MIIT**”), the number of mobile subscribers in the PRC reached 1.9 billion with a net addition of 37.07 million in 2023. According to statistics provided by the MIIT, revenue from telecommunication business in the PRC for the six months ended 30 June 2024 amounted to approximately RMB1,071.2 billion, representing an increase of approximately 2.8% as compared to the same period last year. Under the Digitalisation Plan, the Action Plans and the Digital Report, it is expected that China Telecom Group will upgrade its 5G network, digital information infrastructure, AI and cloud infrastructure and networks and this will probably increase its demand for the Group’s ancillary telecommunications services given that the Group is able to meet the needs of China Telecom Group with stable cooperative relationship in the past. Accordingly, the increase in the proposed New Annual Caps is in line with the expected future growth in demand for the Group’s ancillary telecommunications services after taking into account the historical growth in the telecommunication sector.

Taking into the facts and reasons discussed above as well as the historical high utilization rates of the Existing Annual Caps, we consider that it is reasonable for the Company to increase the caps during the three years ending 31 December 2027 and therefore the New Annual Caps for the Ancillary Telecommunications Services Framework Agreement are fair and reasonable so far as the Independent Shareholders are concerned.

3. *Operation Support Services Framework Agreement*

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

As stated in the Letter from the Board, 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 management services covering property management, facility maintenance and intelligent control maintenance of communication buildings, instrument and tool management, labor management, and logistics business management, real estate agency services, automotive services, purchasing agent services, advertisement, housing and building maintenance, contracted repairs, leasing of equipment, conferencing services, food and beverages, medical care, education and training. China Telecom Group also agreed to provide operation support services, including logistics services, medical care, food and beverages, daycare, education and training, hotel and travelling services, labor services and materials rental 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.

(b) *Pricing policies of the Operation Support Services Framework Agreement*

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 China Telecom Group, the Company primarily considered the following factors: (i) prices of at least two comparable transactions of the same or similar type of services provided to the Group by other service providers in the market; (ii) prices of at least two comparable transactions 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.

In assessing the terms of the new 2024 Supplemental Agreement in respect of the Operation Support Services Framework Agreement, we noted that, save for the extension of the term and the change in contact information of the parties, all other terms and conditions of the new 2024 Supplemental Agreement remain the same as those of the existing 2021 Agreements. It is stated in the Operation Support Services Framework Agreement that the pricing of the transactions thereunder was determined based on either market price or agreed price between the two parties (cost-plus approach). Based on our discussion with the Management, we understood that the Company that almost all of the contracts entered into between the Group and China Telecom Group historically under the Operation Support Services Framework Agreement were made through market price and the Company rarely used cost-plus approach to determine the pricing of the operation support services during the Review Period as there were rare circumstances where market price was absent or could not be determined. In light of the considerable number of market participants providing the relevant services, the Company did not encounter significant difficulty in obtaining price quotations of same or similar services or products provided by independent third parties as reference for determining market rates.

In addition, we have reviewed (i) the Operation Support Services Framework Agreement entered into between the Company and China Telecom; and (ii) 29 sample contracts (the “**Operation Support Sample Contracts**”) and their internal approval records over the Review Period, on a non-exhaustive and random basis, previously entered into (a) between the Group and China Telecom Group under the Operation Support Services Framework Agreement; and (b) between the Group and independent third parties in respect of both

provision of operation support services by the Group and purchase of operation support services by the Group. As such contracts included different types of operation support services under the Operation Support Services Framework Agreement covering the entire Review Period, we consider that the current sample contracts we have chosen are sufficient and representative.

We noted that save for the fee quotes, other principal terms specified in the Operation Support Sample Contracts entered into with China Telecom Group by the Group were no less favorable to the Company than those specified in the Operation Support Sample Contracts entered into with independent third parties by the Group. Accordingly, we further discussed with the Management and understood that as each transaction under the Operation Support Services Framework Agreement involved highly customized combination of services specifically required by each certain customer, the fee quotes offered by the Group in different transactions could substantially differ. The fee quotes were mainly construed as one lump sum in the contracts and one need to calculate the unit prices for labour or equipment for comparison, which can only be calculated by dividing the respective contract sum by the total number of man-hours to be spent/number of equipment to be purchased or found directly in the appendix thereto. We have compared the unit prices for labour or equipment of the Operation Support Sample Contracts between the Group and China Telecom Group with those between the Group and independent third parties and noted that such pricing terms were no less favorable to the Group than those with offered to/by independent third parties.

In the rare circumstances that the Group could not obtain a market price or historical price of the same or similar services, we understood from the Management that the Company and China Telecom Group would determine the pricing terms to such transactions by reference to (i) the actual cost of service including but not limited to equipment, accessories, salary and depreciation; plus (ii) a reasonable profit margin which varies depending on the type of services offered. Such circumstances would only occur if the operation support services provided by/to the Group is so uniquely tailored that there are no precedent transactions of similar kind and there would be no market quotations considered comparable. Although the margin level is not fixed in the Operation Support Services Framework Agreement for transactions contemplated thereunder, we understood from the Management that the Group/China Telecom Group would calculate a reasonable margin by averaging the profit margins of comparable companies engaging in provision of similar services in the relevant industry obtained from their respective most recent financial statements. We have reviewed two sample contracts entered into between the Group and the China Telecom Group covering both revenue and expenditure based on the cost-plus approach under the Operation Support Services Framework Agreement and their internal approval records over the Review Period and found that the profit margins adopted by the service provider (namely the Group in the case of revenue or the China Telecom Group in the case of expenditure) were within the range of profit margins of comparable companies engaging in provision of similar services. On this basis, we consider the cost-plus approach, the pricing terms of which were determined by reference to an objective benchmark of market average profit margin to be fair and reasonable and on normal commercial terms to be arrived at after arm's length negotiations.

The Management confirmed that the Company determined the pricing terms for each specific transaction strictly in accordance with the corresponding internal procedures and consideration factors as mentioned above and therefore was of the view that the pricing basis under the Operation Support Services Framework Agreement was on commercial terms and was fair and reasonable. We have also reviewed (i) the Company's Connected Transactions Administrative Measures; (ii) the Company's Internal Control Guidance; and (iii) sample records of past internal approvals for certain specific transactions entered into by the Group under the Operation Support Services Framework Agreement, and based on our review, discussion with the Management and further confirmation by the Company, past specific transactions entered into between the Company and China Telecom Group under the Operation Support Services Framework Agreement were generally in compliance with the Connected Transactions Administrative Measures and the Internal Control Guidance.

For transactions made under the Operation Support Services Framework Agreement, we also examined other independent information by reviewing the letters issued by the Auditors to the Board and noted that the Auditors had performed procedures in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) and with reference to Practice Note 740 (Revised) and confirmed that they had performed sample checks on the continuing connected transactions entered into between the Group and China Telecom Group during the years ended 31 December 2021, 2022 and 2023 and had not found that the continuing connected transactions were not entered into, in all material respects, in accordance with the pricing policies as stated in the relevant agreements.

Based on the above, we consider that the pricing basis under the Operation Support Services Framework Agreement is on normal commercial terms or better and is fair and reasonable so far as the Independent Shareholders are concerned.

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

The table below shows the historical transaction amounts, the Existing Annual Caps and the proposed New Annual Caps under the Operation Support Services Framework Agreement. As confirmed by the Management, none of the Existing Annual Caps under the Operation Support Services Framework Agreement had been exceeded as at the Latest Practicable Date:

Unit: RMB million

Transactions	Year ended 31 December				For the six months		Year ending 31 December		
	2022		2023		ended 30 June 2024		2025	2026	2027
	Existing Annual Cap	Actual amounts	Existing Annual Cap	Actual amounts	Existing Annual Cap	Actual amounts	New Annual Cap	New Annual Cap	New Annual Cap
Operation Support Services Framework Agreement									
Revenue	5,000	4,378	5,500	4,703	6,000	2,075	6,500	7,000	7,500
% of utilization		87.6%		85.5%		34.6%			
% of increase			10.0%		9.1%		8.3%	7.7%	7.1%
Expenditure	1,000	970	1,100	819	1,200	703	1,200	1,200	1,200
% of utilization		97.0%		74.5%		58.6%			
% of increase			10.0%		9.1%		0%	0%	0%

As shown from the table above, we noted that the actual amounts for the service charges received by the Company from China Telecom Group under the Operation Support Services Framework Agreement for the two years ended 31 December 2023 were approximately RMB4,378 million and RMB4,703 million, respectively, representing a utilization rate of approximately 87.6% and 85.5%, respectively. 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 2024 was approximately RMB2,075 million, representing a utilization rate of approximately 34.6%.

Besides, the actual amounts for the service charges paid by the Company to China Telecom Group under the Operation Support Services Framework Agreement for the two years ended 31 December 2023 were approximately RMB970 million and RMB819 million, representing a utilization rate of approximately 97.0% and 74.5%, respectively. 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 2024 was approximately RMB703 million, representing a utilization rate of approximately 58.6%.

We also noted that there would be an approximately 8.3% increase in the 2025 New Annual Cap for the service charges receivable by the Company from China Telecom Group as compared to the 2024 Existing Annual Cap, an approximately 7.7% increase in the 2026 New Annual Cap for the service charges receivable by the Company from China Telecom Group as compared to the 2025 New Annual Cap and an approximately 7.1% increase in the 2027 New Annual Cap for the service charges receivable by the Company from China Telecom Group as compared to the 2026 New Annual Cap.

Besides, the 2025, 2026 and 2027 New Annual Caps for the service charges payable by the Company to China Telecom Group remain the same as the 2024 Existing Annual Cap.

As stated in the Letter from the Board, in determining the New Annual Caps with regard to the operation support services provided to China Telecom Group, the Directors have considered (1) the historical annual transaction amounts for 2022 and 2023 and the estimated annual transaction amount for 2024 under the Operation Support Services Framework Agreement; (2) the utilization rates of the Existing Annual Caps for operation support services provided by the Group were relatively high, being approximately 87.6% and 85.5% for the year ended 31 December 2022 and 2023, respectively; (3) the actual amounts for the service charges received by the Company from China Telecom Group under the Operation Support Services Framework Agreement had increased by 7.4% from 2022 to 2023, which is generally in line with the compound annual growth rate of the New Annual Caps of 7.7% from 2024 to 2027; (4) along with the addition of new infrastructure such as data centers and the increase of the depreciable life and aging of equipment, China Telecom Group will increase its demand for the scope of operation support services and maintenance expenses; (5) the Group possess fine resources and service capability in respect of the abovementioned aspects, which are adaptive to meet the business needs of China Telecom Group, and (6) a buffer of

approximately 10% is built in according to the past customary practices of the Company when determining the New Annual Caps, which allows the Group to be flexible in case of unforeseen events in the future and caters for the possible inflations in the coming three years.

As stated in the Letter from the Board, in determining the New Annual Caps with respect to the operation support services provided by China Telecom Group, the Directors have considered (1) the historical annual transaction amounts for 2022 and 2023 and the estimated annual transaction amount for 2024 under the Operation Support Services Framework Agreement; (2) along with its business development, the Group's demand for major operation support services, including exhibition and training services, has maintained stable. Therefore the New Annual Caps remain at the same level as in 2024; (3) China Telecom Group possesses fine resources in respect of the abovementioned aspects, which are adaptive to meet the business needs of the Group; and (4) a buffer of approximately 10% is built in according to the past customary practices of the Company when determining the New Annual Caps, which allows the Group to be flexible in case of unforeseen events in the future and caters for the possible inflations in the coming three years.

In assessing the reasonableness of the New Annual Caps for the Operation Support Services Framework Agreement, in addition to the foregoing factors considered by the Directors, we have taken into consideration the following:

- (i) we have discussed with the Management and understood that it is anticipated that the demand for the Company's operation support services (such as property management and conferencing services) by China Telecom Group will continue to increase in the future. Taken into account the historical high utilization rates of approximately 87.6% and 85.5% for the two years ended 31 December 2023 in respect of the provision of operations support services by the Group to China Telecom Group under the Operation Support Services Framework Agreement, the Existing Annual Caps have been almost utilized. In addition, we have reviewed the Historical Transaction Breakdown and noted that actual transaction amounts in respect of the provision of operations support services by the Group to China Telecom Group under the Operation Support Services Framework Agreement for each of the second half of 2022 and 2023 represented approximately 58.0% and 58.3% of the corresponding total actual annual transaction amount, respectively. Thus, the estimated transaction amount for the second half of 2024 is expected to be higher than the actual transaction amount for the first half of 2024 under the Operation Support Services Framework Agreement due to the seasonality;
- (ii) as further advised by the Management, given that the Group will further enhance its service capability and has clear advantages over other third-party service providers in the industry in providing operational support services to China Telecom Group to cater for the planned increase in capital expenditure of China Telecom Group as mentioned above, China Telecom Group is expected to have a higher demand for the Group's operation related services in the future. Taking into account the

historical high utilization rates of the Existing Annual Caps, we consider that it is reasonable for the Company to increase the caps in respect of the provision of operations support services by the Group to China Telecom Group under the Operation Support Services Framework Agreement during the three years ending 31 December 2027; and

- (iii) we noted that the historical utilization rates of the 2022, 2023 and 2024 Existing Annual Caps for the service charges paid by the Company to China Telecom Group under the Operation Support Services Framework Agreement was approximately 97.0%, 74.5% and 58.6% respectively. As discussed with the Management, a degree of buffer was built in the Existing Annual Caps to allow the Group's flexibility to cater for unforeseen events and it is anticipated that the demand for China Telecom Group's operation support services will stabilize in the future. Accordingly, we concur with the Management that it is reasonable for the Company to set the 2025, 2026 and 2027 New Annual Caps for the service charges paid by the Company to China Telecom Group under the Operation Support Services Framework Agreement at the same level as the 2024 Existing Annual Cap.

Based on the above, we are of the view that the New Annual Caps for the Operation Support Services Framework Agreement are fair and reasonable so far as the Independent Shareholders are concerned.

4. *IT Application Services Framework Agreement*

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

As stated in the Letter from the Board, 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.

(b) *Pricing policies of the IT Application Services Framework Agreement*

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 China Telecom Group, the Company primarily considers the following factors: (i) prices of at least three comparable transactions of the same or similar type of services provided to the Company by other service providers in the market; (ii) prices of at least three comparable transactions 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.

In assessing the terms of the new 2024 Supplemental Agreement in respect of the IT Application Services Framework Agreement, we noted that, save for the extension of the term and the change in contact information of the parties, all other terms and conditions of the new 2024 Supplemental Agreement remain the same as those of the existing 2021 Agreements. It is stated in the IT Application Services Framework Agreement that the pricing of the transactions thereunder was determined based on either prices obtained through tender process or market price.

In addition, we have reviewed (i) the IT Application Services Framework Agreement entered into between the Company and China Telecom; and (ii) 37 sample contracts (the “**IT Application Sample Contracts**”) and their internal approval records over the Review Period, on a non-exclusive and random basis, previously entered into (a) between the Group and China Telecom Group under the IT Application Services Framework Agreement; and (b) between the Group and independent third parties in respect of both provision of IT services by the Group and purchase of IT services by the Group. As such contracts included different types of IT application services under the IT Application Services Framework Agreement covering the entire Review Period, we consider that the current sample contracts we have chosen are sufficient and representative.

We noted that save for the fee quotes, other principal terms specified in the IT Application Sample Contracts entered into with China Telecom Group by the Group were no less favorable to the Company than those specified in the IT Application Sample Contracts entered into with independent third parties by the Group. Accordingly, we further discussed with the Management and understood that as each transaction under the IT Application Services Framework Agreement involved highly customized combination of services specifically required by each certain customer, the fee quotes offered by the Group in different transaction could substantially differ as the bidding prices are project specific depending on various factors such as technical requirements, estimated expenses, project execution standards etc. Based on the tender documents submitted by the Company to China Telecom Group and other independent third parties we have collected randomly from the Company, we observed the Company normally bid those IT application projects using a discount to a benchmark ceiling price set by the tenderee. According to the Management, for

the case of tender invited by the China Telecom Group, such benchmark ceiling price represented the estimated project price arrived at after formal internal discussions by experts within the China Telecom Group.

For sample contracts based on tender process, we have compared the tender prices in the form of discount to the benchmark ceiling prices of the IT Application Services Framework Agreement and noted that such pricing terms were no less favorable to the Group than those with independent third parties. In addition, the price and the tender and bidding process are conducted in accordance with the Bidding Law of the PRC and other applicable PRC laws, rules and regulations. The Company also implemented the Internal Bidding Management Measures to manage the tender and bidding processes. The tender and bidding process is an open and transparent process based on market participation and the tender and bidding price under such process reflects the applicable price available in the open market. For sample contracts based on market price, we have compared the unit prices for labour or equipment of the sample contracts between the Group and China Telecom Group with those between the Group and independent third parties and noted that such pricing terms were no less favorable to the Group than those offered to/by independent third parties.

The Management confirmed that the Company determined the pricing terms for each specific transaction strictly in accordance with the corresponding procedures and consideration factors as mentioned above and therefore was of the view that the pricing basis under the IT Application Services Framework Agreement was on commercial terms and was fair and reasonable.

We have also reviewed (i) the Company's Connected Transactions Administrative Measures; (ii) the Company's Internal Control Guidance; and (iii) sample records of past internal approvals for certain specific transactions entered into by the Group under the IT Application Services Framework Agreement covering each of the Review Period, and based on our review, discussion with the Management and further confirmation by the Company, past specific transactions entered into between the Group and China Telecom Group under the IT Application Services Framework Agreement were in compliance with the Connected Transactions Administrative Measures and the Internal Control Guidance.

For transactions made under the IT Application Services Framework Agreement, we also examined other independent information by reviewing the letter issued by the Auditors to the Board and noted that the Auditors had performed procedures in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) and with reference to Practice Note 740 (Revised) and confirmed that they had performed sample checks on the continuing connected transactions entered into between the Group and China Telecom Group during the years ended 31 December 2021, 2022 and 2023 and had not found that the continuing connected transactions were not entered into, in all material respects, in accordance with the pricing policies as stated in the relevant agreements.

Based on the above, we consider that the pricing basis under the IT Application Services Framework Agreement is on normal commercial terms or better and is fair and reasonable so far as the Independent Shareholders are concerned.

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

The table below shows the historical transaction amounts, the Existing Annual Caps and the proposed New Annual Caps under the IT Application Services Framework Agreement. As confirmed by the Management, none of the Existing Annual Caps under the IT Application Services Framework Agreement had been exceeded as at the Latest Practicable Date:

Unit: RMB million

Transactions	Year ended 31 December				For the six months ended 30 June 2024		Year ending 31 December		
	2022		2023				2025	2026	2027
	Existing Annual Cap	Actual amounts	Existing Annual Cap	Actual amounts	Existing Annual Cap	Actual amounts	New Annual Cap	New Annual Cap	New Annual Cap
IT Application Services Framework Agreement									
Revenue	6,500	5,823	8,000	7,027	9,500	3,318	13,000	15,500	18,000
% of utilization		89.6%		87.8%		34.9%			
% of increase			23.1%		18.8%		36.8%	19.2%	16.1%
Expenditure	1,000	331	1,500	1,006	2,000	163	1,800	2,000	2,200
% of utilization		33.1%		67.1%		8.2%			
% of increase/(decrease)			50.0%		33.3%		(10.0)%	11.1%	10.0%

As shown from the table above, we noted that the actual amounts for the service charges received by the Company from China Telecom Group under the IT Application Services Framework Agreement for the two years ended 31 December 2023 were approximately RMB5,823 million and RMB7,027 million, respectively, representing a utilization rate of approximately 89.6% and 87.8%, respectively. 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 2024 was approximately RMB3,318 million, representing a utilization rate of approximately 34.9%.

Besides, the actual amounts for the service charges paid by the Company to China Telecom Group under the IT Application Services Framework Agreement for the two years ended 31 December 2023 were approximately RMB331 million and RMB1,006 million, respectively, representing a utilization rate of approximately 33.1% and 67.1%, respectively. 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 2024 was approximately RMB163 million, representing a utilization rate of approximately 8.2%.

We also noted that there would be an approximately 36.8% increase in the 2025 New Annual Cap for the IT application service charges receivable by the Company from China Telecom Group as compared to the 2024 Existing Annual Cap, an approximately 19.2% increase in the 2026 New Annual Cap for the IT application service charges receivable by the Company from China Telecom Group as compared to the 2025 New Annual Cap and an approximately 16.1% increase in the 2027 New Annual Cap for the IT application service charges receivable by the Company from China Telecom Group as compared to the 2026 New Annual Cap.

Besides, there would be an approximately 10.0% decrease in the 2025 New Annual Cap for the IT application service charges payable by the Company to China Telecom Group as compared to the 2024 Existing Annual Cap, an approximately 11.1% increase in the 2026 New Annual Cap for the IT application service charges payable by the Company to China Telecom Group as compared to the 2025 New Annual Cap and an approximately 10.0% increase in the 2027 New Annual Cap for the IT application service charges payable by the Company to China Telecom Group as compared to the 2026 New Annual Cap.

As stated in the Letter from the Board, in determining the New Annual Caps with respect to the IT application services provided to China Telecom Group, the Directors have considered (1) the historical annual transaction amounts for 2022 and 2023 and the estimated annual transaction amount for 2024 under the IT Application Services Framework Agreement; (2) that there had been a high utilization rate of the Existing Annual Cap for the IT application services provided to China Telecom Group; (3) in 2023, China Telecom Group industrial digitalisation business maintained rapid growth with its revenue reaching RMB138.9 billion, representing a year-on-year increase of 17.9% and accounting for 29.9% of service revenues. According to the 2023 Annual Results Presentation publicly disclosed by China Telecom Corporation at its website, in 2024, China Telecom Corporation's investment in industrial digitization is expected to increase to 38.5% of its full year budget of capital expenditure, with the total amount reaching RMB37 billion and it plans to invest RMB18 billion in the areas of cloud and computing power, which is expected to generate material demand for IT application services from the Company. In the field of artificial intelligence, China Telecom Group is actively carrying out specific actions regarding "AI+", focusing on the national cloud's intelligent computing upgrade, fully leveraging AI capabilities, accelerating internal application and external empowerment of AI technology, which will also increase the demand for IT application services from China Telecom Group. China Telecom Group will continue to focus on the development of industrial digitization and strategic emerging businesses, and the volume of IT service business is expected to maintain rapid growth; (4) the Group has been actively improving its capabilities in smart products and applications and strengthening strategic emerging fields such as smart city, green and low-carbon, and emergency management and security, and will provide China Telecom Group with more digital IT application support services. (5) the actual amounts for the service charges received by the Company from China Telecom Group under the IT Application Services Framework Agreement had increased by 20.6% from 2022 to 2023, which is generally in line with the compound annual growth rate of the New Annual Caps of 23.7% from 2024 to 2027; and (6) a

buffer of approximately 10% is built in according to the past customary practices of the Company when determining the New Annual Caps, which allows the Group to be flexible in case of unforeseen events in the future and caters for the possible inflations in the coming three years.

As stated in the Letter from the Board, in determining the New Annual Caps with respect to IT application services provided by China Telecom Group, the Directors have considered (1) the historical annual transaction amounts for 2022 and 2023 and the estimated annual transaction amount for 2024 under the IT Application Services Framework Agreement; (2) there had been a relatively low utilization rate of the Existing Annual Caps, being approximately 33.1% and 67.1% for the years ended 31 December 2022 and 2023, respectively. Therefore the New Annual Cap for 2025 will be reduced to RMB1,800 million; (3) the continuous increase of the IT application services provided by the Group is expected to drive the gradual growth of the Group's needs for procurement of IT application services. Therefore the New Annual Caps for 2026 and 2027 will increase moderately; and (4) a buffer of approximately 10% is built in according to the past customary practices of the Company when determining the New Annual Caps, which allows the Group to be flexible in case of unforeseen events in the future and caters for the possible inflations in the coming three years.

In assessing the reasonableness of the New Annual Caps for the IT Application Services Framework Agreement, in addition to the foregoing factors considered by the Directors, we have taken into consideration of the following:

- (i) we have discussed with the Management and understood that it is anticipated that the demand for the Company's IT application services by China Telecom Group will increase in the future. Taken into account the historical high utilization rates of approximately 89.6% and 87.8% for the two years ended 31 December 2023 in respect of the provision of IT application services by the Group to China Telecom Group under the IT Application Services Framework Agreement, the Existing Annual Caps have been almost utilized. In addition, we have reviewed the Historical Transaction Breakdown and noted that the actual transaction amounts in relation to provision of IT services by the Group to China Telecom Group under the IT Application Services Framework Agreement for each of the second half of 2022 and 2023 represented approximately 56.1% and 50.7% of the corresponding total actual annual transaction amount, respectively. Thus, the estimated transaction amount for the second half of 2024 is expected to be higher than the actual transaction amount for the first half of 2024 under the IT Application Services Framework Agreement due to the seasonality;
- (ii) as mentioned in China Telecom Corporation's 2023 annual report, China Telecom Corporation Group continues to strengthen the digital transformation of its cloud-network and completed the full launch and application of its proprietary new generation cloud-network operating system that enables software-defined-network-based, scalable and unified control of major networks such as internet protocol,

transmission and 5G. In addition, it also accelerated the application of new technologies, such as AI large models to the cloud-network operating system. We noted from the 2023 Annual Report of the Company that the Group's IT application services revenue from China Telecom Corporation Group amounted to approximately RMB7,027 million for the year ended 31 December 2023, representing an increase of approximately 20.7% as compared to the previous year.

The Digitalisation Plan lays out the national digital strategy of Digital China. By 2035, China will be at the global forefront in terms of digital development, and its digital progress in the economic, political, cultural, social and ecological fields will be more coordinated and sufficient. The plan includes support for the in-depth integration of digital technology and the real economy and the application of digital technology in the agriculture, manufacturing, finance, education, medical services, transportation and energy sectors. This fuels the expansion plans of China Telecom Group in industrial digitalisation, cloud and computing power which will have a positive effect on the demand of IT service provided by the Company to China Telecom Group for the next three years.

The Action Plan for the High Quality Development of Computing Infrastructure aims to achieve a total computing power of over 300 EFLOPS by 2025. EFLOPS is a unit of measurement for a computer's speed. A 1 EFLOPS computing system can complete 1 quintillion floating-point operations per second. In 2023, the MIIT said that China's computing power had reached 197 EFLOPS, ranking second globally. The country's data storage capacity is expected to exceed 1,800 exabytes by 2025, according to the plan. The Three-year Action Plan for "Data Elements x" promote the widely use of data and target to create more than 300 data application scenarios with strong demonstration by the end of 2026, with an expected average annual growth rate of the data industry exceeding 20%. As China Telecom Corporation taking advantage of the business opportunities resulted from the Action Plans, the demand for cloud and computing power and artificial intelligence and therefore the demand for the IT Application Services provided by the Company in turn increase.

Finally, the Digital Report stated the deep integration of digital technology and data elements will become a new driving force for the growth of the digital economy in China. This translate to the increase of demand for IT services in the field of artificial intelligence from the Company. As shown above, the government is keen in making China a leader in the information markets in the years to come and we believe this translate to increase in IT spending in China Telecom which can justify the increase in proposed annual caps for IT Application Services from 2025 to 2027.

Therefore, under the Digitalisation Plan, the Action Plans and the Digital Report, it is expected that China Telecom Group will upgrade its 5G network, digital information infrastructure, AI and cloud infrastructure and networks and this will probably increase its demand for the Group's IT application services given that the Group is able to meet the needs of China Telecom Group with stable cooperative relationship in the past. Accordingly, it is expected that the demand for the Group's IT application services will rise significantly in view of China Telecom Corporation Group's needs to upgrade its own IT systems and expedite the intelligent upgrade of digital information infrastructure. Taken into account the historical high utilization rates of approximately 89.6% and 87.8% for the two years ended 31 December 2023, we considered that it is reasonable for the Company to increase the caps in respect of the provision of IT application services by the Group to China Telecom Group under the IT Application Services Framework Agreement during the three years ending 31 December 2027;

- (iii) we noted that the historical utilization rates of the 2022, 2023 and 2024 Existing Annual Caps for the service charges paid by the Company to China Telecom Group under the IT Application Services Framework Agreement was approximately 33.1%, 67.1% and 8.2% respectively. In addition, we have reviewed the Historical Transaction Breakdown and noted that the actual transaction amounts in relation to provision of IT services by China Telecom Group to the Group under the IT Application Services Framework Agreement for the second half of 2022 and 2023 represented approximately 87.3% and 83.5% of the total actual annual transaction amount. As discussed with the Management, the above Existing Annual Caps had not been fully utilized mainly due to the fact that the Company improved its in-house IT capabilities, so its demand for China Telecom Group's IT application services during 2022 to 2024 under the IT Application Services Framework Agreement was lower than expected. Accordingly, we concur with the Management that it is reasonable for the Company to set the 2025 New Annual Cap at a level which is lower than the 2024 Existing Annual Cap but close to the average amount of the Existing Annual Caps for the two years ending 31 December 2024; and
- (iv) we noted from the Company's 2023 Annual Report that the Group actively engaged in the construction of intelligent computing centers, supercomputing centres and the transformation and upgrading of data centers, and strengthened a series of cloud businesses. We noted from China Telecom Corporation's 2024 Interim Report that China Telecom Group accelerated the integration of new elements such as cloud, AI, quantum and satellite into standard products to further enhance product capabilities, business value and service level. As the Group will continue to upgrade its digital infrastructure, it is expected that IT application service charges payable by the Company to China Telecom Group will increase in the future. Accordingly, we are of the view that it is reasonable for the Company to increase the 2026 and 2027 New Annual Caps subsequently for the two years ending 31 December 2027.

Based on the above, we are of the view that the New Annual Caps for the IT Application Services Framework Agreement are fair and reasonable so far as the Independent Shareholders are concerned.

5. *Supplies Procurement Services Framework Agreement*

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

Pursuant to the Supplies Procurement Services Framework Agreement, the Company agreed to provide to China Telecom Group with comprehensive supplies procurement services, including, (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. The procurement services provided by the Company to China Telecom Group primarily cover the materials used in daily operations.

According to the same agreement, China Telecom agreed to provide to the Group with comprehensive supplies procurement services, including, (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 procurement services provided by China Telecom Group to the Company primarily cover the specific products or terminals manufactured or purchased by China Telecom Group. The scope of the Supplies Procurement Services Framework Agreement covers transactions between the Group 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.

(b) *Pricing policies of the Supplies Procurement Services Framework Agreement*

Pursuant to the Supplies Procurement Services Framework Agreement, the price for the provision of comprehensive supplies procurement services is determined as follows:

- (1) 1% of the contract value at the maximum for procurement services relating to imported telecommunications supplies, which is determined based on the common market practices;
- (2) 3% of the contract value at the maximum for procurement services relating to domestic telecommunications supplies and other domestic non-telecommunications materials, which is determined based on the common market practices;

(3) for other services:

- (I) market price. In determining the market price, the business and financial departments 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 at least three comparable transactions of the same or similar type of services provided to China Telecom Group or the Company by other service providers in the market, which are primarily obtained from public bidding websites and bidding result announcements; (iii) prices of at least three comparable transactions of the same or similar type of services provided to China Telecom Group and independent third parties by the Company, or prices of at least three comparable transactions 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 departments 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, taken 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.

We noted that 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.

In assessing the terms of the new 2024 Supplemental Agreement in respect of the Supplies Procurement Services Framework Agreement, we noted that, save for the extension of the term and the change in contact information of the parties, all other terms and conditions of the new 2024 Supplemental Agreement remain the same as those of the existing 2021 Agreements. It is stated in the Supplies Procurement Services Framework Agreement that the pricing of the transactions thereunder were determined based on either (1) 1% of the contract value at the maximum for procurement services relating to imported telecommunications supplies; (2) 3% of the contract value at the maximum for procurement services relating to domestic telecommunications supplies and other domestic non-telecommunications materials; (3) market price; or (4) agreed price between the two parties (cost-plus approach). Based on our discussion with the Management, we understood that almost all of the contracts entered into between the Group and China Telecom Group under the Supplies Procurement Services Framework Agreement were made through market price (which includes (1), (2) and (3) above) and the Company rarely used cost-plus approach to determine the pricing of the supplies procurement services during the Review Period as there were rare circumstances where market price was absent or could not be determined. In light of the considerable number of market participants providing the relevant services, the Company did not encounter significant difficulty in obtaining price quotations of same or similar services or products provided by independent third parties as reference for determining market rates.

In addition, we have reviewed (i) Supplies Procurement Services Framework Agreement entered into between the Company and China Telecom; and (ii) 33 sample contracts (the “**Supplies Procurement Sample Contracts**”) and their internal approval records over the Review Period, on a non-exhaustive and random basis, previously entered into (a) between the Group and China Telecom Group under the Supplies Procurement Services Framework Agreement; and (b) between the Group and independent third parties in respect of both provision of supplies procurement services by the Group and purchase of supplies procurement services by the Group. As such contracts included different types of supplies procurement services under the Supplies Procurement Services Framework Agreement covering the entire Review Period, we consider that the current sample contracts we have chosen are sufficient and representative.

We noted that save for the fee quotes, other principal terms specified in the Supplies Procurement Sample Contracts entered into with China Telecom Group by the Group were no less favorable to the Company than those specified in the Supplies Procurement Sample Contracts entered into with independent third parties by the Group. Accordingly, we further discussed with the Management and understood that as each transaction under the Supplies Procurement Services Framework Agreement involved highly customized combination of

services specifically required by each certain customer, the fee quotes offered by the Group in different transactions could substantially differ. The fee quotes were mainly construed as one lump sum in the contracts and one need to calculate the unit prices for supplies goods for comparison, which can only be calculated by dividing the respective contract sum by the total number of supplies goods or found directly in the appendix thereto. We have compared the unit prices for supplies goods of the Supplies Procurement Sample Contracts between the Group and China Telecom Group with those between the Group and independent third parties and noted that such pricing terms were no less favorable to the Group than those offered to/by independent third parties.

In the rare circumstances that the Group could not obtain a market price or historical price of the same or similar services, we understood from the Management that the Company and China Telecom Group would determine the pricing terms to such transactions by reference to (i) the actual cost of service including but not limited to equipment, accessories, salary and depreciation; plus (ii) a reasonable profit margin which varies depending on the type of services offered. Such circumstances would only occur if the supplies procurement services provided by/to the Group is so uniquely tailored that there are no precedent transactions of similar kind and there would be no market quotations considered comparable. Although the margin level is not fixed in the Supplies Procurement Services Framework Agreement for transactions contemplated thereunder, we understood from the Management that the Group/China Telecom Group would calculate a reasonable margin by averaging the profit margins of comparable companies engaging in provision of similar services in the relevant industry obtained from their respective most recent financial statements. We have reviewed two sample contracts entered into between the Group and the China Telecom Group covering both revenue and expenditure based on the cost-plus approach under the Supplies Procurement Services Framework Agreement and their internal approval records over the Review Period and found that the profit margins adopted by the service provider (namely the Group in the case of revenue or the China Telecom Group in the case of expenditure) were within the range of profit margins of comparable companies engaging in provision of similar services. On this basis, we consider the cost-plus approach, the pricing terms of which were determined by reference to an objective benchmark of market average profit margin to be fair and reasonable and on normal commercial terms to be arrived at after arm's length negotiations.

The Management confirmed that the Company determined the pricing terms for each specific transaction strictly in accordance with the corresponding internal procedures and consideration factors as mentioned above and therefore was of the view that the pricing basis under the Supplies Procurement Services Framework Agreement was on commercial terms and was fair and reasonable.

We have also reviewed (i) the Company's Connected Transactions Administrative Measures; (ii) the Company's Internal Control Guidance; and (iii) sample records of past internal approvals for certain specific transactions entered into by the Group under the Supplies Procurement Services Framework Agreement covering each of the Review Period, and based on our review, discussion with the Management and further confirmation by the

Company, past specific transactions entered into between the Group and China Telecom Group under the Supplies Procurement Services Framework Agreement were generally in compliance with the Connected Transactions Administrative Measures and the Internal Control Guidance.

For transactions made under the Supplies Procurement Services Framework Agreement, we also examined other independent information by reviewing the letter issued by the Auditors to the Board and noted that the Auditors had performed procedures in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) and with reference to Practice Note 740 (Revised) and confirmed that they had performed sample checks on the continuing connected transactions entered into between the Group and China Telecom Group during the years ended 31 December 2021, 2022 and 2023 and had not found that the continuing connected transactions were not entered into, in all material respects, in accordance with the pricing policies as stated in the relevant agreements.

Based on the above, we consider that pricing basis under the Supplies Procurements Services Framework Agreement is on normal commercial terms or better and is fair and reasonable so far as the Independent Shareholders are concerned.

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

The table below shows the historical transaction amounts, the Existing Annual Caps and the proposed New Annual Caps under the Supplies Procurements Services Framework Agreement. As confirmed by the Management, none of the Existing Annual Caps under the Supplies Procurements Services Framework Agreement had been exceeded as at the Latest Practicable Date:

Unit: RMB million

Transactions	Year ended 31 December				For the six months ended 30 June 2024		Year ending 31 December		
	2022		2023				2025	2026	2027
	Existing Annual Cap	Actual amounts	Existing Annual Cap	Actual amounts	Existing Annual Cap	Actual amounts	New Annual Cap	New Annual Cap	New Annual Cap
Supplies Procurement Services Framework Agreement									
Revenue	6,800	3,122	7,500	3,507	8,500	1,554	6,000	7,000	8,000
% of utilization		45.9%		46.8%		18.3%			
% of increase/(decrease)			10.3%		13.3%		(29.4)%	16.7%	14.3%
Expenditure	4,000	2,636	5,000	3,707	6,000	1,704	7,000	8,000	9,000
% of utilization		65.9%		74.1%		28.4%			
% of increase			25.0%		20.0%		16.7%	14.3%	12.5%

As shown from the table above, we noted that the actual amounts for the service charges received by the Company from China Telecom Group under the Supplies Procurement Services Framework Agreement for the two years ended 31 December 2023 were approximately RMB3,122 million and RMB3,507 million, respectively, representing a utilization rate of approximately 45.9% and 46.8%, respectively. The actual amount for the

services charge received by the Company from China Telecom Group under the Supplies Procurement Services Framework Agreement for the six months ended 30 June 2024 was approximately RMB1,554 million, representing a utilization rate of approximately 18.3%.

Besides, the actual amounts for the service charges paid by the Company to China Telecom Group under the Supplies Procurement Services Framework Agreement for the two years ended 31 December 2023 were approximately RMB2,636 million and RMB3,707 million, respectively, representing a utilization rate of approximately 65.9% and 74.1%, respectively. The actual amount for the service charges paid by the Company to China Telecom Group under the Supplies Procurement Services Framework Agreement for the six months ended 30 June 2024 was approximately RMB1,704 million, representing a utilization rate of approximately 28.4%.

We also noted that there would be an approximately 29.4% decrease in the 2025 New Annual Cap for the service charges receivable by the Company from China Telecom Group as compared to the 2024 Existing Annual Cap. However, the Management considered that affected by equipment replacement policy, it is expected that the demand for supplies procurement services from China Telecom Group will gradually increase. We noted from the official website of the PRC government that the State Council of the PRC released an Action Plan for Promotion of Large-Scale Equipment Replacement and Trade-in of Consumer Goods (《推動大規模設備更新和消費品以舊換新行動方案》) in March 2024 (the “**Equipment Replacement Plan**”). We have reviewed the Equipment Replacement Plan which requires that the investment scale of equipment in industries, agriculture, construction, transportation, education, culture and tourism, and healthcare should increase by more than 25% from 2023 to 2027. Thus, there will be an approximately 16.7% increase in the 2026 New Annual Cap for the service charges receivable by the Company from China Telecom Group as compared to the 2025 New Annual Cap and an approximately 14.3% increase in the 2027 New Annual Cap for the service charges receivable by the Company from China Telecom Group as compared to the 2026 New Annual Cap.

Besides, there would be an approximately 16.7% increase in the 2025 New Annual Cap for the service charges payable by the Company to China Telecom Group as compared to the 2024 Existing Annual Cap, an approximately 14.3% increase in the 2026 New Annual Cap for the service charges payable as compared to the 2025 New Annual Cap and an approximately 12.5% increase in the 2027 New Annual Cap for the service charges payable as compared to the 2026 New Annual Cap.

As stated in the Letter from the Board, in determining the New Annual Caps with respect to the supplies procurement services provided to China Telecom Group, the Directors have considered (1) the historical annual transaction amounts for 2022 and 2023 and the estimated transaction amount for 2024 under the Supplies Procurement Services Framework Agreement; (2) there had been a relatively low utilization rate of the Existing Annual Caps in the past

three years. Therefore, the New Annual Cap for 2025 will be reduced to RMB6,000 million; (3) the expected increasing demand from China Telecom Group for supplies procurement services in the coming three years.

In March 2024, the State Council of the PRC released an Action Plan for Promotion of Large-Scale Equipment Replacement and Trade-in of Consumer Goods, which requires that the investment scale of equipment in industries, agriculture, construction, transportation, education, culture and tourism, and healthcare should increase by more than 25% from 2023 to 2027. Affected by such favorable policy, it is expected that the demand for supplies procurement services by China Telecom Group will gradually increase. Therefore the New Annual Caps for 2026 and 2027 will increase moderately; and (4) a buffer of approximately 10% is built in according to the past customary practices of the Company when determining the New Annual Caps, which allows the Group to be flexible in case of unforeseen events in the future and caters for the possible inflations in the coming three years.

As stated in the Letter from the Board, in determining the New Annual Caps with respect to the supplies procurement services provided by China Telecom Group, the Directors have considered (1) the historical annual transaction amounts for 2022 and 2023 and the estimated transaction amount for 2024 under the Supplies Procurement Services Framework Agreement; (2) that there had been an increase in the utilization rate of the Existing Annual Cap for the supplies procurement services provided by China Telecom Group from 65.9% for the year ended 31 December 2022 to 74.1% for the year ended 31 December 2023; (3) the actual amounts for the service charges paid by the Company to China Telecom Group under the Supplies Procurement Services Framework Agreement had increased by 40.6% from 2022 to 2023. By virtue of the collaboration with China Telecom Group, the Group could enjoy preferential pricing in the centralized procurement. The Group will purchase more supplies through China Telecom Group to reduce the relevant costs and enhance efficiency, and it is expected that future supplies procurement spending with China Telecom Group will steadily increase; and (4) a buffer of approximately 10% is built in according to the past customary practices of the Company when determining the New Annual Caps, which allows the Group to be flexible in case of unforeseen events in the future and caters for the possible inflations in the coming three years.

In assessing the reasonableness of the New Annual Caps for the Supplies Procurement Services Framework Agreement, in addition to the foregoing factors considered by the Directors, we have taken into consideration of the following:

- (i) we noted that the historical utilization rates of the 2022, 2023 and 2024 Existing Annual Caps for the service charges received by the Company from China Telecom Group under the Supplies Procurement Services Framework Agreement was approximately 45.9%, 46.8% and 18.3% respectively. In addition, we have reviewed the Historical Transaction Breakdown and noted that the actual transaction amounts in relation to provision of supplies procurement services by the Group to China Telecom Group under the Supplies Procurement Services

Framework Agreement for each of the second half of 2022 and 2023 represented approximately 54.6% and 54.8% of the corresponding total actual annual transaction amount, respectively. As discussed with the Management, the above Existing Annual Caps had not been fully utilized mainly due to the lower than expected demand for China Telecom Group's supplies procurement services during 2022 to 2024 under the Supplies Procurement Services Framework Agreement and a degree of buffer was built in the Existing Annual Caps to allow the Group's flexibility to cater for unforeseen events. Accordingly, we concur with the Management that it is reasonable for the Company to set the 2025 New Annual Cap for the service charges received by the Company from China Telecom Group under the Supplies Procurement Services Framework Agreement at a lower level than the 2024 Existing Annual Cap;

- (ii) as mentioned before under the Digitalisation Plan, the Action Plans and the Digital Report, it is expected that China Telecom Group will upgrade its 5G network, digital information structure, AI and cloud infrastructure and networks and this will probably increase the demand for its upgrade and replacement of supplies. Given that the Group is able to meet the needs of China Telecom Group with stable cooperative relationship in the past, it is expected that its demand for the Group's supplies procurement services will increase for the two years ending 31 December 2027. Accordingly, we are of the view that it is reasonable for the Company to increase the 2026 and 2027 New Annual Caps subsequently for the two years ending 31 December 2027;
- (iii) we noted that the historical utilization rates of the 2022, 2023 and 2024 Existing Annual Caps for the service charges paid by the Company to China Telecom Group under the Supplies Procurement Services Framework Agreement was approximately 65.9%, 74.1% and 28.4% respectively. In addition, we have reviewed the Historical Transaction Breakdown and noted that the actual transaction amounts in relation to provision of supplies procurement services by China Telecom Group to the Group under the Supplies Procurement Services Framework Agreement for each of the second half of 2022 and 2023 represented approximately 56.3% and 55.5% of the corresponding total actual annual transaction amount, respectively. Thus, the estimated transaction amount for the second half of 2024 is expected to be higher than the actual transaction amount for the first half of 2024 under the Supplies Procurement Services Framework Agreement due to the seasonality; and
- (iv) based on our review of the 2023 Annual Report of the Company and the 2023 annual report of China Telecom Corporation, we noted that (1) supplies procurement services expenses of the Group for the year ended 31 December 2023 amounted to approximately RMB3,707 million, representing an increase of approximately 40.6% as compared to the previous year. As advised by the Management, the substantial increase in procurement services expenses of the Group for the year ended 31 December 2023 as compared to the previous year was

mainly due to the Group had purchased more supplies through its centralized procurement as the Group could enjoy preferential pricing by virtue of the collaboration with China Telecom Group; and (2) the amount of China Telecom Corporation Group's sale of telecommunications equipment and materials through related party transactions with its parent group was RMB4,950 million, representing an increase of approximately 5.5% as compared to the previous year. As discussed with the Management, the Group can enjoy preferential pricing in the centralized procurement to reduce the relevant costs and enhance efficiency by collaboration with China Telecom Group and therefore its demand for supplies procurement services from China Telecom Group will increase for the three years ending 31 December 2027. Taking into account the historical increase in the actual service charges paid by the Company to China Telecom Group and the expected increase in the Group's demand for supplies procurement services under the Supplies Procurement Services Framework Agreement, we are of the view that it is reasonable for the Company to increase the caps in relation to provision of supplies procurement services by China Telecom Group to the Group during the three years ending 31 December 2027.

Based on the above, we are of the view that the New Annual Caps for the Supplies Procurement Services Framework Agreement are fair and reasonable so far as the Independent Shareholders are concerned.

LISTING RULES' IMPLICATIONS

The Non-exempt Continuing Connected Transactions (together with the proposed New Annual Caps thereof) are subject to the annual review requirements of Rule 14A.55 to 14A.59 of the Listing Rules. According to the Company's 2023 Annual Report, the independent non-executive Directors have confirmed that the Non-exempt Continuing Connected Transactions for the year ended 31 December 2023:

- had been entered into by the Group in the ordinary and usual course of business;
- had been entered into on normal commercial terms or better; and
- had been entered into according to the agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

Furthermore, according to the 2023 Annual Report, the Company's auditors have issued a letter to the Board confirming that:

- nothing has come to their attention that causes them to believe that the Non-exempt Continuing Connected Transactions have not been approved by the Board;

- for transactions involving the provision of goods or services by the Group, nothing has come to their attention that causes them to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Company;
- nothing has come to their attention that causes them to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and
- with respect to the actual amounts of the Non-exempt Continuing Connected Transactions, nothing has come to their attention that causes them to believe that those actual amounts have exceeded the annual caps.

Given the above, we consider that the annual review requirements can provide appropriate measures to govern the Company in carrying out the Non-exempt Continuing Connected Transactions and safeguard the interests of the Shareholders thereunder.

RECOMMENDATION

Having considered the principal reasons and factors discussed above, we are of the view 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 is in the interests of the Company and the Shareholders as a whole and that the terms of the Non-exempt Continuing Connected Transactions and the proposed New Annual Caps thereof are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we advise the Independent Shareholders, as well as recommend the Independent Board Committee to advise the Independent Shareholders, to vote in favor of the ordinary resolutions to be proposed at the EGM to approve the Non-exempt Continuing Connected Transactions (together with the proposed New Annual Caps thereof).

Yours faithfully,
For and on behalf of
Pulsar Capital Limited



Bernard Tam
*Managing Director and Head
of Investment Banking*

Mr. Bernard Tam is a Responsible Officer of Pulsar Capital Limited licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO. He has over 20 years of experience in corporate finance industry.