China Communication Telecom Services Company Limited
神通電信服務有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 8206)

(1) REVISION OF THE EXISTING ANNUAL CAPS REGARDING THE CONTINUING CONNECTED TRANSACTIONS; AND (2) PROPOSED AMENDMENTS TO THE ARTICLES OF THE COMPANY

Independent financial adviser to the Independent Board Committee and Independent Shareholders

Nuada Limited
Corporate Finance Advisory

CONTINUING CONNECTED TRANSACTIONS

Reference is made to the circular of the Company dated 5 February 2010 relating to, inter alia, the CCT Agreements.

According to the recent review by the Board on its transactions under the CCT Agreements, the Directors found that the transactions between Shentong Yijia and CCC for the four months ended 31 July 2012 is approaching the relevant annual caps previously approved by the Independent Shareholders, and that the CCT Agreements will be expired on 31 March 2013.

In particular, the hosting service provided by CCC under the Server Hosting Service Agreement during the first four months ended 31 July 2012, based on the Group's unaudited management accounts, have already reached RMB1,440,000 (equivalent to approximately HK$1,755,455), representing (i) approximately 53.3% of the existing annual caps; and (ii) an increase of approximately 60% when compared with the same period last year. The Board expects such strong demand of the usage of server hosting service under the Second Server Hosting Agreement will sustain throughout the terms of the Second Server Hosting Agreement.

In light of the above, the Second CCT Agreements have been entered into on 9 October 2012 and the Board would like to propose to seek the approval of the Independent Shareholders in relation to, among other matters, the revision of the existing annual caps set for the transactions contemplated under the CCT Agreements and the extension of the respective terms of the CCT Agreements. The Second CCT Agreements shall become effective on the date falling upon the passing of the relevant resolutions by the Independent Shareholders at the EGM.

PROPOSED AMENDMENTS TO ARTICLES OF ASSOCIATION OF THE COMPANY

The Stock Exchange has amended the GEM Listing Rules relating to, among other things, the Articles or equivalent constitutional documents of listed issuers. The amendments to the GEM Listing Rules came into effect on 1 January 2012 and 1 April 2012.

Accordingly, the Directors propose to seek the approval of the Shareholders by way of special resolution for the amendments to the Articles at the forthcoming EGM, so as to bring the Articles in line with current amendments made to the GEM Listing Rules.

GEM LISTING RULES IMPLICATION

CCC is a connected person to the Company by virtue of its interest in approximately 29.84% of the issued share capital of the Company through CCI, its wholly-owned subsidiary. The controlling shareholder of CCC is 中國海外貿易哈爾濱王子葡萄酒有限公司 (China Overseas Trade Harbin Prince Wine Co. Limited#), a company incorporated in the PRC with limited liability) and its ultimate beneficial owner is 中國海外貿易總公司 (China National Overseas Trading Corporation#), a state owned company. Mr. He Chenguang, the chairman and an executive Director of the Company, is also the legal representative of CCC. Based on the Revised Annual Caps set by the Company, the annual consideration which will be payable by and/or received from Shentong Yijia to/from CCC under the Second CCT Agreements will exceed HK$10,000,000 and 25% of the applicable ratios under the GEM Listing Rules. Accordingly, the transactions contemplated under the Second CCT Agreements are subject to the reporting, announcements and Independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

GENERAL

An EGM will be convened at which the Independent Shareholders will consider and, where appropriate, approve the Second CCT Agreements and the Revised Annual Caps for the transactions respectively contemplated thereunder. A circular containing, amongst other things, further information of the proposed amendments to the existing Articles, the Second CCT Agreements, the recommendations of the Independent Board Committee, the letter of advice from the independent financial adviser to the Independent Board Committee and the notice of the EGM will be despatched to the Shareholders as soon as possible in compliance with the GEM Listing Rules.

CONTINUING CONNECTED TRANSACTIONS

Reference is made to the circular of the Company dated 5 February 2010 relating to, inter alia, the CCT Agreements. Independent Shareholders' approvals for the continuing connected transactions and the related caps assigned under each of the CCT Agreements had been obtained by the Company at the extraordinary general meetings of the Company held on 11 March 2010.

According to the recent review by the Board on its transactions under the CCT Agreements, the Directors found that the transactions between Shentong Yijia and CCC for the four months ended 31 July 2012 is approaching the relevant annual caps previously approved by the Independent Shareholders, and that the CCT Agreements will be expired on 31 March 2013.

In particular, the hosting service provided by CCC under the Server Hosting Service Agreement during the first four months ended 31 July 2012, based on the Group's unaudited management accounts, have already reached RMB1,440,000 (equivalent to approximately HK$1,755,455), representing (i) approximately 53.3% of the existing annual caps; and (ii) an increase of approximately 60% when compared with the same period last year. The Board expects such strong demand of the usage of server hosting service under the Second Server Hosting Agreement will sustain throughout the terms of the Second Server Hosting Agreement.

In light of the above, the Second CCT Agreements have been entered into on 9 October 2012 and the Board would like to propose to seek the approval of the Independent Shareholders in relation to, among other matters, the revision of the existing annual caps set for the transactions contemplated under the CCT Agreements and the extension of the respective terms of the CCT Agreements.

Except for the amount of annual caps, the contract period and the increase in annual rental fee payable by Shentong Yijia to CCC under the Second Server Hosting Agreement, there is no material difference between the CCT Agreements and the Second CCT Agreements. Details of each of the Second CCT Agreements are set out as follows:

Second Customers Service Hotline Rental Agreement

Date:	9 October 2012
Parties:	CCC as supplier and Shentong Yijia as purchaser
Services:	CCC shall provide a designated national customers service hotline number 95130*** to Shentong Yijia
Pricing basis:	CCC will charge Shentong Yijia (i) an annual fee of RMB20,000 (equivalent to approximately HK$24,381) for each of the years ending 31 March 2014 and 31 March 2015 and a pro-rata annual fee for the period commencing on the Effective Date until 31 March 2013 on a 12-month year basis; (ii) a calling charge of RMB0.06 (equivalent to approximately HK$0.073) per 6 seconds for long distance incoming calls (subject to the scaled-discount rates); and (iii) a calling charge of RMB0.15 (equivalent to approximately HK$0.174) per minute for outgoing calls via internet through the "VoIP" (Voice-Over Internet Protocol) telephone system, representing a discount of 50% to the nationwide standard rate in the PRC. The calling charges are subject to adjustment in accordance with any new charging standard to be announced by the PRC government from time to time.

The annual fee shall be payable by Shentong Yijia on 1 April for each of the years ending 31 March 2014 and 31 March 2015 and the pro-rata annual fee shall be payable by Shentong Yijia on the Effective Date for the period commencing on the Effective Date until 31 March 2013, during the term of the Second Customers Service Hotline Rental Agreement, whereas the calling charges shall be settled by Shentong Yijia on a monthly basis in arrears. In the event the period of service provided by CCC is shorter than one year, the annual fee will be charged on a pro-rata basis. For the avoidance of doubt, the annual fee paid by Shentong Yijia under the Customers Service Hotline Rental Agreement will be returned to Shentong Yijia on a pro-rata basis. A daily default interest of 0.3% on the outstanding amount payable will be accrued should Shentong Yijia fail to pay the service fee payable on time.

The Directors consider that the above pricing basis was made on an arm's length basis in the ordinary course of business and on normal commercial terms with reference to similar transactions carried out in the market and are no less favourable than terms available from independent third parties.

Term: For the period commencing on the Effective Date until 31 March 2015, which shall be automatically renewed for successive periods of one (1) year unless terminated by either party by 90 days' written notice prior to the expiry of the term or renewed terms, subject to compliance with the GEM Listing Rules.

Annual cap: The annual caps for the Second Customers Service Hotline Rental Agreement for each of the period commencing on the Effective Date until 31 March 2013 and for the years ending 31 March 2014 and 31 March 2015 are proposed to revise to RMB0.60 million (equivalent to approximately HK$0.73 million), RMB1.30 million (equivalent to approximately HK$1.58 million) and RMB1.30 million (equivalent to approximately HK$1.58 million) respectively.

Second Server Hosting Agreement

Date: 9 October 2012

Parties: CCC as supplier and Shentong Yijia as purchaser

Services: (i) Server hosting service: Shentong Yijia will place its servers in CCC's server rooms and CCC will provide monitoring, management and technical support services to Shentong Yijia; and

(ii) Dedicated leased-lines: CCC will provide designated 300M-bandwidth share of the broadband leased lines to Shentong Yijia for the operation of its website. CCC will also provide 90 IP addresses and not more than ten (10) racks of servers for the use of Shentong Yijia. CCC will also supply 2200W (10A) electricity for each rack of servers rented to Shentong Yijia.

Pricing basis: CCC will charge Shentong Yijia an annual rental fee of not more than RMB8.4 million (equivalent to approximately HK$10.24 million) and payable in four equal instalments quarterly in arrears. In the event the period of service provided by CCC is shorter than one year, the annual fee will be charged on a pro-rata basis. A daily default interest rate of 0.3% on the outstanding amount payable will be accrued should Shentong Yijia fail to pay the outstanding amount payable within 5 days from the date of receipt of the relevant demand note.

The significant increase in annual rental fee was mainly due to (i) cost inflation in PRC (original server hosting fee was RMB45,000 per rack, the renewed price is RMB70,000 while the market price was RMB90,000 per rack; and (ii) the maximum number of racks of server for rent was increased from 5 to 10. Further, to cope with the significant growth of the demand in the serving hosting service, Shentong Yijia had rented 3 extra racks of server from independent third party for approximately RMB90,000 per rack of server in the first quarter of 2012. As such, the Board considers that the rental of a maximum number of 5 racks of server under the Server Hosting Agreement will not be sufficient to satisfy the increasing demand and therefore the Board has proposed to revise the existing annual caps for the period commencing on the Effective Date until 31 March 2013 and for the years ending 31 March 2014 and 2015.

The Directors consider that the above pricing basis was made on an arm's length basis in the ordinary course of business and on normal commercial terms with reference to similar transactions carried out in the market and are no less favourable than terms available from independent third parties.

Term: For the period commencing from the Effective Date until 31 March 2015, which may be renewed for a term of one (1) year by written notice from Shentong Yijia to CCC filed during the period of 30 days prior to the expiry of the term or renewed terms, subject to compliance of the GEM Listing Rules. Notwithstanding the above, the Second Server Hosting Agreement may be terminated by Shentong Yijia by 30 days prior written notice.

Annual cap: The annual caps for the Second Server Hosting Agreement for each of the period commencing on the Effective Date until 31 March 2013 and for the years ending 31 March 2014 and 31 March 2015 are proposed to revise to RMB4.20 million (equivalent to approximately HK$5.12 million), RMB8.40 million (equivalent to approximately HK$10.24 million) and RMB8.40 million (equivalent to approximately HK$10.24 million) respectively.

Second Service Contract

Date: 9 October 2012

Parties: Shentong Yijia as supplier and CCC as purchaser

Services: The services to be provided by Shentong Yijia to CCC under the Second Service Contract include (i) management and sale of the Designated Shentong Cards; (ii) assisting CCC in the after-sale services for the Designated Shentong Card; (iii) following up with the enquiries and/or complaints raised by the users of the Designated Shentong Card; and (iv) customer management service, and promotion and marketing of the Designated Shentong Card.

Pricing basis:

(i) issuance handling fees of RMB5 (equivalent to approximately HK$6.1) for each Designated Shentong Card issued by Shentong Yijia;

(ii) technical service commission of 20% of the total value of purchases made by the users through the Designated Shentong Card issued by Shentong Yijia;

(iii) sale commission of RMB3 (equivalent to approximately HK$3.7) for the insurance products preloaded in the Designated Shentong Card issued by Shentong Yijia; and

(iv) sale commission of 20% of the total value of purchases made by the users through the Designated Shentong Card for the property and life insurance products and 10% for the purchases of health insurance products.

The above issuance handling fees and the commissions shall be settled by CCC on a monthly basis in arrears.

Term: For the period commencing from the Effective Date until 31 March 2015, which shall be automatically renewed unless terminated by any party by 15 day's written notice prior to the expiry of the term or the renewed terms, subject to compliance of the GEM Listing Rules.

Annual cap: The annual caps for the Second Service Contract for each of the period commencing on the Effective Date until 31 March 2013 and for the years ending 31 March 2014 and 31 March 2015 are proposed to revise to RMB19.00 million (equivalent to approximately HK$23.16 million), RMB39.00 million (equivalent to approximately HK$47.54 million) and RMB40.00 million (equivalent to approximately HK$48.76 million) respectively.

Second Web Advertising Agreement

Date: 9 October 2012

Parties: CCC as supplier and Shentong Yijia as purchaser

Services: Shentong Yijia agreed to place and CCC agreed to arrange for the web advertisements of Shentong Yijia be published on the website of CCC "Shentong Net". 24-hour technical support services shall also be provided by CCC to Shentong Yijia to handle all technical issues arising out the publication of the advertisements.

Pricing basis: The amount of advertising fees to be incurred by Shentong Yijia during the term of the Second Web Advertising Agreement shall not be more than RMB2.5 million (equivalent to approximately HK$3.05 million) for the period commencing on the Effective Date until 31 March 2013 and RMB5 million (equivalent to approximately HK$6.1 million) for the two years ending 31 March 2015. Details of the advertising arrangement and the payment methods shall be determined based on mutual agreement of Shentong Yijia and CCC to be reached at least three (3) days prior to the publication of the relevant advertisement.

Shentong Yijia confirms that the advertising fees to be charged by CCC for each advertisement to be placed by Shentong Yijia shall be determined according to the proposed publication timeslots, size, position etc. and shall be determined based on the prevailing charging rates and are no less favourable than terms available to independent third parties, and will be agreed upon by the parties according to the relevant advertising proposal to be provided by Shentong Yijia.

The Directors consider that the above pricing basis was made on an arm's length basis in the ordinary course of business and on normal commercial terms with reference to similar transactions carried out in the market and are no less favourable than terms available from independent third parties.

Term:	For the period commencing from the Effective Date until 31 March 2015, which shall be automatically renewed for successive periods of one (1) year unless terminated by either party by 90 days' written notice prior to the expiry of the term or renewed terms, subject to compliance of the GEM Listing Rules.
Annual cap:	The annual caps for the Second Web Advertising Agreement for each of the period commencing on the Effective Date until 31 March 2013 and for the years ending 31 March 2014 and 31 March 2015 are proposed to revise to RMB2.50 million (equivalent to approximately HK$3.05 million), RMB5.00 million (equivalent to approximately HK$6.10 million) and RMB5.00 million (equivalent to approximately HK$6.10 million) respectively.

Common terms of the Second CCT Agreements

Each of the Second CCT Agreements contains the following terms:

1. The terms of the Second CCT Agreements shall become effective on the date (the "**Effective Date**") falling upon the passing of the relevant resolutions by the Independent Shareholders at the EGM and shall not extend beyond 31 March 2015. Shentong Yijia will be entitled to extend the Second CCT Agreements on or before 31 March 2015 and to take such action as may be appropriate to comply with the GEM Listing Rules. Without prejudice to the right of any party to terminate the Second CCT Agreements pursuant to their respective terms, the Second CCT Agreements shall automatically terminate on 31 March 2015 (or such later date as the parties to the Second CCT Agreements may agree) if:

   (i) CCC or Shentong Yijia consider that it is not feasible to comply with the GEM Listing Rules at the relevant time; or

   (ii) compliance with the GEM Listing Rules would require changes to the Second Service Agreements which are not acceptable to any of the parties.

2. All changes made to the Second CCT Agreements shall be subject to compliance by the Company with GEM Listing Rules.

3. The total annual consideration payable or receivable by Shentong Yijia under the Second CCT Agreements shall be subject to a yearly cap set by the parties.

4. All the existing terms as contemplated under the CCT Agreements will be superseded and replaced by the terms set out in the respective Second CCT Agreements upon the Second CCT Agreements becoming effective on the Effective Date.

Revised Annual Caps of the Second CCT Agreements

The historical figures of the fees paid by/received by Shentong Yijia to/from CCC under the CCT Agreements for the years ended 31 March 2011 and 2012 and for the four months period ended 31 July 2012 were summarised in the table below. Taking into account (i) the business projections for Shentong Yijia to follow; (ii) the historical amounts paid by/ received by Shentong Yijia to/from CCC; and (iii) the possible inflation in service fees in the coming years (especially for the Second Service Hosting Agreement as explained below), the Company has set the following annual caps for each of the period commencing on the Effective Date until 31 March 2013 and for the years ending 31 March 2014 and 2015:

					Proposed Revised Annual Caps		
The Second CCT Agreements	**Terms of the Second CCT Agreements**	**Historical figures for the year ended 31 March 2011**	**Historical figures for the year ended 31 March 2012**	**Historical figures from 1 April 2012 to 31 July 2012**	**For the period commencing from the Effective Date until 31 March 2013**	**For the year ending 31 March 2014**	**For the year ending 31 March 2015**
		RMB	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
Second Customer Service Hotline Rental Agreement	Effective Date — 31/3/2015	499,371	638,400	281,631	600,000	1,300,000	1,300,000
Second Server Hosting Agreement	Effective Date — 31/3/2015	2,700,000	2,700,000	1,440,000	4,200,000	8,400,000	8,400,000
Second Service Contract	Effective Date — 31/3/2015	27,635,773	28,861,611	9,444,142	19,000,000	39,000,000	40,000,000
Second Web Advertising Agreement	Effective Date — 31/3/2015	—	1,200,000	1,600,000	2,500,000	5,000,000	5,000,000

The Revised Annual Caps set by the Directors above for the transactions contemplated under the Second CCT Agreements are due to, among other matters, (i) the recent inflation in service fees charged by internet service providers, including CCC, in the PRC; (ii) the recent increase in demand in the customer service hotline services and the web advertising industry in the PRC, while the charges of the Second Customers Service Hotline Rental Agreement is calculated based on the actual amount of usage of the relevant facilities; and (iii) the recent significant increase in demand for the server hosting service provided by CCC.

In particular, the proposed revised annual caps for the Second Customer Hotline Rental Agreement are determined with reference to (i) recent actual usage of calls, which is approximately 100,000 minutes for both incoming and outgoing calls per month; (ii) conservative growth rate of approximately 40% by reference to the actual growth rate of the usage of calls for the period from 1 April 2012 to 31 July 2012, which recorded a growth rate of approximately 75% when compared to the corresponding period in 2011.

For the Second Server Hosting Agreement, the proposed revised annual caps are determined with reference to (i) the average monthly unit server hosting fee at RMB70,000 per rack; and (ii) maximum number of 10 racks of server for rent. The significant increase in annual caps for the Second Server Hosting Agreement was mainly due to (i) increase in unit server hosting fee, which was due from the cost inflation in PRC during the past few years (original server hosting fee was RMB45,000 per rack, with a market price of RMB90,000 per rack at present); and (ii) increase in number of racks of server for rent (increased from 5 to 10) in order to cope with the significant growth of the demand in the server hosting service and stability of service provided.

For the Second Service Contract, the proposed revised annual caps are determined with reference to (i) the audited actual amounts of the promotion and management service income for the Group for the years ended 31 March 2011 and 2012; and (ii) business projections of the Group with a 20% buffer was added to the projected purchase figure to allow room for any further unexpected increase in the sales quantity of Designated Shentong Cards.

Further, the proposed revised annual caps for the Second Web Advertising Agreement are determined with reference to (i) actual recent usage, which is of RMB400,000 per month and (ii) a buffer of RMB200,000 per annum.

With the above factors in mind the increase in demand of the usage of the relevant facilities under the Second CCT Agreements, the Directors consider it would be necessary to the Revised Annual Caps be adopted.

The Group has launched TV broadcast advertising to promote the Shentong Cards, instead of advertising on the CCC's website for the year ended 31 March 2011. However, considering the stability of the sales of Shentong Cards and with the view to save cost, the Group had suspended its advertising plan in year 2011. It is the intention of the Group to resume advertisings on the CCC's website from the beginning of year 2012 to boost the sales of Shentong Cards, as such, the Directors are of the view that it is prudent to set the revised annual caps under the Second Service Contract and the Second Web Advertising Agreement based on the aforesaid factors.

The Revised Annual Caps are made on an arm's length basis in the ordinary course of business and on normal commercial terms with reference to (i) similar transactions carried out in the market; (ii) the historical figures in the previously dealings between Shentong Yijia and CCC under the CCT Agreements; and (iii) the business projections for Shentong Yijia for the years to follow and are no less favourable than terms available from Independent Third Parties.

The Board (excluding the independent non-executive Directors who shall provide their views after considering the advice of the Independent Financial Adviser) is of the opinion that the terms of the Second CCT Agreements and the Revised Annual Caps are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. In the event that any of these caps is exceeded, the Company will re-comply with its obligations under the GEM Listing Rules.

INFORMATION ABOUT THE GROUP AND CCC

The Group is principally engaged in the provision of promotion and management services for an electronic smart card "Shentong Card" in the PRC.

CCC is a nationwide telecom operator and internet network operator in the PRC covering a wide range of value-added telecom services, including telecommunication services, valued-added telecommunication platform, payment and billing system. The electronic billing and payment system is operated through "Shentong Card" (神通卡) platform.

REASONS FOR THE REVISION OF THE EXISTING ANNUAL CAPS

CCC is a nationwide telecom operator and internet network operator in the PRC providing comprehensive value-added telecom services, including telecommunication services, valued-added telecommunication platform, payment and billing system. The electronic billing and payment system is operated through "Shentong Card" (神通卡) platform.

The Company's Shentong Card business has steady growth, the turnover generated from Shentong Card business had been increased by approximately 9% in the year ended 31 March 2012 when compared to the year ended 31 March 2011. For the four months ended 31 July 2012, the unaudited turnover has been increased by approximately 25% when compared to the same period in year 2011.

The current numbers of staff for Shentong Card business is 56. There are around 1,023 distributors working with the Group, which covered major cities with relatively high population and high consumption per capita, such as Beijing, Shanghai, Tianjin, Guangzhou and Shenzhen etc. In geographical spread, it covered 10 Provinces, including Guangdong, Sichuan, Jilin, Jiangsu, Hebei, Shanxi, Hunan, Hubei, Liaoning and Heilongjiang.

Major revenue component represents the followings:

	Years ending 31 March			From 1 April 2012 to 31 July 2012
	2010	**2011**	**2012**	
	RMB	*RMB*	*RMB*	*RMB*
(i) Issuance handling fees	—	23%	17%	13%
(ii) Technical service commission	—	64%	72%	79%
(iii) Sales commission	—	13%	11%	8%

Major costs elements represents the followings:

	Years ending 31 March			From 1 April 2012 to 31 July 2012
	2010	**2011**	**2012**	
	RMB	*RMB*	*RMB*	*RMB*
(i) Customer service hotline rental	—	1%	6%	8%
(ii) Server hosting fee	—	7%	34%	40%
(iii) Amortisation on intangible assets	—	77%	52%	42%

In relation to the promotion of Shentong Card business, different sales promotion strategy will be used for different ultimate users group, namely group users and individual users. For group users, which is defined as purchasing a card with a total value for more than RMB100,000, the Group will first review the specific needs of the users, for example, whether the Shentong Card is used for entertainments or payments for telecommunication services, then the Group will prepare and enter into sales and purchase agreements for Shentong Cards. The Group will follow up with the group users, usually by random telephone to negotiate for the charge up value for the sold Shentong Cards. For individual users, the Group sell Shentong Cards through its well-developed distributors.

The major supplier of the Group is CCC in which credit terms are paid in arrears after service was received.

For future development for the Shentong Cards business, the Group will continue to strengthen the Group's distribution networks in order to broaden its income networks for the Shentong Cards business.

Shentong Yijia is principally engaged in the provision of the distribution and management services in relation to the Designated Shentong Cards. In view of the significant increase in demand in the electronic smart card services business in the PRC, the Group's demand for the service under the CCT Agreements, in particular the server hosting service provided by CCC, has well exceeded the Board's previous expectation. The Board had reviewed the existing annual cap of each of the CCT Agreements for the three years ending 31 March 2013 and found that for the four months period ended 31 July 2012, the transactions between Shentong Yijia and CCC had almost reached the relevant annual cap set for the financial year ending 31 March 2013. It is expected that the annual caps of each of the CCT Agreements as approved by the Independent Shareholders on 11 March 2010 may not be sufficient to cover the transactions between Shentong Yijia and CCC under the CCT Agreements. For the avoidance of doubt, as at the date of this announcement, the transaction amounts of the CCT Agreements were still within the ambit of their respective approved annual caps.

In addition, the Directors also noted that the terms of each of the CCT Agreements will expire on 31 March 2013.

Therefore, in order to facilitate the business development of Shentong Yijia on its principal business and in light of the need to revise the original annual caps for the CCT Agreements as stated above, the Second CCT Agreements had been entered into on 9 October 2012 to, among other things, revise the annual caps and renew the terms of each of the CCT Agreements to the period commencing on the Effective Date of the respective Second CCT Agreements until 31 March 2013 and for the two years ending on 31 March 2015. The Board considered it to be appropriate and beneficial to Shentong Yijia to enter into the Second CCT Agreements with CCC, who can provide a comprehensive and full range of telecommunications, internet and payment supporting services to Shentong Yijia.

The Directors consider that the effect on the new regulation on the Third-Party Payment License to the Group is not material, for the reasons that since April 2011 up to the present, the major revenue components of the Group are generated from the issuance handling fee and sales commission from the sales of new Shentong Cards and also the technical service commission from the purchases made by the users through Shentong Card, having said that, more than 99% of the purchases are for the payments of services operated by CCC, such as value-added telecom services and online games, instead of payments for third parties.

CCC is required to apply for such license, if necessary. CCC was incorporated in 2003 and is a nationwide telecom operator in the PRC. CCC is a member of the IP address distributor alliance (IP地址分配聯盟). It has a nationwide-covered network (CCCNET) and has a comprehensive payment settlement system which can provide accurate and safe payment service. CCC has fulfilled all the basic requirements for applying such license by way of its capital strength and nationwide operation scale. However, since CCC only operated self build-up services, it considered not to apply for such license at present.

The agreements between CCC and the three insurance companies, namely PICC Life, PICC Property and PICC Health will be expired in April 2013. CCC has commenced negotiations with the said insurance companies to strive for the continuation of co-operation or to explore new modes of co-operation. If negotiations are successful, it is expected that new agreements will be entered into in February 2013. In the event CCC cannot reach consensus with the insurance companies by February 2013, it would only affects the income generated from the sales commission of Shentong Cards (represented approximately one-tenth of the Group's total revenue) and it will not have any impact for the income generated from the technical service commission from purchases made by users through Shentong Cards. Through implementation of enriching the consumption contents of Shentong Cards and lauching stimulating consumption promotions strategy, for example spending programme, lucky draw for card numbers, the Group can ensure the sustainability of income. Besides, CCC can enter into services contracts with the Group for providing the same services for Shentong Card without preloading with insurance products.

In order to alleviate the current heavy reliance on the single largest customer of the Group, i.e. CCC, the Group has started to explore new income stream from other customers by:

(a) according to CCC, they have been developing a mobile online payment platform adaptable for the designated Shentong Cards in order to capture more users. The Group is considering the feasibility of becoming a sole agent for such mobile platform, and hence to look after new income stream from other customers, e.g. receive advertisement fees from advertiser; and

(b) the Board of the Group is endeavoured to explore new business opportunities with other potential customers in order to expand its customer base.

The Directors also considered that during the term of the CCT Agreements, the services provided by CCC were considered to be reliable and of good quality and therefore determined to renew the CCT Agreements by entering into the Second CCT Agreements. Further, the Revised Annual Caps would allow the Group to increase its supply to long term and reliable customers, thereby expanding its overall revenue. Based on the above, the Directors (excluding the independent non-executive Directors who shall provide their views after considering the advice from the Independent Financial Adviser) consider that the entering into of the Second CCT Agreements are in the ordinary course of business of the Group and that the terms of the Second CCT Agreements are determined on an arm's length basis with CCC.

Accordingly, the Directors (excluding the independent non-executive Directors who shall provide their views after considering the advice from the Independent Financial Adviser) are of the view that the terms and conditions of the Second CCT Agreements (including but not limited to the Revised Annual Caps respectively contemplated thereunder) are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

PROPOSED AMENDMENTS TO THE ARTICLES OF THE COMPANY

The Stock Exchange has amended the GEM Listing Rules relating to, among other things, the Articles or equivalent constitutional documents of listed issuers. The amendments to the GEM Listing Rules came into effect on 1 January 2012 and 1 April 2012.

Accordingly, the Directors propose to seek the approval of the Shareholders by way of special resolution for the amendments to the Articles at the forthcoming EGM, so as to bring the Articles in line with current amendments made to the GEM Listing Rules.

IMPLICATIONS UNDER THE GEM LISTING RULES

CCC is a connected person to the Company by virtue of its interest in approximately 29.84% of the issued share capital of the Company through CCI, its wholly-owned subsidiary. The controlling shareholder of CCC is 中國海外貿易哈爾濱王子葡萄酒有限公司 (China Overseas Trade Harbin Province Wine Co. Limited[#]), a company incorporated in the PRC with limited liability) and its ultimate beneficial owner is 中國海外貿易總公司 (China National Overseas Trading Corporation[#]), a state owned company. Mr. He Chenguang, the chairman and an executive Director of the Company, is also the legal representative of CCC.

In addition, based on the Revised Annual Caps, the annual consideration will be payable by and/or received from Shentong Yijia to/from CCC under the Second CCT Agreements will exceed HK$10,000,000 and 25% of the applicable ratios under the GEM Listing Rules. Accordingly, the transactions contemplated under the Second CCT Agreements are subject to the reporting, announcements and Independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

In addition, as CCC is a party to the Second CCT Agreements, CCC and its ultimate beneficial owners and their respective associates, who in aggregate hold 356,542,000 Shares, representing 29.84% interest in the Company, are required to abstain from voting the EGM in respect of the resolutions relating to the Second CCT Agreements. Mr. He Chenguang, the chairman of the Company and an executive Director, was also the legal representative of CCC and is therefore considered to be interested in the transactions respectively contemplated under each of the Second CCT Agreements and had abstained from voting on the board resolutions approving the said transactions. Save as aforesaid, the Board confirms that no other Director has any material interests in the said transactions that is required to abstain from voting on the board resolution for approving the Revised Annual Caps.

Save as disclosed above, no Shareholder has a material interest in the Second CCT Agreements, and for the avoidance of doubt, no Shareholder is required to abstain from voting on the resolutions approving the proposed amendments to the existing Articles.

GENERAL

The Independent Board Committee which comprises Mr. Yip Tai Him, Ms. Cao Huifang and Ms. Liu Hong, all being the independent non-executive Directors, has been established to advise the Independent Shareholders in respect of the Second CCT Agreements and the Revised Annual Caps for the transaction respectively contemplated thereunder.

Nuada Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Second CCT Agreements and the Revised Annual Caps for the transaction respectively contemplated thereunder.

The Independent Board Committee and the Directors, having taken into account the advice of the Independent Financial Adviser, consider that the Second CCT Agreements were entered into on normal commercial terms and that the terms of the Second CCT Agreements (including the Revised Annual Caps for the transactions respectively contemplated thereunder) are fair and reasonable and in the interests of the Group so far as the Independent Shareholders are concerned and accordingly recommends the Independent Shareholders to vote in favour of the ordinary resolution(s) which will be proposed at the EGM for approving the Second CCT Agreements and the annual caps for the transaction respectively contemplated thereunder.

A circular containing, amongst other things, further information of the proposed amendments to the existing Articles, the Second CCT Agreements, the recommendations of the Independent Board Committee, the letter of advice from the independent financial adviser to the Independent Board Committee and the notice of the EGM will be despatched to the Shareholders as soon as possible in compliance with the GEM Listing Rules.

DEFINITIONS

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

"Articles"	the articles of association of the Company as amended from time to time
"Board"	the board of Directors
"CCC"	神州通信集團有限公司 (China Communication Group Co., Ltd.#), a company established under the laws of the PRC, a substantial Shareholder by virtue of its interest in approximately 29.84% of the issued share capital of the Company through CCI, its wholly-owned subsidiary
"CCI"	神州通信投資有限公司 (China Communication Investment Limited), a company incorporated in the British Virgin Islands with limited liability, a wholly-owned subsidiary of CCC

"CCT Agreements"	together, the Customer Service Hotline Rental Agreement, the Server Hosting Agreement, the Service Contract and the Web Advertising Agreement
"Company"	China Communication Telecom Services Company Limited, a company incorporated in the Cayman Islands with limited liability, whose shares are listed on GEM
"connected persons"	has the meaning ascribed to it under the GEM Listing Rules
"Customers Service Hotline Rental Agreement"	the customers service hotline rental agreement entered into between Shentong Yijia and CCC on 11 January 2010 in relation to the provision of the designated national customers service hotline number 95130*** by CCC to Shentong Yijia, details of which have been included in the circular of the Company dated 5 February 2010
"Designated Shentong Card(s)"	the designated "Shentong Card(s)" preloaded with certain insurance products of CCC
"Director(s)"	the director(s) of the Company, from time to time
"EGM"	an extraordinary general meeting of the Company to be convened for the purpose of considering, and if thought fit, approving, inter alia, the proposed amendments to the existing Articles, the Second CCT Agreements and the transactions respectively contemplated thereunder
"GEM"	the Growth Enterprise Market of the Stock Exchange
"GEM Listing Rules"	the Rules Governing the Listing of Securities on GEM
"Group"	the Company and its subsidiaries
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	an independent committee comprising Mr. Yip Tai Him, Ms. Cao Huifang and Ms. Liu Hong, all being the independent non-executive Directors, established to advise the Independent Shareholders in relation to the Second CCT Agreements and the Revised Annual Caps for the transactions contemplated thereunder
"Independent Financial Adviser"	Nuada Limited, a licensed corporation under the SFO to conduct type 6 (advising on corporate finance) regulated activity appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the Second CCT Agreements and the annual caps for the transactions contemplated thereunder

"Independent Shareholders"	Shareholder(s) other than CCC and Shentong Yijia and Shareholders who are connected to or otherwise associated with CCC and Shentong Yijia or interested in the Second CCT Agreements other than being a Shareholder of the Company
"Independent Third Party(ies)"	any person(s) or company(s) and their respective ultimate beneficial owner(s), to the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, are third party(ies) independent of and not connected with any director, chief executive or substantial shareholders or management shareholders of the Company or its subsidiaries or any of their respective associates
"PICC Health"	PICC Health Insurance Company Limited
"PICC Life"	PICC Life Insurance Company Limited
"PICC Property"	PICC Property and Casualty Company Limited
"PRC"	the People's Republic of China, which for the purpose of this announcement, shall exclude Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
"Revised Annual Caps"	the revised annual caps for the Second CCT Agreements for the period commencing on the Effective Date until 31 March 2013 and for the years ending 31 March 2014 and 31 March 2015
"Second CCT Agreements"	together, the Second Customer Service Hotline Rental Agreement, the Second Server Hosting Agreement, the Second Service Contract and the Second Web Advertising Agreement
"Second Customer Service Hotline Rental Agreement"	the customers service hotline rental agreement entered into between Shentong Yijia and CCC on 9 October 2012 in relation to the provision of the designated national customers service hotline number 95130*** by CCC to Shentong Yijia, to renew the Second Customer Service Hotline Rental Agreement
"Second Server Hosting Agreement"	the server hosting agreement to be entered into between Shentong Yijia and CCC on 9 October 2012 in relation to the provision of server hosting service and the broadband leased line by CCC to Shentong Yijia, to renew the Server Hosting Agreement

"Second Service Contract"	the service contract to be entered into between Shentong Yijia and CCC on 9 October in relation to the provision of management service by Shentong Yijia to CCC regarding the Designated Shentong Cards, to renew the Service Contract
"Second Web Advertising Agreement"	the web advertising agreement to be entered into between Shentong Yijia and CCC on 9 October in relation to the provision of advertising space by CCC to Shentong Yijia, to renew the Web Advertising Agreement
"Server Hosting Agreement"	the server hosting agreement entered into between Shentong Yijia and CCC on 11 January 2010 (as supplemented by a supplemental agreement dated 17 March 2010) in relation to the provision of server hosting service and the broadband leased line by CCC to Shentong Yijia, details of which have been included in the circular of the Company dated 5 February 2010
"Service Contract"	the service contract entered into between Shentong Yijia and CCC on 30 November 2009 in relation to the provision of management service by Shentong Yijia to CCC regarding the Designated Shentong Cards, details of which have been included in the circular of the Company dated 5 February 2010
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	ordinary share(s) of HK$0.01 each in the issued and unissued share capital of the Company
"Shareholder(s)"	holder(s) of the Share(s) from time to time
"Shentong Yijia"	北京神通益家科技服務有限公司 (Beijing Shentong Yijia Technology Services Company Limited#), a company established under the laws of the PRC, a wholly owned subsidiary of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Web Advertising Agreement"	the web advertising agreement dated 11 January 2010 (as supplemented by a supplemental agreement dated 17 March 2010) entered into between Shentong Yijia and CCC in relation to the provision of advertising space by CCC to Shentong Yijia, details of which have been included in the circular of the Company dated 5 February 2010
"HK$" and "cents"	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong

"RMB"	Renminbi, the lawful currency of the PRC
"%"	per cent.

 # English translation of the name for identification purpose only

For the purpose of this announcement, unless otherwise indicated, conversion of RMB into HK$ is calculated at the approximate exchange rate of RMB0.8203 to HK$1.00. This exchange rate is adopted for the purpose of illustration purpose only and does not constitute a representation that any amounts have been, could have been, or may be, exchanged at this rate or any other rate at all.

By order of the Board
China Communication Telecom Services Company Limited
He Chenguang
Chairman

Hong Kong, 9 October 2012

As at the date of this announcement, the executive Directors are Mr. He Chenguang and Mr. Zhang Peng, the non-executive Director is Mr. Xiao Haiping and the independent non-executive Directors are Mr. Yip Tai Him, Ms. Cao Huifang and Ms. Liu Hong.

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

This announcement will remain at www.hkgem.com on the "Latest Company Announcements" page of the GEM website for at least 7 days from the date of its posting and on the website of the Group at www.ccpi.com.hk.