



## China Telecom Corporation Limited

中国电信股份有限公司

(A joint stock limited company incorporated in the People's Republic of China with limited liability)  
(Stock Code: 0728)

### CONTINUING CONNECTED TRANSACTIONS AND STRATEGIC AGREEMENT

#### CONTINUING CONNECTED TRANSACTIONS

Reference is made to the 2004 Announcement and the 2005 Announcement in relation to certain continuing connected transactions between the Group and China Telecommunications Corporation and/or its associates.

The Company now seeks to do the following in respect of certain continuing connected transactions: revise the annual caps of three framework agreements, modify the parties of the Prior Agreements by entering into the Listco-Parent Agreements and to renew the terms of the Existing Agreements and their annual caps for the renewed term.

#### Revision of annual caps

The value of the categories of continuing connected transactions involving the provision of: (i) ancillary telecommunications services, (ii) comprehensive services and (iii) IT services by China Telecommunications Corporation and/or its associates are subject to annual caps. The Directors have been monitoring the Company's continuing connected transactions and with the continued development and expansion of the businesses of the Group and based on internal estimates of the demand and the operating conditions in respect of these continuing connected transactions, the Directors note that the existing cap for 2006 for the provision of ancillary telecommunications services, comprehensive services and IT services will not be sufficient for the Group's current requirements, and therefore propose that the existing caps for these continuing connected transactions be revised accordingly as set out below.

#### Change of parties to certain framework agreements

The Company has been undertaking an extensive review of the continuing connected transactions carried out between the wholly-owned subsidiaries of the Company and China Telecommunications Corporation and/or its associates under the Prior Agreements, with a view to presenting a more coherent, logical and comprehensible picture to shareholders, and also to enable the Company to monitor and manage the status of transactions more effectively going forward. In order to better rationalize and to ensure effective management of the continuing connected transactions, the Company now proposes that new agreements, on exactly the same terms as the Prior Agreements, be entered into between the Company and China Telecommunications Corporation to govern certain continuing connected transactions between the Group and China Telecommunications Corporations and/or its associates. The Prior Agreements will expire and the Listco-Parent Agreements will govern the terms of the relevant continuing connected transactions.

#### Renewal of the Existing Agreements

Reference is made to the 2004 Announcement and the 2005 Announcement, in which the Company announced that the Group has entered into the Existing Agreements with China Telecommunications Corporation and/or its associates. Each of the Existing Agreements has a term expiring on 31 December 2006. The Board announces that the Existing Agreements have been renewed in accordance with their respective provisions on 30 August 2006, invariably for a further term of one year to two years. The annual caps applicable to the renewed terms are set out below.

#### Listing rules implications

Each of the Engineering Framework Agreements and the Interconnection Agreement are non-exempt continuing connected transactions under Rule 14A.35 of the Hong Kong Listing Rules. These transactions, including the fact that the Interconnection Agreement is not subject to annual caps, are subject to reporting and announcement requirements and are required to be approved by the Independent Shareholders under the Hong Kong Listing Rules.

The Company undertakes to comply with the rules in relation to annual review of continuing connected transactions set out in Rules 14A.37 to Rule 14A.41 of the Hong Kong Listing Rules. The Company specifically undertakes to comply in full with all applicable requirements set out in Chapter 14A of the Hong Kong Listing Rules upon any variation or renewal of the agreements.

#### STRATEGIC AGREEMENT

The Company has entered into the Strategic Agreement with CCS on 30 August 2006 to set out the parameters of strategic cooperation between the two parties and to form a strategic partnership in accordance with the principle of equality and mutual benefits.

#### Listing rules implications

Given that China Telecommunications Corporation, the controlling shareholder of the Company, and its associates beneficially owns approximately 91.50% of the existing issued share capital of CCS, CCS is regarded as a connected person under the Hong Kong Listing Rules, and the transactions contemplated under the Strategic Agreement, which is continuous in nature and was entered into in the ordinary course of business of the Group, constitute continuing connected transactions of the Company under the Hong Kong Listing Rules. The Strategic Agreement and the transactions contemplated thereunder are subject to reporting, announcement and Independent Shareholders' approval requirements under the Hong Kong Listing Rules.

#### THE EGM

Pursuant to Rule 14A.54 of the Hong Kong Listing Rules, any connected person and any shareholder and their associates with a material interest in the Engineering Framework Agreements, the Interconnection Agreement and the Strategic Agreement are required to abstain from voting on the relevant resolution at the EGM. China Telecommunications Corporation and its associates are required to abstain from voting on the resolutions in respect of the Engineering Framework Agreements, the Interconnection Agreement and Strategic Agreement and the transactions contemplated thereunder at the EGM.

An independent board committee, comprising all of the independent non-executive directors of the Company, namely Mr. Zhang Youcai, Mr. Vincent Lo Hong Sui, Mr. Shi Wangpeng, Mr. Xu Erming and Mr Tse Hau Yin, Aloysius, has been formed to advise the Independent Shareholders in relation to the Engineering Framework Agreements, the Interconnection Agreement and the Strategic Agreement. An independent financial adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders on the Engineering Framework Agreements, the Interconnection Agreement and the Strategic Agreement.

A circular containing, among other things, (i) details of the Engineering Framework Agreements, the Interconnection Agreement and the Strategic Agreement; (ii) a letter from an independent financial adviser to the Independent Board Committee and the Independent Shareholders containing its advice on the Engineering Framework Agreements, the Interconnection Agreement and the Strategic Agreement; (iii) the recommendation of the Independent Board Committee in respect of the Engineering Framework Agreements, the Interconnection Agreement and the Strategic Agreement; and (iv) a notice of the EGM, will be despatched to the shareholders as soon as practicable.

#### BACKGROUND

##### Overview

Reference is made to the 2004 Announcement and the 2005 Announcement in relation to certain continuing connected transactions between the Group and China Telecommunications Corporation and/or its associates.

China Telecommunications Corporation is the controlling shareholder, holding 70.89% of the issued share capital of the Company. Accordingly, China Telecommunications Corporation is a connected person of the Company and transactions between China Telecommunications Corporation and/or its associates and the Group constitute connected transactions for the Company for the purpose of the Hong Kong Listing Rules.

The Company now seeks to do the following in respect of certain continuing connected transactions: revise the annual caps of three framework agreements, modify the parties of the Prior Agreements by entering into the Listco-Parent Agreements and to renew the terms of the Existing Agreements and their annual caps for the renewed term.

#### RENEWAL OF TERMS AND ANNUAL CAPS

##### Revision of annual caps

The value of the categories of continuing connected transactions involving the provision of: (i) ancillary telecommunications services, (ii) comprehensive services and (iii) IT services by China Telecommunications Corporation and/or its associates are subject to annual caps. The Directors have been monitoring the Company's continuing connected transactions and with the continued development and expansion of the businesses of the Group and based on internal estimates of the demand and the operating conditions in respect of these continuing connected transactions, the Directors note that the existing cap for 2006 for the provision of ancillary telecommunications services, comprehensive services and IT services will not be sufficient for the Group's current requirements, and therefore propose that the existing caps for these continuing connected transactions be revised. Details of the relevant agreements governing these continuing connected transactions are set out below.

##### Change of parties to certain framework agreements

The Prior Agreements were entered into between a subsidiary of the Company and associates of China Telecommunications Corporation in relation to certain continuing connected transactions. In order to better rationalize and to ensure effective management of the continuing connected transactions, the Company now proposes that new agreements, on exactly the same terms as the Prior Agreements, be entered into between the Company and China Telecommunications Corporation to govern certain continuing connected transactions between the Group and China Telecommunications Corporations and/or its associates. The Prior Agreements will expire and the Listco-Parent Agreements will govern the terms of the relevant continuing connected transactions.

##### Renewal of the Existing Agreements

Each of the Existing Agreements has a term expiring on 31 December 2006. The Board announces that the Existing Agreements have been renewed in accordance with their respective provisions on 30 August 2006, invariably for a further term of one year to two years. The annual caps applicable to the renewed terms are set out in this announcement.

#### REVISION OF ANNUAL CAPS

##### Ancillary telecommunications services

China Telecommunications Corporation and/or its associates provide certain repair and maintenance services to the Group, such as the repair of certain telecommunications equipment, the maintenance of fire prevention equipment and telephone booths and other customers' services.

Under the Ancillary Telecommunications Services Framework Agreement, China Telecommunications Corporation and/or its associates have agreed to provide ancillary telecommunications services to the Group. Such agreements will expire on 31 December 2006, but will be renewed for further periods of three years unless either party notifies the other at least three months prior to the expiration of the term in writing of its intention to terminate the relevant agreement.

For the two years ended 31 December 2005 and the seven months ended 31 July 2006, the charges for such services the Group paid to China Telecommunications Corporation and/or its associates were approximately RMB2,304 million, RMB2,456 million and RMB1,298 million (unaudited), respectively. These charges paid were calculated on the following basis:

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

##### Comprehensive services

China Telecommunications Corporation provides comprehensive services to the Company, including the procurement of telecommunications equipment such as optic fibers, network designs, software upgrade, system integration, manufacture of calling cards and so on. The Company and China Telecommunications Corporation entered into the Comprehensive Services Framework Agreement on 13 April 2004, which was renewed on 15 December 2005. The Comprehensive Services Framework Agreement has a term expiring on 31 December 2006, which can be renewed for further periods of one year unless terminated by either party with at least three months' written notification to the other party.

For the two years ended 31 December 2005 and the seven months ended 31 July 2006, the charges for such services the Company paid to China Telecommunications Corporation were approximately RMB348 million, RMB425 million and RMB333 million (unaudited), respectively.

The comprehensive services under the Comprehensive Services Framework Agreement are provided at:

- (1) the government prescribed prices;
- (2) where there are no government prescribed prices but where there are government guided prices, the government guided prices;
- (3) where there are no government prescribed prices nor government guided prices, the market price, which is the price at which the same type of comprehensive services are provided by Independent Third Parties in the ordinary course of business; and
- (4) where none of the above is applicable, the price to be agreed between the parties, which shall be the reasonable costs incurred in providing such services, together with a reasonable profit margin.

##### IT services

The Group and China Telecommunications Corporation and/or its associates entered into the IT Services Framework Agreements from October 2002 to April 2004, in relation to the provision of certain information technology services, such as office automation and software adjustment, by the latter to the former. The IT Services Framework Agreements were renewed on 15 December 2005. It has a term expiring on 31 December 2006, which can be renewed for further periods of one year, unless the Group provides three months' written notification to China Telecommunications Corporation and/or its associates of its intention not to renew it.

For the two years ended 31 December 2005 and the seven months ended 31 July 2006, the charges for such services the Group paid to China Telecommunications Corporation and/or its associates were approximately RMB169 million, RMB164 million and RMB80 million (unaudited), respectively.

China Telecommunications Corporation and/or its associates have the right to participate in the bidding for the right to provide the Group with services under a particular IT Services Framework Agreement, and the charges payable are determined by reference to market rates as reflected by prices obtained through the tender process. Where the terms of an offer from China Telecommunications Corporation and/or its associates is at least as favorable as that offered by another bidder which is an Independent Third Party, the Group may award the tender to China Telecommunications Corporation and/or its associates.

##### Revised Caps

The Board has considered and proposed that the following annual caps (the "Revised Caps") in respect of continuing connected transactions under the Ancillary Telecommunications Services Framework Agreement, the IT Services Framework Agreements and the Comprehensive Services Framework Agreement:

The continuing connected transactions	Historical amount	Existing annual cap	Revised Cap for the financial year ended 31 December 2006
Ancillary telecommunications services	For the two years ended 31 December 2005 and the seven months ended 31 July 2006, RMB2,304 million, RMB2,456 million and RMB1,298 million respectively	RMB2,640 million	RMB3,900 million
IT services	For the two years ended 31 December 2005 and the seven months ended 31 July 2006, RMB169 million, RMB164 million and RMB80 million respectively	RMB320 million	RMB490 million
Comprehensive services	For the two years ended 31 December 2005 and the seven months ended 31 July 2006, RMB348 million, RMB425 million and RMB333 million respectively	RMB970 million	RMB1,440 million

##### Basis of determination of the Revised Caps

**Ancillary telecommunications services** – The increased demand for ancillary telecommunications services as a result of the efforts of the Company to enhance its market competitiveness by increasing its input to operating costs on a continuing basis, coupled with the fact that the majority of connected transactions will be completed in the second half of the year, will lead to an annual transaction amount which exceeds the existing annual cap.

In recent years, the communication market has seen keen competition, the trend for mobile communication to replace other means of communication is increasingly obvious, and the operating costs of the Company is increasing year by year. To maintain its market share and increase its revenue, the Company has stepped up its efforts to adjust its capital structure, increase marketing costs (a growth of approximately 14% in marketing costs in the first half of 2006), to ensure the sufficiency of its network maintenance costs (an increase of approximately 2% in network operation costs in the first half of 2006), and to minimize its management costs (the general management costs basically remained at the same level in the first half of 2006). Subject to regulated tender invitation, the transaction amount of ancillary telecommunications services, which is closely related to the marketing costs and network operation costs, has also increased rapidly. In 2005, the budget set for the ancillary telecommunications services of the Company was almost fully utilised, with the amount of transactions completed reaching RMB2.456 billion or 93% of the annual cap. From January to July this year, the amount of completed ancillary telecommunications services transactions reached RMB1.298 billion (unaudited) or 49.2% of the existing annual cap. Considering that such continuing connected transactions will be mainly conducted in the second half of the year, and based on detailed internal analyses and estimates, the Company anticipates that the aggregate transaction amount of ancillary telecommunications services for the full year 2006 will exceed the existing annual cap.

**IT services** – The Company is actively expanding its business which increases its demand for IT services. The Company's revenue from value-added services increased by 43% in the first half of the year. The demand for IT services connected transactions increased as a result. The net investment in IT services was approximately RMB103,000,000. In estimating the existing cap, the Company has already taken into consideration its business development needs. However, in reviewing the status of completed connected transactions, the Company has found that the growth of the relevant business far exceeds its expectation, and, as a result, the Company anticipates that the annual transaction amount of IT services will exceed the existing annual cap. Although the relevant amount of completed IT services connected transactions from January to July 2006 was only approximately RMB80,000,000 (unaudited), representing approximately 25% of the existing annual cap, a greater number of transactions are expected to be conducted in the second half of the year based on the number of agreements entered into by the Company. Further, an analysis of the transactions completed in the previous years indicates that the majority of connected transactions will be conducted in the second half of the year. The repeated estimates and analyses made by the Company show that the transaction amounts of continuing connected transactions for IT services in the second half of the year are expected to well exceed those in the first half. Therefore, the amount for the full year 2006 is anticipated to exceed the existing annual cap.

**Comprehensive services** – As is in the case of IT services, the Company is actively expanding its business which increases its demand for comprehensive services. Although the amount of completed comprehensive service transactions from January to July 2006 was only approximately RMB333,000,000 (unaudited), representing approximately 34% of the existing annual cap, its increase on a year-on-year basis was approximately 176%. Furthermore, the majority of comprehensive services transactions are expected to be conducted in the second half of the year given the number of agreements already entered into by the Company. An analysis of the transactions completed in the previous years also indicates that the majority of the continuing connected transactions for comprehensive services will be conducted in the second half of the year. The repeated estimates and analyses made by the Company show that the transaction amounts of connected transactions in the second half of the year are expected to well exceed those in the first half. As a result, the transaction amount for the full year 2006 is anticipated to exceed the existing annual cap.

The Board (including the independent non-executive directors of the Company) considers that the abovementioned continuing connected transactions have been conducted on normal commercial terms or on terms no less favourable than those available to Independent Third Parties and were entered into in the ordinary and usual course of business of the Group, are fair and reasonable and in the interests of the Company and our shareholders as a whole, and that the Revised Caps for the abovementioned continuing connected transactions are fair and reasonable.

As each of the percentage ratios (other than the profits ratio) of each of the ancillary telecommunications services, comprehensive services and IT services is, on an annual basis, higher than 0.1% and less than 2.5%, they therefore fall under Rule 14A.34 of the Hong Kong Listing Rules. Accordingly, the Company is subject to the reporting and announcement requirements set out under Rules 14A.45 to 14A.47 of the Hong Kong Listing Rules in respect of these agreements, but is exempt from the requirements of independent shareholders' approval under Chapter 14A of the Hong Kong Listing Rules. Details of the agreements will be disclosed in the Company's next published annual report, as required under Rule 14A.46 of the Hong Kong Listing Rules.

##### MODIFICATION OF THE PARTIES TO VARIOUS FRAMEWORK AGREEMENTS

The Company has been undertaking an extensive review of the continuing connected transactions carried out between the wholly-owned subsidiaries of the Company and China Telecommunications Corporation and/or its associates under the various connected transaction agreements, with a view to presenting a more coherent, logical and comprehensible picture to shareholders, and also to enable the Company to monitor and manage the status of transactions more effectively going forward.

The relevant connected transactions agreements are as follows:

- (1) Property Leasing Framework Agreements;
- (2) Equipment Procurement Services Framework Agreements;
- (3) IT Services Framework Agreements;
- (4) Engineering Framework Agreements;
- (5) Ancillary Telecommunications Services Framework Agreements; and
- (6) Community Services Framework Agreements (collectively, the "Prior Agreements").

For the purposes of rationalizing the connected transactions entered into by the Group so as to facilitate the internal management, all subsidiaries of the Company and China Telecommunications Corporation and/or its associates agree to modify the contractual parties to the various connected transaction agreements. Accordingly, the Company and China Telecommunications Corporation executed the Listco-Parent Agreements on 30 August 2006 as framework agreements to govern the terms of the continuing connected transactions under the Prior Agreements. Pursuant to the Listco-Parent Agreements, the Company will represent the Group and China Telecommunications Corporation will represent its associates. The terms and provisions of the relevant connected transaction agreements remain unchanged. Each of the Listco-Parent Agreements has a term expiring on 31 December 2007 (except for the Engineering Framework Agreements which will expire in 2008), and may be further renewed in accordance with their respective provisions.

**RENEWAL OF THE EXISTING AGREEMENTS**

Reference is made to the 2004 Announcement and the 2005 Announcement, in which the Company announced that the Group has entered into, among others, the following agreements (collectively, the “**Existing Agreements**”) with China Telecommunications Corporation and/or its associates:

- (1) Interconnection Agreement;
- (2) Centralized Services Agreement; and
- (3) Comprehensive Services Framework Agreement.

As disclosed in the 2004 Announcement and the 2005 Announcement, the Company will, upon any variation or renewal of the Existing Agreements, comply in full with all applicable requirements set out in Chapter 14A of the Hong Kong Listing Rules.

Each of the Existing Agreements has a term expiring on 31 December 2006, and has been renewed in accordance with their respective provisions on 30 August 2006, invariably for a further term of one year to two years.

**CONNECTION BETWEEN THE PARTIES**

The Existing Agreements and the Listco-Parent Agreements were entered into between the Company and China Telecommunications Corporation. As China Telecommunications Corporation is the Company’s controlling shareholder (such term as defined under the Hong Kong Listing Rules), holding 70.89% of the issued share capital of the Company, it is a connected person of the Company. Hence, the transactions contemplated under the Existing Agreements and the Listco-Parent Agreements constitute continuing connected transactions of the Company for the purpose of Chapter 14A of the Hong Kong Listing Rules.

**BACKGROUND TO THE EXISTING AGREEMENTS AND THE LISTCO-PARENT AGREEMENTS**

The Existing Agreements have been automatically renewed with the substance of the terms of each of the Existing Agreements remain unchanged (except for the Centralized Services Agreement, which has been amended on 15 December 2005 and disclosed in the 2005 Announcement). In addition, the terms of the continuing connected transactions as set out in the Prior Agreements remain unchanged under the Listco-Parent Agreements except that the relevant holding company is now a party to such agreements.

On this premise, the commercial background of, and reasons for the Existing Agreements and the Listco-Parent Agreements, which are detailed in the 2004 Announcement and the 2005 Announcement, will not be repeated in this announcement.

**TERMS OF THE LISTCO-PARENT AGREEMENTS AND THE EXISTING AGREEMENTS****Engineering Framework Agreements**

The Group and China Telecommunications Corporation and/or its associates have entered into Engineering Framework Agreements to govern the arrangements with respect to certain engineering related services. Each Engineering Framework Agreement will expire on 31 December 2006, but will be renewed for further periods of three years unless any member of the Group provides three months’ written notification to the China Telecommunications Corporation and/or its associates of its intention not to renew the agreement.

The charges payable for engineering related services rendered under the Engineering Framework Agreements shall be determined by reference to market rates as reflected by prices obtained through a tender process. The Group does not accord any priority to China Telecommunications Corporation and/or its associates to provide such services, and the tender may be awarded to an Independent Third Party. However, if the terms of an offer from China Telecommunications Corporation and/or its associates are at least as favorable as those offered by another tenderer, the Group may award the tender to China Telecommunications Corporation and/or its associates.

The Engineering Framework Agreements have been renewed in accordance with their respective provisions on 30 August 2006 for further terms of two years expiring on 31 December 2008.

**Interconnection Agreement**

The Company and China Telecommunications Corporation have entered into the Interconnection Agreement, with a term expiring on 31 December 2006. The Interconnection Agreement will be renewed for further periods of three years unless the Company provides three months’ written notification to China Telecommunications Corporation of its intention not to renew the agreement.

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

The Interconnection Agreement has been renewed in accordance with its provisions on 30 August 2006 for a further term of two years expiring on 31 December 2008.

**Centralized Services Agreement**

The Centralized Services Agreement relates to the provision of centralized services, such as the Company’s provision of management business to customers of China Telecommunications Corporation, and the Company’s use of international telecommunications facilities of China Telecommunications Corporation. It was entered into between the Company and China Telecommunications Corporation on 10 September 2002, and was renewed on 15 December 2005. The Centralized Services Agreement has a term expiring on 31 December 2006, which can be renewed for further periods of one year unless the Company provides three months’ written notification to China Telecommunications Corporation of its intention not to renew it.

The apportionment of the aggregate costs for the provision of management business is on a pro rata basis in accordance with the revenues generated by each party. The apportionment of costs incurred for the use of international telecommunications facilities is on a pro rata basis in accordance with the volume of international calls handled by each party. The Centralized Services Agreement has been renewed in accordance with its provisions on 30 August 2006 for a further term of one year expiring on 31 December 2007.

**Comprehensive Services Framework Agreement**

The Comprehensive Services Framework Agreement relates to the provision of comprehensive services by China Telecommunications Corporation to the Company, including the procurement of telecommunications equipment such as optic fibers, network designs, software upgrade, system integration, manufacture of calling cards and so on. It was entered into between the Company and China Telecommunications Corporation on 13 April 2004, and was renewed on 15 December 2005. The Comprehensive Services Framework Agreement has a term expiring on 31 December 2006, which can be renewed for further periods of one year unless terminated by either party with at least three months’ written notification to the other party.

The Comprehensive Services Framework Agreement has been renewed in accordance with its provisions on 30 August 2006 for a further term of one year expiring on 31 December 2007.

**Property Leasing Framework Agreements**

Certain subsidiaries of the Company and certain subsidiaries of China Telecommunications Corporation entered into the Property Leasing Framework Agreements from October 2002 to April 2004, and were renewed on 15 December 2005, in relation to the lease of properties by the former to the latter, and vice versa. Each Property Leasing Framework Agreement has a term expiring on 31 December 2006, which can be renewed for further periods of one year, unless the relevant subsidiary of the Company provides three months’ written notification to the relevant subsidiary of China Telecommunications Corporation of its intention not to renew it.

The rental charge in respect of the property which is subject to each Property Leasing Framework Agreement is determined based on market rates, with reference to amounts stipulated by local price bureaus, taking into consideration the specific needs of the PRC telecommunications industry. The rental charges under each Property Leasing Agreement is subject to review each year. The Property Leasing Framework Agreements have been renewed in accordance with their respective provisions on 30 August 2006 for further terms of one year expiring on 31 December 2007.

**IT Services Framework Agreements**

Certain subsidiaries of the Company and China Telecommunications Corporation and/or its associates entered into the IT Services Framework Agreements from October 2002 to April 2004, which were renewed on 15 December 2005, in relation to the provision of certain information technology services, such as office automation and software adjustment, by the latter to the former. Each IT Service Framework Agreement has a term expiring on 31 December 2006, which can be renewed for further periods of one year, unless the Group provides three months’ written notification to China Telecommunications Corporation of its intention not to renew it.

China Telecommunications Corporation and/or its associates have the right to participate in the bidding for the right to provide the Group with services under a particular IT Services Framework Agreement, and the charges payable are determined by reference to market rates as reflected by prices obtained through the tender process. Where the terms of an offer from China Telecommunications Corporation and/or its associates are at least as favorable as that offered by another bidder which is an Independent Third Party, the Group may award the tender to China Telecommunications Corporation and/or its associates.

The IT Services Framework Agreements have been renewed in accordance with their respective provisions on 30 August 2006 for further terms of one year expiring on 31 December 2007.

**Equipment Procurement Services Framework Agreements**

The Group and China Telecommunications Corporation and/or its associates entered into the Equipment Procurement Services Framework Agreements from October 2002 to April 2004, which were renewed on 15 December 2005, in relation to the provision of comprehensive procurement services, including the management of tenders, verification of technical specifications and installation services, by the latter to the former. Each Equipment Procurement Services Framework Agreement has a term expiring on 31 December 2006, which can be renewed for further periods of one year, unless the Group provides three months’ written notification to China Telecommunications Corporation and/or its associates of its intention not to renew it.

The commission charges payable for such services are calculated, at the maximum, at:

- (1) in respect of imported telecommunications equipment, 1% of the contract value; or
- (2) in respect of domestic telecommunications equipment and other domestic non-telecommunications materials, 3% of the contract value.

The Equipment Procurement Agreements have been renewed in accordance with their respective provisions on 30 August 2006 for further terms of one year expiring on 31 December 2007.

**Community Services Framework Agreements**

China Telecommunications Corporation and/or its associates provide certain cultural, educational, property management, vehicles services, health and medical services, hotel and conference services, community and sanitary services to the Group. The arrangements are set out in the Community Services Framework Agreements entered into between them, with terms expiring on 31 December 2006, but will be renewed for further periods of three years unless terminated by either party with at least three months’ written notification to the other party.

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

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

The Community Services Agreements have been renewed in accordance with their respective provisions on 30 August 2006 for further terms of one year expiring on 31 December 2007.

**Ancillary Telecommunications Services Framework Agreements**

China Telecommunications Corporation and/or its associates provide certain repair and maintenance services to the Group, such as the repair of certain telecommunications equipment, the maintenance of fire prevention equipment and telephone booths and other customers’ services (the “ancillary telecommunications services”).

Under the Ancillary Telecommunications Services Framework Agreements between the Group and China Telecommunications Corporation and/or its associates, China Telecommunications Corporation and/or its associates have agreed to provide ancillary telecommunications services to the Group. Such agreements will expire on 31 December 2006, but will be renewed for further periods of three years unless either party notifies the other at least three months prior to the expiration of the term in writing of its intention to terminate the relevant agreement.

The ancillary telecommunications services under the Ancillary Telecommunications Services Framework Agreements are provided in accordance with the same pricing policy as that of the Community Services Framework Agreements.

The Ancillary Telecommunications Services Framework Agreements have been renewed in accordance with their respective provisions on 30 August 2006 for further terms of one year expiring on 31 December 2007.

**ANNUAL CAPS OF THE LISTCO-PARENT AGREEMENTS AND THE EXISTING AGREEMENTS**

We set out below, for the Listco-Parent Agreements and the Existing Agreements, the maximum aggregate annual values for the year ended 31 December 2006, 2007 and 2008 (the “**Annual Caps**”), for each of the transactions contemplated under such agreements:

Agreements	Unaudited historical amount for the period from 1 January to 31 July 2006	Original cap for the year ending 31 December 2006	Annual Caps for the year ending 31 December 2006	Annual Caps for the year ending 31 December 2007	Annual Cap for the year ending 31 December 2008
Engineering Framework Agreements	RMB3,693 million (equivalent to HKD3,621 million)	RMB8,327 million (equivalent to HKD8,164 million)	RMB8,327 million (equivalent to HKD8,164 million)	RMB8,327 million (equivalent to HKD8,164 million)	RMB8,327 million (equivalent to HKD8,164 million)
Centralized Services Agreement	RMB158 million (equivalent to HKD155 million)	RMB700 million (equivalent to HKD686 million)	RMB700 million (equivalent to HKD686 million)	RMB560 million (equivalent to HKD549 million)	not applicable
Comprehensive Services Framework Agreement	RMB333 million (equivalent to HKD326 million)	RMB970 million (equivalent to HKD951 million)	RMB1,440 million (equivalent to HKD1,412 million)	RMB1,440 million (equivalent to HKD1,412 million)	not applicable
Property Leasing Agreements	RMB230 million (equivalent to HKD225 million)	RMB500 million (equivalent to HKD490 million)	RMB500 million (equivalent to HKD490 million)	RMB590 million (equivalent to HKD578 million)	not applicable
IT Services Framework Agreements	RMB80 million (equivalent to HKD78 million)	RMB320 million (equivalent to HKD314 million)	RMB490 million (equivalent to HKD480 million)	RMB490 million (equivalent to HKD480 million)	not applicable
Equipment Procurement Agreements	RMB132 million (equivalent to HKD129 million)	RMB470 million (equivalent to HKD461 million)	RMB470 million (equivalent to HKD461 million)	RMB310 million (equivalent to HKD304 million)	not applicable
Community Services Framework Agreement	RMB1,393 million (equivalent to HKD1,366 million)	RMB3,410 million (equivalent to HKD3,343 million)	RMB3,410 million (equivalent to HKD3,343 million)	RMB3,110 million (equivalent to HKD3,049 million)	not applicable
Ancillary Telecommunications Services Framework Agreements	RMB1,298 million (equivalent to HKD1,273 million)	RMB2,640 million (equivalent to HKD2,588 million)	RMB3,900 million (equivalent to HKD3,824 million)	RMB3,900 million (equivalent to HKD3,824 million)	not applicable

**Reasons for no cap for transactions contemplated under the Interconnection Agreement**

As disclosed in the 2004 Announcement, the Company submits that the value of the settlement of interconnection charges arising from domestic long distance calls under the Interconnection Agreement should not be subject to any annual limits for the following reasons:

- (1) the Company’s revenue depends on growth in call revenue and in its customer base for its various services. Any growth in the domestic long distance service will necessarily result in increased transaction volumes under the Interconnection Agreement, which the Company will not be able to control as it depends entirely on customer usage. Any limits on these transactions will therefore potentially limit the Company’s ability to conduct or expand its business in the ordinary course; and
- (2) the tariffs payable under the Interconnection Agreement are prescribed by the Ministry of Information Industry of the PRC and are subject to change from time to time.

**Application for waiver**

An application will be made to The Stock Exchange of Hong Kong Limited for a waiver from strict compliance with Rule 14A.35(2) relating to the Interconnection Agreement that such agreement shall not be subject to annual cap for the two years from 1 January 2007 to 31 December 2008, on the basis that the Company will comply with all other relevant requirements under Chapter 14A of the Hong Kong Listing Rules. The transactions contemplated under the Interconnection Agreement (including the fact that such transactions shall not be subject to annual cap) are conditional on approval by Independent Shareholders at a general meeting.

As far as the Company is aware, none of the Annual Caps for the year ended 31 December 2006 has been exceeded as at the date of this announcement. Each of the Annual Caps for the year ending 31 December 2007 and 31 December 2008 (if applicable) has been determined by reference to the nature of the transactions contemplated under each of the Existing Agreements and the Listco-Parent Agreements, the existing scale and operations of the Company’s business, and the business plan of the Company for the year ending 31 December 2007 and/or 31 December 2008.

The Board (including the independent non-executive directors of the Company) is of the view that the Existing Agreements and the Listco-Parent Agreements have been entered into in the ordinary and usual course of business of the Group, that they are (i) on normal commercial terms; or (ii) should there be no comparable terms, on such terms which shall be no less favorable than that provided to Independent Third Parties or (if applicable) that provided by Independent Third Parties, that they have been implemented in accordance with the terms contained therein, and that they are fair and reasonable and in the interests of the Company’s shareholders as a whole.

As each of the percentage ratios (other than the profits ratio) of each of the transactions contemplated under the above agreements (except for the Engineering Framework Agreements and the Interconnection Agreement) is, on an annual basis, above 0.1% but less than 2.5%, they therefore fall under Rule 14A.34 of the Hong Kong Listing Rules. Accordingly, the Company is subject to the reporting and announcement requirements set out under Rules 14A.45 to 14A.47 of the Hong Kong Listing Rules in respect of the Existing Agreements and the Listco-Parent Agreements (except for the Engineering Framework Agreements and the Interconnection Agreement), but is exempt from the requirements of independent shareholders’ approval under Chapter 14A of the Hong Kong Listing Rules. Details of the Existing Agreements and the Listco-Parent Agreements will be disclosed in the Company’s next published annual report and accounts, as required under Rule 14A.46 of the Hong Kong Listing Rules.

**LISTING RULES IMPLICATIONS**

Each of the Engineering Framework Agreements and the Interconnection Agreement are non-exempt continuing connected transactions under Rule 14A.35 of the Hong Kong Listing Rules. These transactions, including the fact that the Interconnection Agreement is not subject to annual caps, are subject to reporting and announcement requirements and are required to be approved by the Independent Shareholders under the Hong Kong Listing Rules.

The Company undertakes to comply with the rules in relation to annual review of continuing connected transactions set out in Rule 14A.37 to Rule 14A.41 of the Hong Kong Listing Rules. The Company specifically undertakes to comply in full with all applicable requirements set out in Chapter 14A of the Hong Kong Listing Rules upon any variation or renewal of the agreements.

**STRATEGIC AGREEMENT****Background**

The Company has entered into the Strategic Agreement with CCS (as defined below) on 30 August 2006 to set out the parameters of strategic cooperation between the two parties and to form a strategic partnership in accordance with the principle of equality and mutual benefits.

**Strategic Agreement**

Date : 30 August 2006

Parties : The Company; and China Communications Services Corporation Limited (“CCS”)

For the purposes of the Strategic Agreement, “CCS” shall include CCS and its subsidiaries.

For the purposes of the Strategic Agreement, the term “the Company” shall include the Company and six of its wholly-owned subsidiaries, namely Shanghai Telecom Company Limited, Zhejiang Telecom Company Limited, Fujian Telecom Company Limited, Hubei Telecom Company Limited, Guangdong Telecom Company Limited, Hainan Telecom Company Limited, together with their subsidiaries.

Term : (subject to the requisite Independent Shareholders’ approval) From 01 January 2007 to 31 December 2009.

The Parties may, on the expiry of its term, consult each other separately regarding whether the Strategic Agreement should be renewed.

Scope of strategic cooperation : The areas for the strategic business cooperation between the Parties in accordance with the terms and conditions of this Strategic Agreement shall include: the services in connection with the design, construction and supervision of communication engineering projects; facilities management services; the content application services; the development of marketing channels and use of telecommunication business as well as exploring other new businesses that are suitable for cooperation between the Parties.

Such services shall comply with the relevant standards prescribed by the State or standards agreed upon between the Parties, and the conditions related thereto shall be no less favourable than the conditions that such Party offered to any third party for the same or similar services. To the extent not contrary to PRC laws and regulations, if, with respect to the same services, the terms and conditions offered by a Party hereto for the services provided is as favourable as the terms and conditions provided by an Independent Third Party, the other Party shall select on a priority basis the Party hereto to be the service provider.

Tariff standards (applicable prices) : If the government-prescribed prices are available, the government-prescribed prices shall be used. If the government-guided prices are available, the government-guided prices shall be used; but if neither the government-prescribed, nor the government-guided prices are available and a market price is available, the market prices shall be used. If the government-prescribed prices, the government-guided prices and the market prices are not available, the Parties shall enter into negotiations based on the principles of fairness, provided that the prices subject to consultation between the Parties shall be determined by taking into account the reasonable cost plus a reasonable margin, in which the term “reasonable cost” shall be determined between the Parties upon consultation.

The term “government-prescribed prices” shall be the prices prescribed by the competent pricing authority or other relevant authority of the government by exercising their respective pricing authority within the respective scope of pricing in accordance with the Pricing Law of the People’s Republic of China.

The term “government-guided prices” shall be the prices with fluctuation levels prescribed by the competent pricing authority or other relevant authority of the government by exercising their respective pricing authority within the respective scope of pricing in accordance with the Pricing Law of the People’s Republic of China in order to guide the operators to determine their own prices.

The term “market prices” shall be, subject to compliance with PRC laws and regulations, the prices set by the operators at their own discretion and developed through market competition. The market prices shall be determined by reference to the following prices in the following order: (1) the prices charged by an Independent Third Party at the places or the regions in proximity thereto where such types of services are provided in the ordinary course of business; or (2) the then prices charged by an Independent Third Party for providing such types of services in the ordinary course of business.

Upon the consent by the Parties or in accordance with the relevant laws and regulations, the applicable standard prices may also adopt prices determined by tender as the pricing basis (i.e. in accordance with public bidding pricing method as stated in the Bidding and Tender Law of the People’s Republic of China and other laws and regulations).

Services : **1. SERVICES IN CONNECTION WITH THE DESIGN, CONSTRUCTION AND SUPERVISION OF COMMUNICATION ENGINEERING PROJECTS**

- 1.1 For the purposes of the Strategic Agreement, the term “services in connection with the design, construction, supervision and control of communication projects” means services provided by CCS to the Company in respect of the design, construction and supervision of communication engineering projects, including but not limited to any engineering, construction and supervision services involved in the construction of new communication engineering projects as well as the expansion of capacity, rationalization, upgrading, maintenance of communication engineering projects.
- 1.2 The Company undertakes that during the effective period of the Strategic Agreement, under the same terms and conditions, the Company’s subsidiaries in the following six provinces (cities), namely Shanghai, Zhejiang, Fujian, Hubei, Guangdong and Hainan, will on an annual basis accept services from the wholly-owned subsidiaries of CCS (within the administrative region of such province) services in respect of the design, construction and supervision of communication engineering projects provided of not less than 12.5% of the total annual capital expenditure incurred during that year by the above-named subsidiaries.
- 1.3 CCS undertakes that:
- (a) it shall offer at least 5% price discount to the Company based on the Applicable Standard Prices for the services provided;
- (b) it will fully utilize its own business competitive edge to provide services that are in compliance with the quality requirements stipulated by the Company and shall use its best efforts to provide human resources, equipment, capital and other resources to develop its own capability to provide services required by the Company;
- (c) the design, construction and supervision services in respect of the communication engineering projects provided by it to the Company are a basket of integrated and comprehensive services and that it guarantees to implement quality control throughout the course of providing services.

**2. FACILITIES MANAGEMENT SERVICES**

- 2.1 The Company undertakes that during the effective period of the Strategic Agreement, under the same terms and conditions, the Company’s subsidiaries in the following six provinces (cities), namely Shanghai, Zhejiang, Fujian, Hubei, Guangdong and Hainan, will, on an annual basis, accept facilities management services from the wholly-owned subsidiaries of CCS (within the administrative region of such province) amounting to an aggregate of not less than RMB1.33 billion.
- 2.2 CCS undertakes to provide the Company with professional facilities management services that are up to quality standards. CCS shall also fully utilize its competitive edge on having established its professional operation with economies of scales to assist the Company to achieve the goals of lowering its costs and expenditures.

**3. STRATEGIC COOPERATION FOR OTHER BUSINESSES**

- 3.1 The Company undertakes that in the course of its strategic transformation from being a traditional telecommunications infrastructure operator to a comprehensive information services provider, subject to substantially the same contractual terms, it will actively provide services to, and pursue cooperation opportunities with, CCS.

CCS undertakes that it will support the Company to carry out its strategic transformation from a traditional telecommunications infrastructure operator to a comprehensive information services provider and will actively support the Company in its business development. CCS shall also actively utilise the Company’s products and services in its own business.

Condition : The Strategic Agreement is conditional upon the passing of a resolution by the Independent Shareholders at an EGM approving the Strategic Agreement and the transactions contemplated thereunder.

The Board (including the independent non-executive directors of the Company) considers that the terms of the Strategic Agreement are on normal commercial terms and are fair and reasonable and that the Strategic Agreement and the transactions contemplated thereunder are in the interest of the Company and its shareholders as a whole.

According to Rule 14A.35(1) of the Listing Rules, the period of the agreement must not exceed three years. The Company will re-comply with Chapter 14A of the Listing Rules, including the disclosure and independent shareholders’ approval requirement prior to renewing the agreement upon expiry of the current term.

**Annual Caps and Basis of Determination**

The Strategic Agreement does not set out any annual caps for the transactions thereunder as China Telecommunications Corporation, the holding company of CCS, has signed certain framework agreements for continuing connected transactions with the Company. These framework agreements are already subject to annual caps and the proposed annual caps for the transactions under the Strategic Agreement are subsumed under the annual caps of the said framework agreements between the Company and China Telecommunications Corporation, namely, the Engineering Framework Agreements, the Ancillary Telecommunications Services Framework Agreements and the Property Leasing Framework Agreements. The Company confirms that all transactions currently contemplated under the Strategic Agreement are covered under the existing framework agreements. The Company confirms that all transactions currently contemplated under the Strategic Agreement are covered under the existing framework agreements. The Company further confirms that it will comply with relevant listing rule requirements in the future if there will be any transaction under the Strategic Agreement not covered under any existing framework agreement.

**Reasons and benefits for the Strategic Agreement**

- (1) To assist the Company in continually receiving stable operational support services of a high quality, and at the same time lowering costs.

The historical unique relationship and long-term cooperation between CCS and the Company has enabled CCS to gain a comprehensive and deep understanding of the Company’s network features and general business needs. Compared to third parties, CCS can more aptly ensure that high quality service is provided at a competitive price, thus lowering service costs. The Company will receive high quality service and can effectively lower its operational expenses.

Due to a long-standing and cooperative relationship in the past, CCS is more able to meet the needs of the Company and to provide responsive support services in a speedy and stable manner, thereby achieving effective business cooperation and synergies. CCS has undertaken to set up a specialised team dedicated to serving the Company. This will enable a more efficient provision of technical preparation required for the development of the Company, and the Company will obtain more systematic and efficient services.

- (2) To assist in the development of a market-oriented service relationship and ensuring that the Company secures its service sources.

CCS will develop to become an independent and market-oriented operated service provider, and other telecommunication operators will increase their demand for services from CCS. The Company must build a cooperative relationship, in accordance with market principles, with CCS to secure a source to meet its service needs.

CCS has a competitive edge in the areas of technology, research and development and human resources. New businesses in the future will result in an increase in the construction of various operator networks and an increase of operational expenses, and operators will increase their external demands in areas such as: technology, size of operations, human resources. The establishment of a strategic cooperative relationship between the Company and CCS is highly significant to the Company receiving key services.

- (3) To ensure the Company’s strategic transformation through strategic cooperation with CCS.

The establishment of a strategic cooperative relationship with CCS will assist the Company in building a comprehensive information services business model and improve the cooperation within the value chain. As the Company intensifies its strategic transformation, the Company needs to continuously work on the construction and optimisation of its network to increase the competitiveness of the network. The Company’s out-sourcing strategy on many operational levels will decrease costs, and at the same time enable the Company to receive high quality service and increase its operational efficiency. The Company must strengthen areas such as corporate informational services, IT services and internet usage and enhance mutually beneficial cooperation within the production chain in order to become a comprehensive informational service provider.

Through a strategic cooperative relationship with CCS, the Company may use CCS’s communication engineering resources, technical advantage, professional qualification, rich experience in network support, long-term experience and ability in providing out-sourcing services for operators to enable the Company to become a comprehensive, all-encompassing, one stop shop providing nation-wide network design, facilities management and end-user sales. Through the establishment of a varied cooperation model, the Company and CCS can mutually benefit from each other’s resources.

**LISTING RULES IMPLICATIONS**

Given that China Telecommunications Corporation, the controlling shareholder of the Company, and its associates beneficially owns approximately 91.50% of the existing issued share capital of CCS, CCS is regarded as a connected person under the Hong Kong Listing Rules, and the transactions contemplated under the Strategic Agreement, which is continuous in nature and was entered into in the ordinary course of business of the Group, constitute continuing connected transactions of the Company under the Hong Kong Listing Rules. The Strategic Agreement and the transactions contemplated thereunder are subject to reporting, announcement and Independent Shareholders’ approval requirements under the Hong Kong Listing Rules.

**THE EGM**

Pursuant to Rule 14A.54 of the Hong Kong Listing Rules, any connected person and any shareholder and their associates with a material interest in the Engineering Framework Agreements, the Interconnection Agreement and the Strategic Agreement are required to abstain from voting on the relevant resolution at the EGM. China Telecommunications Corporation and its associates are required to abstain from voting on the resolutions in respect of the Engineering Framework Agreements, the Interconnection Agreement and Strategic Agreement and the transactions contemplated thereunder at the EGM.

An independent board committee, comprising all of the independent non-executive directors of the Company, namely Mr. Zhang Youcai, Mr. Vincent Lo Hong Sui, Mr. Shi Wanpeng, Mr. Xu Erming and Mr. Tse Hau Yin, Aloysius, has been formed to advise the Independent Shareholders in relation to the Engineering Framework Agreements, the Interconnection Agreement and the Strategic Agreement. An independent financial adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders on the Engineering Framework Agreements, the Interconnection Agreement and the Strategic Agreement.

A circular containing, among other things, (i) details of the Engineering Framework Agreements, the Interconnection Agreement and the Strategic Agreement; (ii) a letter from an independent financial adviser to the Independent Board Committee and the Independent Shareholders containing its advice on the Engineering Framework Agreements, the Interconnection Agreement and the Strategic Agreement; (iii) the recommendation of the Independent Board Committee in respect of the Engineering Framework Agreements, the Interconnection Agreement and the Strategic Agreement; and (iv) a notice of the EGM, will be despatched to the shareholders as soon as practicable.

**DEFINITIONS**

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

“2004 Announcement”	the announcement dated 13 April 2004 issued by the Company in relation to, among others, certain continuing connected transactions of the Company
“2005 Announcement”	the announcement dated 15 December 2005 issued by the Company in relation to, among others, renewal of certain continuing connected transactions of the Company
“Board”	as of the date of this announcement, the board of directors consists of Mr. Wang Xiaochu as the chairman and chief executive officer, Mr. Leng Rongquan as the president and chief operating officer, Ms. Wu Andi as the executive vice president and chief financial officer, Mr. Zhang Jiping as the executive vice president, Ms. Huang Wenlin as the executive vice president, Mr. Li Ping as the executive vice president and joint company secretary, Mr. Yang Jie as the executive vice president, Mr. Sun Kangmin as the executive vice president, Mr. Li Jinming as the non-executive director, and Mr. Zhang Youcai, Mr. Vincent Lo Hong Sui, Mr. Shi Wanpeng, Mr. Xu Erming and Mr. Tse Hau Yin, Aloysius as the independent non-executive directors
“CCS”	China Telecommunications Services Corporation Limited (中國通信服務股份有限公司), a connected person of the Company
“China Telecommunications Corporation”	China Telecommunications Corporation (中國電信集團公司), a state-owned enterprise established under the laws of the PRC on 17 May 2000 and the controlling shareholder of the Company, its principal business including the provision of telecommunications services in the PRC, such as the operation of domestic and international fixed telecommunications networks and facilities, and voice, data, image and multimedia communication on fixed telecommunications networks and information services
“Company” or “we”	China Telecom Corporation Limited (中國電信股份有限公司), a joint stock limited company incorporated in the PRC with limited liability on 10 September 2002, its principal business including the provision of telecommunications services in the business regions within the PRC as authorized by the relevant regulatory department of the PRC, such as the operation of domestic and international fixed telecommunications networks and facilities, and voice, data, image and multimedia communications on fixed telecommunications networks and information services
“connected person”	as defined under the Hong Kong Listing Rules, and the term “connected persons” shall be construed accordingly
“Directors”	the directors of the Company
“EGM”	the extraordinary general meeting of the Company to be held to approve the Engineering Framework Agreements, the Interconnection Agreement and the Strategic Agreement
“Existing Agreements”	the Interconnection Agreement, the Centralized Services Agreement and the Comprehensive Services Framework Agreement to be entered into between the Company and China Telecommunications Corporation
“Group”	the Company, together with all of its subsidiaries
“HKD”	Hong Kong Dollars, the lawful currency of Hong Kong. For reference only, the amounts in Hong Kong Dollars set out in this announcement are translated from Renminbi at HK\$1.00 = RMB1.02. Such translation should not be construed as representations that the amounts in one currency actually represent, or could be converted into, the amounts in another currency at the rate indicated, or at all
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Independent Shareholders”	shareholders of the Company other than China Telecommunications Corporation and its associates
“Independent Third Party”	an entity which is independent of and not connected to the Company or its connected persons, and which is not a connected person of the Company, and the term “Independent Third Parties” shall be construed accordingly
“Listco-Parent Agreements”	the Property Leasing Framework Agreements, the Equipment Procurement Services Framework Agreements, the IT Services Framework Agreements, the Engineering Framework Agreements, the Ancillary Telecommunications Services Framework Agreements and the Community Services Agreement to be entered into between the Company and China Telecommunications Corporation
“PRC”	the People’s Republic of China (excluding, for the purposes of this announcement, Hong Kong, Macau and Taiwan)
“Prior Agreements”	shall bear the definition as set out in the section “Modification of the parties to various framework agreements” in this announcement
“Revised Cap”	the proposed annual cap for the continuing connected transactions of the Company as set out in the paragraph headed “Revised Caps” in this announcement
“RMB”	Renminbi, the lawful currency of the PRC
“Strategic Agreement”	the Strategic Cooperation Framework Agreement entered into between the Company and CCS on 30 August 2006 to set out the terms of the strategic cooperation between them

By Order of the Board  
**China Telecom Corporation Limited**  
**Wang Xiaochu**  
*Chairman and Chief Executive Officer*

Beijing, 30 August 2006