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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)

CONNECTED TRANSACTION

ACQUISITION

SUMMARY

The Company entered into the Equity Purchase Agreement with China Telecommunications Corporation on 15 June 2007, pursuant to which China Telecommunications Corporation will transfer, and will procure its wholly owned subsidiary to transfer, 100% equity interests in the Target Companies to the Company for a cash consideration of RMB1.408 billion (approximately equivalent to HKD1.401 billion). The Board believes that such acquisition would be in line with the Company's objective of creating long-term value for its shareholders.

The Acquisition constitutes a connected transaction subject to reporting and announcement requirements under Chapter 14A of the Listing Rules but exempt from independent shareholders' approval.

The Equity Purchase Agreement will become effective upon satisfaction of certain conditions, details of which are set out below.

The Board, including the independent non-executive directors, are of the opinion that the Acquisition is entered into on normal commercial terms after arm's length negotiations, the consideration payable for the Target Companies and the other terms of the Acquisition is fair and reasonable and is in the interest of the Company and its shareholders as a whole.

I. BACKGROUND INFORMATION

China Telecommunications Corporation is a substantial shareholder of the Company, beneficially holding a 70.89% interest in the total issued share capital of the Company. China Telecommunications Corporation is therefore a connected person of the Company under Chapter 14A of the Listing Rules and accordingly any transaction entered into between China Telecommunications Corporation (or any of its associates) and the Group would constitute a connected transaction for the Company.

The Company entered into the Equity Purchase Agreement with China Telecommunications Corporation on 15 June 2007, pursuant to which China Telecommunications Corporation will transfer, and will procure its wholly owned subsidiary to transfer, 100% equity interests in the Target Companies to the Company for a cash consideration of RMB1.408 billion (approximately equivalent to HKD1.401 billion). The Board believes that such acquisition would be in line with the Company's objective of creating long-term value for its shareholders.

The highest applicable percentage ratio of the Acquisition is 1.3%, which exceeds 0.1% but is below 2.5%. Therefore, the Acquisition is subject to the reporting and announcement requirements but exempt from independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Upon completion of the Acquisition, the Target Companies will be consolidated into the accounts of the Company.

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II. EQUITY PURCHASE AGREEMENT

Summary

Date of Agreement: 15 June 2007

Parties: the Company, as purchaser
China Telecommunications Corporation, as seller

Subject matter of purchase: purchase by the Company of 100% equity interests in the Target Companies

Consideration: RMB1.408 billion (approximately equivalent to HKD1.401 billion)

Conditions Precedent: The Equity Purchase Agreement will become effective upon the obtaining of all necessary regulatory approvals from MOC and SASAC in respect of the Acquisition

Completion: The completion will take place as soon as practicable following the satisfaction of the above conditions and is expected to take place on or about 30 June 2007 or as otherwise agreed by both parties

Basis of Consideration

The cash consideration is RMB1.408 billion (approximately equivalent to HKD1.401 billion) for the acquisition of 100% equity interests in the Target Companies. Any increase in net asset values of Target Companies between the appraisal date and the closing date (which is not expected to be significant) as a result of any profit for the period shall be for the seller's account and any diminution in net asset value during the same period (which is not expected to be significant) resulting from any loss for the period should be compensated in cash by China Telecommunications Corporation to the Company. The consideration to be paid by the Company has been determined after arm's length negotiations with reference to the appraised value of the Target Companies as provided by the Appraiser based on cost method, taking into account the reasons of and benefits for the Acquisition as described below.

The consideration will be satisfied by the internal resources of the Company and will be paid on the closing date.

General Information

CT (HK) operates in the Asia Pacific Region and its principal business is to engage in ChinaNet transit, international IP-VPN, international private leased circuits (IPLC), cross-border transit connection and internet data centre service in Asia. The target customers of CT (HK) include PRC companies that require telecommunications services in the Asia Pacific region and Asia-based companies and telecom operators doing business in China.

CT (USA) operates in South and North America. The principal business of CT (USA) is to engage in ChinaNet transit, voice wholesale, international IP-VPN, international private leased circuits (IPLC), cross-border transit connection and internet data centre service. Its target customers comprise multinational corporations and PRC companies with overseas businesses requiring telecommunications connections between Asia and the Americas.

The principal business of CTSI is the provision of system integration services, outsourcing services, application software development as well as consultancy services in the PRC. CTSI's target customers mainly comprise telecom operators that require IT support, as well as companies and government agencies that required integration and outsourcing services, such as ICT solutions.

The Target Companies have all the valid licences necessary to enable them to carry on their respective businesses as described above.

The following table was based on the unaudited pro forma combined accounts of the Target Companies prepared under the PRC GAAP.

	For the year ended 31 December 2005 RMB'000	Approximately equivalent to HKD'000	For the year ended 31 December 2006 RMB'000	Approximately equivalent to HKD'000
Net profit before taxation and extraordinary items	9,890	9,844	84,543	84,150
Net profit after taxation and extraordinary items	8,360	8,321	67,844	67,529

Based on the management accounts of the Target Companies prepared under the PRC GAAP, the unaudited pro forma combined book value of the net assets of the Target Companies as of 30 April 2007 was approximately RMB1.344 billion (approximately equivalent to HKD1.338 billion), which included a cash surplus of approximately RMB1 billion. Such cash surplus is readily available and sufficient for the business expansion of the Target Companies in the foreseeable future in response to the increasing demand for both overseas and domestic telecommunication services.

III. REASONS AND BENEFITS FOR THE CONNECTED TRANSACTION

The Company views the acquisition of CT (HK) and CT (USA) a significant step in assisting the Company to expand its service areas and extend its telecommunication business overseas. In particular, the Company will be able to benefit from the rapid growth of CT (HK) and CT (USA) achieved over the past few years and their well-developed strong customer relations in each of their respective markets. In addition, by acquiring CT (HK) and CT (USA), the Company will be able to further consolidate its business service and offer one-stop service solutions to PRC customers expanding abroad and overseas customers entering into the PRC, and thereby further strengthen the Company's competitive position in both overseas and domestic telecommunications markets.

By acquiring CTSI, the Company will be able to streamline its management of system integration services and provide seamless system integrated services to valued customers at both national and regional levels. In this light, the Directors believe that the acquisition of CTSI will assist the Company to successfully position itself as a cost competitive and leading comprehensive information service provider in the PRC.

Furthermore, the Company expects to exploit technological advantages and increase economies of scale benefits through acquisition of the three companies by reducing operational costs, consolidating business resources, improving network and services system. The improved efficiency achieved through economies of scale will enable it to further increase its competitiveness in the domestic and overseas markets.

IV. DEFINITIONS

“Acquisition”	The transaction contemplated under the Equity Purchase Agreement
“Appraiser”	China Enterprise Appraisals (中企華資產評估有限公司), a PRC certified property valuer independent of the Group as well as its connected persons, as defined under Chapter 14A of the Listing Rules
“Board”	the board of directors of the Company which, as of the date of this announcement, 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, 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
“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, with its principal business being the investment holding of companies primarily involved in the provision of telecommunications services in the PRC, the provision of specialized telecommunication support services and other business
“Company”	China Telecom Corporation Limited (中國電信股份有限公司), a joint stock limited company, listed on the main board of the Hong Kong Stock Exchange, incorporated in the PRC with limited liability on 10 September 2002 and which 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
“CT (HK)”	China Telecom (Hong Kong) International Limited (中國電信(香港)國際有限公司), a company incorporated under the laws of Hong Kong Special Administrative Region on 25 February 2000
“CTSI”	China Telecom System Integration Co., Ltd (中國電信集團系統集成有限責任公司), a company incorporated under the laws of the PRC on 13 September 2001
“CT (USA)”	China Telecom (USA) Corporation (中國電信(美國)公司), a company incorporated under the laws of Delaware, USA on 22 November 2001
“Directors”	the directors of the Company

“Equity Purchase Agreement”	the equity purchase agreement between the Company and China Telecommunications Corporation dated 15 June 2007 for the sale by China Telecommunications Corporation to the Company of its equity interest in the Target Companies
“Group”	the Company and its subsidiaries
“HKD”	Hong Kong dollars, the lawful currency of Hong Kong
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited
“MOC”	Ministry of Commerce (商務部)
“PRC” or “China”	The People’s Republic of China which, for the purpose of this Announcement only, does not include the Hong Kong Special Administrative Region, the Macau Special Administrative Region and Taiwan
“PRC GAPP”	The accounting principles and financial regulations applicable to enterprises established in the PRC
“RMB”	Renminbi, the lawful currency of the PRC
“SASAC”	State-owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會)
“Target Companies”	CT (HK), CT (USA) and CTSI

The Company would also like to caution readers about the forward-looking nature of certain of the above statements. These forward-looking statements are subject to uncertainties and assumptions, some of which are beyond our control. Potential risks and uncertainties include those concerning the continued growth of the telecommunications industry in China, the development of the regulatory environment and our ability to successfully execute our business strategies. In addition, these forward-looking statements reflect our current views with respect to future events but are not a guarantee of future performance. We do not intend to update these forward-looking statements. Actual result may differ materially from the information contained in the forward-looking statements as a result of a number of factors.

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

Beijing, the PRC, 15 June 2007

Unless otherwise specified, conversion of RMB into HKD is based on the exchange rate of HKD1.00 = RMB1.00467.