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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: 728)

REVISION OF ANNUAL CAPS FOR CONTINUING CONNECTED TRANSACTIONS

SUMMARY

Reference is made to the announcement issued by the Company dated 25 August 2010 in relation to certain continuing connected transactions, including the continuing connected transactions under the Supplies Procurement Services Framework Agreement between the Company and China Telecommunications Corporation and/or its associates. For the two years ending on 31 December 2011 and 2012, the Annual Caps for the amount to be paid by the Group to China Telecommunications Corporation and/or its associates under the Supplies Procurement Services Framework Agreement shall be RMB3,800 million (equivalent to approximately HK\$4,630 million), and the Annual Caps for the amount to be paid by China Telecommunications Corporation and/or its associates to the Group shall be RMB1,150 million (equivalent to approximately HK\$1,400 million).

In the first half of 2011, the mobile services of the Company especially the 3G services achieved rapid expansion and the sales volume of mobile terminals in the market increased significantly. To drive the value chain development in terminal market and to promote the star handsets with enhanced price-performance factors, the Company has increased initiatives in centralised procurement and direct supply of mobile terminals especially 3G smartphones. Accordingly, the sales of mobile terminals to China Telecommunications Corporation and/or its associates have correspondingly grown significantly. To cope with the development of mobile services and full services operation as well as to accelerate the mobile terminal development leveraging the excellent sales and marketing channels of China Telecommunications Corporation and/or its associates, the Company has decided to increase the Annual Caps for the amounts to be paid by China Telecommunications Corporation and/or its associates to the Group under the Supplies Procurement Services Framework Agreement to RMB1,800 million (equivalent to approximately HK\$2,200 million) and RMB3,000 million (equivalent to approximately HK\$3,660 million) respectively for the two years ending on 31 December 2011 and 2012, and that all terms and conditions of the Supplies Procurement Services Framework Agreement shall remain unchanged and valid.

The Board (including the independent non-executive Directors of the Company) is of the view that the Supplies Procurement Services Framework Agreement and the transactions contemplated thereunder have been entered into in the ordinary and usual course of business of the Group, that they are on normal commercial terms, and that they have been implemented in accordance with the terms contained therein, and that the terms, as well as the Revised Annual Caps applicable thereto, are fair and reasonable and are in the interests of the Company and its shareholders as a whole.

HONG KONG LISTING RULES IMPLICATIONS

As the applicable percentage ratios (other than the profits ratio) of the Revised Annual Caps which are applicable to the transactions contemplated under the Supplies Procurement Services Framework Agreement, calculated on an annual basis, are above 0.1% but less than 5%, pursuant to Rule 14A.34 of the Listing Rules, the Revised Annual Caps are only subject to the reporting and announcement requirements under Rules 14A.45 to 14A.47 of the Listing Rules and the annual review requirements under Rules 14A.37 to 14A.40 of the Listing Rules, but are exempt from the independent shareholders' approval requirement under Rule 14A of the Listing Rules.

BACKGROUND

Reference is made to the announcement issued by the Company dated 25 August 2010 in relation to certain continuing connected transactions, including the continuing connected transactions under the Supplies Procurement Services Framework Agreement between the Company and China Telecommunications Corporation and/or its associates.

SUPPLIES PROCUREMENT SERVICES FRAMEWORK AGREEMENT

The Supplies Procurement Services Framework Agreement relates to the provision of comprehensive procurement services, including the sale and resale of telecommunications supplies, the management of tenders, verification of technical specifications and installation services by China Telecommunications Corporation and/or its associates to the Group and vice versa. The scope of procurement services under the Supplies Procurement Services Framework Agreement includes: (i) the import of telecommunications supplies and procurement of domestic telecommunications supplies and domestic non-telecommunications materials by China Telecommunications Corporation and/or its associates for the Group, including the provision of related agency services, sale of telecommunications supplies manufactured by China Telecommunications Corporation and/or its associates, resale of supplies purchased from Independent Third Parties, management of tenders, verification of technical specifications, storage, transportation and installation services; and (ii) the sale of telecommunications supplies manufactured by the Group and resale of supplies purchased from Independent Third Parties by the Group to China Telecommunications Corporation and/or its associates, including related agency services, storage, transportation and installation services. Payments made may be in the form of commission charges or in the case of resale, the contract value of the relevant supplies.

The charges payable for the above services are calculated at:

- (1) Where payments made in relation to the agency services for the provision of supplies procurement are in the form of commission charges:
 - (i) procurement services in respect of imported telecommunications supplies are provided at 1% of the contract value at the maximum;
 - (ii) procurement services in respect of domestic telecommunications supplies and other domestic non-telecommunications materials are provided at 3% of the contract value at the maximum;
- (2) Where payments made in relation to the sales/resale of telecommunications supplies are in the contract value of the relevant supplies, the procurement services are provided at:
 - (i) the government-prescribed prices;
 - (ii) where there are no government-prescribed prices but where there are government-guided prices, the government-guided prices apply;
 - (iii) 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
 - (iv) 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 reasonable profit margin (for this purpose, “reasonable costs” means such costs as confirmed by both parties after negotiations).

The Company and China Telecommunications Corporation entered into a supplemental agreement on 25 August 2010 to renew the Supplies Procurement Services Framework Agreement in accordance with its provisions for a further term of two years expiring on 31 December 2012. The parties agree that the Company may renew the Supplies Procurement Services Framework Agreement for such further periods as the parties may agree, by 30 days’ written notification to China Telecommunications Corporation.

REASONS FOR AND BENEFITS OF THE SUPPLIES PROCUREMENT SERVICES FRAMEWORK AGREEMENT AND THE TRANSACTIONS CONTEMPLATED THEREUNDER

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

Due to a long-standing and cooperative relationship in the past, China Telecommunications Corporation and/or its associates are more able to meet the needs of the Group and to provide responsive support services in a speedy and stable manner, thereby achieving effective business cooperation and synergies. China Telecommunications Corporation and/or its associates have set up specialised teams dedicated to serving the Group, and made proactive initiatives and technical preparations customised for the development of the Group, with a view to providing the Group with more systematic and efficient services.

THE REVISED ANNUAL CAPS AND REASONS FOR SETTING THE REVISED ANNUAL CAPS

For the two years ending 31 December 2011 and 2012, the Annual Caps for the amount to be paid by the Group to China Telecommunications Corporation and/or its associates under the Supplies Procurement Services Framework Agreement shall be RMB3,800 million (equivalent to approximately HK\$4,630 million) and the Annual Caps for the amount to be paid by China Telecommunications Corporation and/or its associates to the Group shall be RMB1,150 million (equivalent to approximately HK\$1,400 million).

In the first half of 2011, the mobile services of the Company especially the 3G services achieved rapid expansion and the sales volume of mobile terminals in the market increased significantly. To drive the value chain development in terminal market and to promote the star handsets with enhanced price-performance factors, the Company has increased initiatives in centralised procurement and direct supply of mobile terminals especially 3G smartphones. Accordingly, the sales of mobiles terminals to China Telecommunications Corporation and/or its associates have correspondingly grown significantly. To cope with the development of mobile services and full services operation as well as to accelerate the mobile terminal development leveraging the excellent sales and marketing channels of China Telecommunications Corporation and/or its associates, the Company has decided to increase the Annual Caps for the amounts to be paid by China Telecommunications Corporation and/or its associates to the Group under the Supplies Procurement Services Framework Agreement to RMB1,800 million (equivalent to approximately HK\$2,200 million) and RMB3,000 million (equivalent to approximately HK\$3,660 million) respectively for the two years ending on 31 December 2011 and 2012, and that all terms and conditions of the Supplies Procurement Services Framework Agreement shall remain unchanged and valid.

For the year ended 31 December 2010, the amount paid by China Telecommunications Corporation and/or its associates to the Group under the Supplies Procurement Services Framework Agreement was approximately RMB993 million (equivalent to approximately HK\$1,210 million). From 1 January 2011 to 30 June 2011, the amount paid by China Telecommunications Corporation and/or its associates to the Group under the Supplies Procurement Services Framework Agreement was approximately RMB737 million (equivalent to approximately HK\$900 million). From 1 January 2011 to the date hereof, the amount paid by China Telecommunications Corporation and/or its associates to the Group under the Supplies Procurement Services Framework Agreement has not exceeded the pre-determined Annual Caps.

When determining the above Revised Annual Caps, the Board has considered: (i) the amounts paid by China Telecommunications Corporation and/or its associates to the Group under the Supplies Procurement Services Framework Agreement for the year of 2010 and for the period from 1 January 2011 to the date hereof; (ii) the existing business scale and operations of the Company together with the latest business plans for the two years ending on 31 December 2011 and 2012; and (iii) the expected rapid development of the mobile terminal market.

The Board (including the independent non-executive Directors of the Company) is of the view that the Supplies Procurement Services Framework Agreement and the transactions contemplated thereunder have been entered into in the ordinary and usual course of business of the Group, that they are on normal commercial terms, and that they have been implemented in accordance with the terms contained therein, and that the terms, as well as the Revised Annual Caps applicable thereto, are fair and reasonable and are in the interests of the Company and its shareholders as a whole.

CONNECTION BETWEEN THE PARTIES AND HONG KONG LISTING RULES IMPLICATIONS

As China Telecommunications Corporation is the Company's controlling shareholder, holding 70.89% of the issued share capital of the Company, China Telecommunications Corporation is a connected person of the Company and the transactions contemplated under the Supplies Procurement Services Framework Agreement constitute continuing connected transactions of the Company for the purpose of Chapter 14A of the Listing Rules.

As the applicable percentage ratios (other than the profits ratio) of the Revised Annual Caps which are applicable to the transactions contemplated under the Supplies Procurement Services Framework Agreement, calculated on an annual basis, are above 0.1% but less than 5%, pursuant to Rule 14A.34 of the Listing Rules, the Revised Annual Caps are only subject to the reporting and announcement requirements under Rules 14A.45 to 14A.47 of the Listing Rules and the annual review requirements under Rules 14A.37 to 14A.40 of the Listing Rules, but are exempt from the independent shareholders' approval requirement under Rule 14A of the Listing Rules.

The Board confirms that there are no Directors with a material interest in the continuing connected transactions in connection with Revised Annual Caps and the Directors are not required to abstain from voting on the board resolutions in respect of the examination and approval of the Revised Annual Caps.

DEFINITIONS

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

“Annual Caps”	the maximum aggregate annual values
“associate”	has the meaning ascribed to it in the Listing Rules
“Board”	the board of Directors 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, with its principal business being the investment holding of companies primarily involved in the provision of telecommunications services in the PRC, the provision of specialised telecommunication support services and other businesses
“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 Stock Exchange, incorporated in the PRC with limited liability on 10 September 2002 and whose principal business includes basic telecommunications businesses such as the provision of fixed telecommunications services and mobile telecommunications services, and value-added telecommunications businesses such as Internet connection services business and information service business
“connected person”	has the meaning ascribed to it in the Listing Rules
“controlling shareholder”	has the meaning ascribed to it in the Listing Rules
“Directors”	the directors of the Company
“Group”	the Company, together with all of its subsidiaries
“HK\$” or “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 = RMB0.82. 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

“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“PRC”	the People’s Republic of China (excluding, for the purposes of this announcement, Hong Kong, the Macau Special Administrative Region, and Taiwan)
“Revised Annual Caps”	The adjusted annual caps on the amounts paid by China Telecommunications Corporation and/or its associates to the Group under the Supplies Procurement Services Framework Agreement in 2011 and 2012
“RMB”	Renminbi, the lawful currency of the PRC
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supplies Procurement Services Framework Agreement”	the Supplies Procurement Services Agreement between the Company and China Telecommunications Corporation, as amended by its supplemental agreements from time to time and as renewed on 25 August 2010 with expiration on 31 December 2012

By Order of the Board
China Telecom Corporation Limited
Yung Shun Loy, Jacky
Company Secretary

Beijing, PRC, 23 August 2011

FORWARD-LOOKING STATEMENTS

Certain statements contained in this announcement may be viewed as “forward-looking statements” within the meaning of Section 27A of the U.S. Securities Act of 1933 (as amended) and Section 21E of the U.S. Securities Exchange Act of 1934 (as amended). Such forward-looking statements are subject to known and unknown risks, uncertainties and other factors, which may cause the actual performance, financial condition or results of operations of the Company to be materially different from any future performance, financial condition or results of operations implied by such forward-looking statements. In addition, we do not intend to update these forward looking statements. Further information regarding these risks, uncertainties and other factors is included in the Company’s most recent Annual Report on Form 20-F filed with the U.S. Securities and Exchange Commission (the “SEC”) and in the Company’s other filings with the SEC.

As of the date of this announcement, the Board consists of Mr. Wang Xiaochu as the chairman and chief executive officer, Madam Wu Andi as the executive vice president and chief financial officer, Mr. Zhang Jiping, Mr. Zhang Chenshuang, Mr. Yang Xiaowei, Mr. Yang Jie, and Mr. Sun Kangmin as the executive vice presidents, Mr. Li Jinming as the non-executive director, and Mr. Wu Jichuan, Mr. Qin Xiao, Mr. Tse Hau Yin, Aloysius, Madam Cha May Lung, Laura, Mr. Xu Erming as the independent non-executive directors.