

CHINA TELECOM CORP LTD  
Form 6-K  
September 04, 2012

# **SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

## **FORM 6-K**

**Report of Foreign Private Issuer**

**Pursuant to Rule 13a-16 or 15d-16 of  
the Securities Exchange Act of 1934**

**For the Month of September 2012**

**Commission File Number 1-31517**

## **China Telecom Corporation Limited**

**(Translation of registrant's name into English)**

**31 Jinrong Street, Xicheng District**

**Beijing 100033, China**

**(Address of principal executive offices)**

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(Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.)

Form 20-F  Form 40-F

(Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): )

(Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): )

(Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.)

Yes  No

(If  Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b):82- .)

**EXHIBITS**

<b>Exhibit Number</b>		<b>Page Number</b>
1.1	Circular of (1) Major Transaction and Connected Transaction in respect of the Acquisition of Certain CDMA Network Assets and Associated Liabilities and (2) Renewal of Existing Continuing Connected Transactions, dated August 30, 2012	A-1
1.2	2012 Interim Report, dated August 22, 2012	B-1

**FORWARD-LOOKING STATEMENTS**

Certain statements contained in this Form 6-K may be viewed as forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements are, by their nature, subject to significant risks and uncertainties, and include, without limitation, statements relating to:

our business and operating strategies and our ability to successfully execute these strategies;

our network expansion and capital expenditure plans;

our operations and business prospects;

the expected benefit of any acquisitions or other strategic transactions;

our financial condition and results of operations;

the expected impact of new services on our business, financial condition and results of operations;

the future prospects of and our ability to integrate the acquired business or assets;

the industry regulatory environment as well as the industry outlook generally; and

future developments in the telecommunications industry in the People's Republic of China, or the PRC.

The words anticipate, believe, could, estimate, expect, intend, may, plan, seek, will, would and similar expressions, as they are intended to identify a number of these forward-looking statements.

These forward-looking statements are subject to risks, uncertainties and assumptions, some of which are beyond our control. In addition, these forward-looking statements reflect our current views with respect to future events and are not a guarantee of future performance. We are under no obligation to update these forward-looking statements and do not intend to do so. Actual results may differ materially from the information contained in the forward-looking statements as a result of a number of factors, including, without limitation, the following:

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any changes in the regulations or policies of the Ministry of Industry and Information Technology, or the MIIT, and other relevant government authorities relating to, among other matters:

the granting and approval of licenses;

tariff policies;

interconnection and settlement arrangements;

capital investment priorities;

the provision of telephone and other telecommunications services to rural areas in the PRC;

the convergence of television broadcast, telecommunications and Internet access networks, or three-network convergence; and

spectrum and numbering resources allocation;

the effects of competition on the demand for and price of our services;

effects of our restructuring and integration following the completion of our acquisition of the Code Division Multiple Access technology, or CDMA, telecommunications business in 2008;

any potential further restructuring or consolidation of the PRC telecommunications industry;

changes in the PRC telecommunications industry as a result of the issuance of the third generation mobile telecommunications, or 3G, licenses by the MIIT;

the development of new technologies and applications or services affecting the PRC telecommunications industry and our current and future business; and

changes in political, economic, legal and social conditions in the PRC, including changes in the PRC government's specific policies with respect to foreign investment in and entry by foreign companies into the PRC telecommunications industry, economic growth, inflation, foreign exchange and the availability of credit.

Please also see the Risk Factors section of the Company's latest Annual Report on Form 20-F, as filed with the Securities and Exchange Commission.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CHINA TELECOM CORPORATION LIMITED

Date: September 3, 2012

By: /s/ Wang Xiaochu  
Name: Wang Xiaochu  
Title: Chairman and Chief Executive Officer

**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

**If you are in any doubt** as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold or transferred** all your shares in China Telecom Corporation Limited, you should at once hand this circular together with the accompanying form of proxy to the purchaser(s) or other transferee(s) or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

**Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.**

This circular is solely for the purpose of providing shareholders with certain information in connection with an extraordinary general meeting of the Company and is not an offer to sell or a solicitation of an offer to buy any securities. Any sale of the Company's securities in the United States will be made only by means of a prospectus relating to such securities.

*(A joint stock limited company incorporated in the People's Republic of China with limited liability)*

**(Stock Code: 728)**

**(1) MAJOR TRANSACTION AND CONNECTED TRANSACTION IN RESPECT OF**

**THE ACQUISITION OF CERTAIN CDMA NETWORK ASSETS AND**

**ASSOCIATED LIABILITIES**

**AND**

**(2) RENEWAL OF EXISTING CONTINUING CONNECTED TRANSACTIONS**

*Financial Adviser to China Telecom Corporation Limited*

*Independent Financial Adviser to the Independent Board Committee*

*and the Independent Shareholders*

A letter from the Board is set out on pages 7 to 24 of this circular. A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on pages 25 to 26 of this circular. A letter from China International Capital Corporation Hong Kong Securities Limited, the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 27 to 44 of this circular.

A notice dated 30 August 2012 convening an extraordinary general meeting of the Company to be held at 31 Jinrong Street, Xicheng District, Beijing, PRC on 16 October 2012 at 10:00 a.m. is set out on pages 69 to 72 of this circular. Whether or not you are able to attend the meeting, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as practicable and in any event by not later than 24 hours before the time appointed for holding the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or at any adjourned meeting should you so wish.

30 August 2012

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## DEFINITIONS

*In this circular, unless the context otherwise requires, the following terms and expressions have the following meaning:*

Acquisition	the acquisition of the Acquisition Target under the Acquisition Agreement
Acquisition Agreement	the acquisition agreement dated 22 August 2012 entered into between the Company (as purchaser) and China Telecommunications Corporation (as vendor) in relation to the Acquisition
Acquisition Target	the Assets and the Associated Liabilities
ADSs	American Depositary Shares which are issued by The Bank of New York Mellon and traded on the New York Stock Exchange, with each ADS representing 100 H Shares
Ancillary Telecommunications Services Framework Agreement	the Ancillary Telecommunications Services Framework Agreement between the Company and China Telecommunications Corporation, as amended by its supplemental agreements from time to time and as renewed on 22 August 2012 with expiration on 31 December 2015
Annual Caps	the maximum aggregate annual values
Articles of Association	the articles of association of the Company, as amended, modified or otherwise supplemented from time to time
Assets	the assets relating to the CDMA Network to be acquired by the Company as specified in the Acquisition Agreement
associate(s)	has the meaning ascribed thereto in the Listing Rules
Associated Liabilities	the liabilities to be assumed by the Company as specified in the Acquisition Agreement
Board	the board of Directors of the Company
Business Day	any day on which commercial banks in Beijing, China are open for corporate business
Capacity	capacity on the constructed CDMA Network required by the Company to operate the CDMA Service measured in terms of actual number of subscribers

**DEFINITIONS**

CDMA	Code Division Multiple Access Technology, which is a digital transmission technology that accommodates higher throughput by using various coding sequences to mix and separate voice and data signals for wireless communication, including all upgrades to such technology from time to time
CDMA Network	the CDMA cellular telecommunications network owned by China Telecommunications Corporation and operated by the Company
CDMA Service	the service of providing, operating or marketing the provision of CDMA telecommunications business by the Company
CDMA Service Revenue	the service revenue generated by the Company in the course of operating its CDMA telecommunication business which shall be calculated by the total revenue from the CDMA Service under IFRS minus any upfront non-refundable revenue arising out of the CDMA Service and any revenue from sale of telecommunication products in connection with the CDMA Service
China or PRC	the People's Republic of China (excluding, for the purposes of this circular, Hong Kong, the Macau Special Administrative Region and Taiwan)
China Telecommunications Corporation	China Telecommunications Corporation, 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, 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
Completion Date	31 December 2012
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

**DEFINITIONS**

EGM	the extraordinary general meeting of the Company to be convened on 16 October 2012, the notice of which is set out in this circular, or any adjournment thereof
Engineering Framework Agreement	the Engineering Framework Agreement between the Company and China Telecommunications Corporation, as amended by its supplemental agreements from time to time and as renewed on 22 August 2012 with expiration on 31 December 2015
Existing Continuing Connected Transactions	certain existing continuing connected transactions of the Company, including the Engineering Framework Agreement and the Ancillary Telecommunications Services Framework Agreement
Final Consideration	the consideration payable for the Acquisition by the Company to China Telecommunications Corporation after the Price Adjustment of the Initial Consideration in accordance with the Acquisition Agreement
Financial Adviser or UBS	UBS AG, Hong Kong Branch acting as the financial adviser to the Company in respect of the Acquisition
Group	the Company, together with all of its subsidiaries
H Shares	the ordinary shares issued by the Company, with a Renminbi-denominated par value of RMB1.00, which are subscribed for and paid up in a currency other than Renminbi and are listed on the Stock Exchange
HK\$	Hong Kong Dollars, the lawful currency of Hong Kong. For reference only, the amounts in Hong Kong Dollars set out in this circular are translated from Renminbi at HK\$1.00 = RMB0.816. 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	the Hong Kong Special Administrative Region of the PRC
Independent Board Committee	an independent board committee, comprising all of the independent non-executive Directors of the Company, namely Mr. Wu Jichuan, Mr. Qin Xiao, Mr. Tse Hau Yin, Aloysius, Madam Cha May Lung, Laura and Mr. Xu Erming, formed to advise the Independent Shareholders in respect of the Acquisition Agreement and the renewal of the Existing Continuing Connected Transactions
Independent Financial Adviser or CICC	China International Capital Corporation Hong Kong Securities Limited, acting as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition Agreement and the renewal of the Existing Continuing Connected Transactions

## DEFINITIONS

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
Initial Consideration	the initial consideration payable for the Acquisition by the Company to China Telecommunications Corporation agreed under the Acquisition Agreement, which is RMB84,595,410,000 (equivalent to approximately HK\$103,671 million)
Latest Practicable Date	24 August 2012, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
Listed Service Areas	Guangdong, Jiangsu, Zhejiang, Fujian, Liaoning, Shandong, Anhui, Hebei, Hubei, Jilin, Heilongjiang, Jiangxi, Henan, Shaanxi, Sichuan, Shanxi, Hunan, Hainan, Yunnan, Gansu, Qinghai and Guizhou provinces, and Beijing, Shanghai, Chongqing and Tianjin municipalities, and the Guangxi Zhuang, Xinjiang Uygur, and the Inner Mongolia, Ningxia Hui, and Xizang autonomous regions and other areas as may be agreed between the Company and China Telecommunications Corporation
Listing Rules	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
Network Branches	China Telecommunications Corporation Network Branch and other network branches set up by China Telecommunications Corporation in 30 provinces, municipalities and autonomous regions, including Guangdong, Jiangsu, Zhejiang, Fujian, Liaoning, Shandong, Anhui, Hebei, Hubei, Jilin, Heilongjiang, Jiangxi, Henan, Shaanxi, Sichuan, Shanxi, Hunan, Hainan, Yunnan, Gansu, Qinghai and Guizhou provinces, and Beijing, Shanghai, Tianjin and Chongqing municipalities, and the Guangxi Zhuang, Xinjiang Uygur, the Inner Mongolia and Ningxia Hui autonomous regions
New Continuing Connected Transactions	the new continuing connected transactions entered into between the Company and China Telecommunications Corporation and/ or its associates arising from the Acquisition, consisting of the transactions contemplated under each of the CDMA Network Facilities Lease Framework Agreement and the Land Use Right Lease Framework Agreement

**DEFINITIONS**

Pre-completion Period	the period between the date on which the Acquisition Agreement becomes effective and the Completion Date
Price Adjustment	the adjustment to the Initial Consideration to reflect changes in the value of the Acquisition Target during the Relevant Period as specified in the Acquisition Agreement
Properties	the land use rights, buildings and structures with good and valid title that are owned by China Telecommunications Corporation and which form part of the Assets under the Acquisition, a summary of which is set out in Appendix IV-A Summary of Property Valuation Report
Property Leasing Framework Agreement	the Property Leasing Framework Agreement between the Company and China Telecommunications Corporation, as amended by its supplemental agreements from time to time and as renewed on 22 August 2012 with expiration on 31 December 2015
Property Valuer or CEA	Beijing CEA Real Estate Appraisal Co., Ltd, acting as the independent valuer providing appraisal service on the evaluation of the Properties
Relevant Period	the period between the date following the base date for the asset appraisal (being 31 March 2012) up to (and including) the Completion Date
Retained Assets and Liabilities	the assets and liabilities of China Telecommunications Corporation held by the Network Branches and will be retained by China Telecommunications Corporation in accordance with the Acquisition Agreement, including (i) monetary funds of the Network Branches and (ii) properties, properties under construction and land use rights of defective title as at the base date for the asset appraisal (being 31 March 2012) owned by the Network Branches, and any new properties, properties under construction and land use rights obtained by the Network Branches during the Relevant Period
RMB	Renminbi, the lawful currency of the PRC
SASAC	State-owned Assets Supervision and Administration Commission of the State Council of the PRC
SFO	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended or supplemented from time to time
Shareholders	shareholders of the Company
Stock Exchange	The Stock Exchange of Hong Kong Limited

**DEFINITIONS**

Supervisory Committee	the supervisory committee of the Company
Telecom CDMA Lease	the CDMA network capacity lease agreement dated 27 July 2008 signed between the Company and China Telecommunications Corporation, as amended by its supplemental agreement dated 25 August 2010 expiring on 31 December 2012

**FORWARD-LOOKING STATEMENTS**

*Certain statements contained in this circular 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.*

**LETTER FROM THE BOARD**

*(A joint stock limited company incorporated in the People's Republic of China with limited liability)*

**(Stock Code: 728)**

*Executive Directors:*

Wang Xiaochu  
Yang Jie  
Wu Andi  
Zhang Jiping  
Yang Xiaowei  
Sun Kangmin  
Ke Ruiwen

*Registered office:*

31 Jinrong Street  
Xicheng District  
Beijing 100033, PRC

*Place of business in Hong Kong:*

38th Floor  
Dah Sing Financial Centre  
108 Gloucester Road  
Wanchai, Hong Kong

*Independent Non-executive Directors:*

Wu Jichuan  
Qin Xiao  
Tse Hau Yin, Aloysius  
Cha May Lung, Laura  
Xu Erming

30 August 2012

*To the Shareholders*

Dear Sir or Madam,

**(1) MAJOR TRANSACTION AND CONNECTED TRANSACTION IN RESPECT OF**

**THE ACQUISITION OF CERTAIN CDMA NETWORK ASSETS AND**

**ASSOCIATED LIABILITIES**

**AND**

**(2) RENEWAL OF EXISTING CONTINUING CONNECTED TRANSACTIONS**

**INTRODUCTION**

**The Acquisition**

Reference is made to the announcement of the Company dated 22 August 2012 in relation to the Acquisition.

At present, pursuant to the Telecom CDMA Lease, China Telecommunications Corporation has agreed to lease the Capacity on the CDMA Network to the Company and the Company has the exclusive right to use and operate the CDMA Network to provide the CDMA Service in the Listed Service Areas during the term of the Telecom CDMA Lease. The lease fee for the Capacity under the CDMA Network is currently 28% of the audited CDMA Service Revenue. To facilitate the arrangement under the Telecom CDMA Lease, China Telecommunications Corporation



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has set up certain network branches in the Listed Service Areas to procure and construct the CDMA Network and hold the relevant CDMA Network assets, including the Acquisition Target.

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## LETTER FROM THE BOARD

China Telecommunications Corporation has granted to the Company an option to purchase the CDMA Network (the **Purchase Option**) under the Telecom CDMA Lease. The Purchase Option may be exercised, at the discretion of the Company, at any time during the term of the Telecom CDMA Lease or within one year after the expiry of the Telecom CDMA Lease. No premium has been paid or will be payable by the Company for the grant of the Purchase Option. The Telecom CDMA Lease will expire on 31 December 2012.

For the reasons set out in the section headed **Reasons for and Benefits of the Acquisition** in this circular, the Company has proposed to acquire from China Telecommunications Corporation certain assets and associated liabilities relating to the CDMA Network (comprising the Acquisition Target) held by the Network Branches located in 30 provinces, municipalities and autonomous regions in the PRC (which do not include Xizang Autonomous Region). Pursuant to the Acquisition Agreement entered into on 22 August 2012, the Company has agreed to purchase, and China Telecommunications Corporation has agreed to sell, the Acquisition Target at the Initial Consideration of RMB84,595,410,000 (equivalent to approximately HK\$103,671 million), which is subject to the Price Adjustment in accordance with the mechanism described in the section headed **The Acquisition Agreement Consideration** in this circular to arrive at the Final Consideration.

As certain applicable percentage ratios in respect of the Acquisition represent more than 25% but less than 100% for the Company, the Acquisition constitutes a major transaction for the Company under Chapter 14 of the Listing Rules and is subject to the approval of the Shareholders.

As China Telecommunications Corporation is the controlling shareholder of the Company, China Telecommunications Corporation is a connected person of the Company and the Acquisition also constitutes a connected transaction under Chapter 14A of the Listing Rules.

As the Acquisition constitutes a major and connected transaction for the Company under Chapters 14 and 14A of the Listing Rules, it is subject to the reporting, announcement and independent shareholders' approval requirements. As China Telecommunications Corporation is a connected person of the Company and is regarded as having a material interest in the Acquisition, it and its associates will abstain from voting on the resolutions relating to the Acquisition at the EGM.

### **New Continuing Connected Transactions**

Following the completion of the Acquisition, the Company will lease certain CDMA Network facilities, properties and land use rights which will not form part of the Assets of the Acquisition Target from China Telecommunications Corporation and/or its associates to maintain continuity in the business operations of the Company and the provision of the CDMA Service by the Company. Accordingly, the Company entered into the New Continuing Connected Transactions with China Telecommunications Corporation and/or its associates on 22 August 2012 and the relevant agreements will become effective on the day immediately after the Completion Date.

As each applicable percentage ratio (other than the profits ratio) under the Listing Rules for each of the New Continuing Connected Transactions is less than 0.1%, such transactions are regarded as continuing connected transactions exempt from the reporting, announcement, annual review and independent shareholders' approval requirements under Rule 14A.33 of the Listing Rules.

## LETTER FROM THE BOARD

### Renewal of Existing Continuing Connected Transactions

Reference is made to the announcement of the Company dated 22 August 2012, in which the Board announced that the Company and China Telecommunications Corporation have agreed on 22 August 2012 to renew the Engineering Framework Agreement and the Ancillary Telecommunications Services Framework Agreement in accordance with their respective provisions for a further term of three years expiring on 31 December 2015.

The Engineering Framework Agreement and the Ancillary Telecommunications Services Framework Agreement will expire on 31 December 2012 under their current terms.

As China Telecommunications Corporation is the controlling shareholder of the Company, the transactions contemplated under each of the Existing Continuing Connected Transactions constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As certain applicable percentage ratios (other than the profits ratio) of the proposed Annual Caps for the transactions contemplated under the Engineering Framework Agreement and the Ancillary Telecommunications Services Framework Agreement are expected to exceed the 5% threshold under Chapter 14A of the Listing Rules, such continuing connected transactions will fall under Rule 14A.35 of the Listing Rules and are subject to the reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Independent Board Committee has been established to advise the Independent Shareholders in respect of the Acquisition Agreement and the renewal of the Existing Continuing Connected Transactions. CICC has also been retained as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition Agreement and the renewal of the Existing Continuing Connected Transactions.

The purpose of this circular is to provide you with information regarding the resolutions to be approved at the EGM, including, among other things, further particulars of:

- (i) the Acquisition;
- (ii) information on the New Continuing Connected Transactions;
- (iii) details of the renewal of the Existing Continuing Connected Transactions;
- (iv) the letter from the Independent Board Committee containing its recommendations to the Independent Shareholders;
- (v) the letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders;
- (vi) financial information of the Group;

(vii) unaudited financial information of the Acquisition Target;

(viii) unaudited pro forma financial information of the Group after the Acquisition;

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**LETTER FROM THE BOARD**

- (ix) a summary of the property valuation report and a letter from the Property Valuer;
- (x) details of the amendments to the Articles of Association; and
- (xi) the notice of the EGM to consider and, if thought fit, to approve the resolutions relating to the Acquisition, the renewal of the Existing Continuing Connected Transactions and other matters.

**THE ACQUISITION AGREEMENT**

**Date**

22 August 2012

**Parties**

- (1) the Company, as purchaser; and
- (2) China Telecommunications Corporation, as vendor.

**Acquisition Target to be Acquired**

The Acquisition Target comprises the following assets and associated liabilities relating to the CDMA Network:

- (1) the Assets, including certain assets of China Telecommunications Corporation held by the Network Branches, including but not limited to the Properties and other auxiliary facilities, general facilities, line equipment, wired transmission equipment, wireless transmission equipment, switching equipment, digital communication equipment, corporate information system equipment, emergency communication equipment, mobile communication equipment and power supply equipment, software copyrights and patented technologies, together with contracts, agreements and operating records, documents and files related to these assets, except any assets in the Retained Assets and Liabilities; and
- (2) the Associated Liabilities, including liabilities of China Telecommunications Corporation assumed by the Network Branches to be transferred in association with the transfer of the Assets, and relevant contracts, agreements, records, documents and files related to these liabilities, except any liabilities in the Retained Assets and Liabilities.

**Consideration**

The Initial Consideration for the Acquisition is RMB84,595,410,000 (equivalent to approximately HK\$103,671 million), and is subject to the Price Adjustment in accordance with the mechanism described in the Acquisition Agreement to arrive at the Final Consideration.

The Initial Consideration and the mechanism for the Price Adjustment were arrived at after arm's length negotiations between the Company and China Telecommunications Corporation and are on normal commercial terms, with reference to various factors including, but not limited to, a valuation range determined on the basis of a number of generally accepted industry valuation methodologies and conventions, the appraised

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value of the Assets (based on a report commissioned by China Telecommunications Corporation and produced by an independent appraiser), the specific and unique characteristics of the Assets, the prevailing business conditions and growth prospects of the CDMA Service provided by the Company, standard commercial terms, and other considerations such as that arising during the normal course of negotiations.

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## LETTER FROM THE BOARD

The Initial Consideration, which will be adjusted by the Price Adjustment as specified in the Acquisition Agreement to reflect the change in value of the Acquisition Target during the Relevant Period, will form the Final Consideration payable by the Company to China Telecommunications Corporation for the Acquisition. A mutually recognised auditor will be appointed to conduct an audit on the financial information of the Acquisition Target within a reasonable period of time after the Completion Date. The Price Adjustment will be based on the change of the carrying amount, which will primarily be driven by the capital expenditure, the depreciation and the changes in the liabilities in relation to the Acquisition Target during the Relevant Period. The amount of the Price Adjustment will not be more than RMB3,000 million (equivalent to approximately HK\$3,676 million). The Final Consideration will not be more than RMB87,595,410,000 (equivalent to approximately HK\$107,347 million).

The Final Consideration will be payable in cash by the Company to China Telecommunications Corporation as follows: (i) RMB25,500 million (equivalent to HK\$31,250 million) will be payable within five Business Days following the Completion Date and (ii) the balance of the Final Consideration (the **Deferred Payment**) will be payable on or before the fifth anniversary of the Completion Date after all the conditions precedent for completion as set out below have been fulfilled or otherwise waived by both parties. The payment will be funded from the Company's internal resources and relevant debt financing sources.

The Company may, from time to time, prepay all or part of the Deferred Payment at any time after the Completion Date without penalty until the fifth anniversary of the Completion Date. The Company will pay interest on the outstanding amount of the Deferred Payment to China Telecommunications Corporation at half-yearly intervals and the interest will accrue from the day following the Completion Date. The interest rate will be set at a 5 basis points premium to the yield of the 5-year super AAA rated Medium Term Notes most recently published by the National Association of Financial Market Institutional Investors before the Completion Date and will be adjusted once a year in accordance with the last yield of the 5-year super AAA rated Medium Term Notes published by the National Association of Financial Market Institutional Investors at the end of each year. For the Shareholders' reference, the yield of 5-year super AAA rated Medium Term Notes published by the National Association of Financial Market Institutional Investors on 20 August 2012 was 4.35%.

In the event any amount payable by the Company under the Acquisition Agreement is not paid when due, the Company will be required to pay the liquidated damages on such amount at a daily rate of 0.03% of the arrears from the day following the applicable due date to the date that such amount has actually been paid in full.

### **The Acquisition Agreement Becoming Effective**

The Acquisition Agreement will become effective when all of the following conditions are fulfilled:

- (i) the Acquisition Agreement having been executed by the legal representative of each party or their respective authorised representatives with official company seals of both parties affixed to the Acquisition Agreement;
- (ii) the Acquisition having been approved by China Telecommunications Corporation;
- (iii) the Acquisition having been approved by the Board, the Independent Board Committee and the Independent Shareholders of the Company; and

**LETTER FROM THE BOARD**

- (iv) all required approvals, consents, authorisations and filings in connection with the Acquisition from the relevant government and regulatory authorities in the PRC, which shall include but not limited to the approval from the SASAC, having been obtained.

**Conditions Precedent to Completion**

The completion of the Acquisition is conditional upon the fulfilment of the following conditions:

- (i) the Acquisition Agreement having become effective;
  
- (ii) each