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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)**

### **DISCLOSEABLE TRANSACTION ANNOUNCEMENT IN RESPECT OF THE LEASE OF TELECOMMUNICATIONS TOWERS AND RELATED ASSETS FROM CHINA TOWER CORPORATION LIMITED**

Reference is made to the announcements (the “Announcements”) of China Telecom Corporation Limited (the “Company”) published on 8 July 2016 and 1 February 2018 in relation to the pricing arrangement of the Company’s leasing of telecommunications towers and related assets from China Tower Corporation Limited (“China Tower”), and that both parties have entered into the existing commercial pricing agreement and its supplemental agreement. The existing commercial pricing agreement and its supplemental agreement will expire on 31 December 2022. Unless otherwise indicated, capitalised terms used herein shall have the same meaning as those defined in the Announcements.

After mutual negotiations and discussions on an arm’s length basis, on 13 December 2022, the board of directors of the Company (the “Board”) approved the entering into of a commercial pricing agreement (“Commercial Pricing Agreement”) and a service agreement (“Service Agreement”, together with the Commercial Pricing Agreement, the “Agreements”) with China Tower by the Company with a term of five years commencing from 1 January 2023 to 31 December 2027. Pursuant to the Commercial Pricing Agreement and the Service Agreement, China Tower will continue to provide leasing of telecommunications towers and other related services to the Company.

### **MAJOR TERMS OF THE COMMERCIAL PRICING AGREEMENT AND THE SERVICE AGREEMENT**

The Company and China Tower have agreed on the terms of the Commercial Pricing Agreement and the Service Agreement, the principal terms of which are set out as follows:

**(a) Parties:**

Lessee: the Company

Lessor: China Tower

**(b) Term of the Agreements:**

Five years from 1 January 2023 to 31 December 2027.

**(c) Tower Products:**

Under the Commercial Pricing Agreement and the Service Agreement, China Tower will mainly provide leasing services of telecommunication towers, including New Towers and Acquired Towers, to the Company.

The pricing basis and formulae for tower products are set out as follows:

**(i) Basis of Pricing**

The pricing for leasing of telecommunications towers and services provided by China Tower shall be on an arm's length basis and be primarily based on the relevant asset's construction cost, depreciation life, site cost, maintenance expense and other costs, among other factors, and determined with reference to certain cost markup margin rate and co-sharing discount rates.

**(ii) Pricing Formula for New Towers**

The pricing formula for New Towers is set out as below:

$$\text{Base price} = (\sum \text{standard construction cost/depreciable life} \times (1 + \text{depletion rate}) + \text{maintenance cost}) \times (1 + \text{markup margin rate})$$

$$\text{Product price} = \text{Base price} \times (1 - \text{co-sharing discount rate 1}) + (\text{site cost} + \text{electricity connection cost}) \times (1 - \text{co-sharing discount rate 2})$$

In order to reflect the difference in the standard construction costs of New Towers in different geographical areas, 31 provinces have been divided into four categories with different adjustment coefficients. The maintenance cost shall be determined by public tender or on a negotiated lump sum basis. The depletion rate shall be 2%. The markup margin rate shall be 10%. The site cost and electricity connection cost shall be priced on either a lump sum or itemised basis. In order to leverage the advantages of tower sharing, China Tower will offer the following co-sharing discounts:

Co-sharing discount rate 1 In respect of the base price, China Tower shall apply 32.4% discount to such towers shared by two lessees, and a 42.4% discount shall apply to such towers shared among three lessees, and the original owner of acquired resources and the first sole occupier of these towers will benefit from a first occupier discount policy (i.e. an extra 5% discount in addition to the aforesaid sharing discount(s))

Co-sharing discount rate 2 In respect of the site cost and the electricity connection cost, China Tower shall apply a 40% discount to such towers shared by two lessees, and a 50% discount shall apply to such towers shared among three lessees, and the original owner of acquired resources and the first sole occupier of these towers will benefit from a first occupier discount policy (i.e. an extra 5% discount in addition to the aforesaid sharing discount(s))

***(iii) Pricing formula for Acquired Towers***

The pricing formula for Acquired Towers is set out as below:

$$\text{Base price} = (\sum \text{standard construction cost of New Towers} / \text{depreciable life of New Towers} \times \text{discount rate} \times (1 + \text{depletion rate}) + \text{maintenance cost}) \times (1 + \text{markup margin rate})$$

$$\text{Product price} = \text{Base price} \times (1 - \text{co-sharing discount rate 1}) + \text{site cost} \times (1 - \text{co-sharing discount rate 2})$$

$$\text{Discount rate} = (\sum \text{appraised value} \div \text{useful lives of depreciation of Acquired Towers}) / (\sum (\sum \text{standard construction cost of New Towers of the category} \div \text{depreciable life of New Towers} \times \text{percentage of Acquired Towers of the same category}) \times \text{number of Acquired Towers})$$

The product catalogue and pricing formula for Acquired Towers is principally consistent with that for New Towers, save that no electricity connection costs will be charged for Acquired Towers. New construction geographical coefficients and wind pressure adjustment coefficients will not be taken into account for Acquired Towers, and the discount rate will be determined by province according to the proportion of the adjusted depreciation expense of Acquired Towers to that of New Towers.

The co-sharing discount rates and provisions are consistent with those for New Towers. Existing co-sharing parties who shared the Acquired Towers with the original property owner before 31 October 2015 will be charged 27.6% of the base price and 30% of the site cost. The original property owner will be charged 67.6% (if there are two lessees) or 57.6% (if there are three lessees) of the base price and 70% (if there are two lessees) or 40% (if there are three lessees) of the site cost. When an additional third lessee is introduced, the product price for the existing co-sharing parties will remain unchanged, while the original property owner will be charged 57.6% of the base price and 45% of the site cost.

***(iv) Pricing Adjustment Mechanism***

Parties may, taking into account factors such as inflation, adjust the maintenance cost and the site cost with reference to the consumer price index in the preceding year. In the event of significant fluctuations in the real estate market or steel price, parties shall also negotiate on adjustments to the site cost and the product price, etc. having regard to such fluctuations.

**(d) Other Products**

Apart from tower products, China Tower will also provide indoor distribution system products, transmission products and service products to the Company under the Commercial Pricing Agreement and the Service Agreement:

Indoor distribution system products	Indoor distribution systems for commercial buildings and tunnels
Transmission products	Pipelines, pole lines, optical fiber, public manholes and routes to sites, etc.
Service products	Power service, gasoline or diesel power generation service and extra battery assurance service

**(e) Payment Term**

Service fees are payable in arrears on a monthly basis, by the 25<sup>th</sup> day of each month.

**(f) Total Value of Right-of-Use Assets**

In accordance with International Financial Reporting Standards 16 “Leases” applicable to the Company and its subsidiaries (the “Group”), the Company expects that the total value of right-of-use assets to be recognized in connection with transactions under the Commercial Pricing Agreement and the Service Agreement will be no more than RMB52 billion (unaudited), which includes telecommunications tower assets that are currently leased and expected to continue to be leased under the Commercial Pricing Agreement and the Service Agreement (from 1 January 2023 to 31 December 2027), as well as telecommunications tower assets that are expected to be newly leased in 2023. The final amount of right-of-use assets to be recorded by the Group will be subject to audit.

**Historical Transaction Amounts**

For the purposes of the Rules Governing the Listing of Stocks on Shanghai Stock Exchange (“Shanghai Listing Rules”), the expected caps for the year ending 31 December 2022 and the transaction amounts for the 11 months ended 30 November 2022 for the affiliated transactions under the existing commercial pricing agreement are set out as follows:

	<b>Expected caps for the year ending 31 December 2022</b>	<b>Transaction amounts for the 11 months ended 30 November 2022</b>
Rental fees on China Tower related assets and interest expenses on lease liability	RMB15.1 billion	RMB11.135 billion
Increase in right-of-use assets	RMB4 billion	RMB1.860 billion

During the year of 2022, there are no actual increase in affiliated transactions between the Company and China Tower, other than those routine affiliated transactions which have been considered, approved and disclosed in announcements as required under the Shanghai Listing Rules.

### **(g) Annual Caps**

For the purposes of the Shanghai Listing Rules, the expected caps for the transactions expected to be conducted under the Commercial Pricing Agreement and the Service Agreement for the year ending 31 December 2023 are set out as follows:

#### **Expected caps for the year ending 31 December 2023**

Rental fees on China Tower related assets and interest expenses on lease liability	RMB19 billion
Increase in right-of-use assets	RMB52 billion

### **REASONS AND BENEFITS FOR ENTERING INTO THE COMMERCIAL PRICING AGREEMENT AND THE SERVICE AGREEMENT**

The entering into of the Commercial Pricing Agreement and the Service Agreement with China Tower would facilitate the Company in terms of accurately grasping the development opportunities of digital economy, building mobile networks with higher efficiency, accelerating the construction of green and low-carbon digital information infrastructures, effectively saving capital expenditures and operating costs, furthering the realization of cost reduction and efficiency enhancement and promoting higher quality corporate development. Such routine affiliated transactions form part of the ordinary and usual course of business of the Company pursuant to the needs of its business operations and follow the principles of openness, fairness and impartiality, and are market-based choices targeted at maximizing benefits and optimizing operational efficiency. There are no circumstances under which the interests of the parties to the transactions and their minority shareholders would be prejudiced, and they will not bring adverse impact to future financial position and operating results of the Company. They are in line with the Company's development needs and the interests of the shareholders of the Company as a whole.

### **BOARD OPINION**

The Board has passed resolutions to approve (among others) the transactions under each of the Agreements (including the expected 2023 annual caps in respect of such affiliated transactions). As Mr. Liu Guiqing, Executive Director and Executive Vice President of the Company, serves as a non-executive director of China Tower, he has therefore abstained from voting on the board resolutions in respect of, among others, the Agreements. Save for the above individual, none of the Directors had a material interest in the transactions contemplated under the Agreements, and no Director was required to abstain from voting on the relevant board resolutions to approve the transactions contemplated under the Agreements (including the expected 2023 annual caps in respect of such affiliated transactions).

The Board is of the view that the Commercial Pricing Agreement and the Service Agreement, and the transactions contemplated thereunder would be entered into in the ordinary and usual course of business of the Group and are on normal commercial terms or better, and that the abovementioned terms of the Agreements and the expected 2023 annual caps in respect of such affiliated transactions applicable thereto are fair and reasonable and are in the interests of the Company and its shareholders as a whole.

## **IMPLICATIONS OF HONG KONG LISTING RULES AND SHANGHAI LISTING RULES**

As of the date of this announcement, the Company is one of the substantial shareholders of China Tower, holding 20.5% of the issued share capital of China Tower, and Mr. Liu Guiqing, Executive Director and Executive Vice President of the Company, serves as a non-executive director of China Tower. Pursuant to the Shanghai Listing Rules, China Tower is an affiliated person of the Company and transactions entered into with China Tower constitute affiliated transactions. The expected 2023 annual caps in respect of the affiliated transactions between the Company and China Tower is RMB71 billion, which represents more than 5% of the absolute value of the Group's latest audited net assets and exceeds RMB30 million, and hence, transactions contemplated under the Commercial Pricing Agreement and Service Agreement are subject to approval of the shareholders of the Company in general meeting. A proposal in relation to the transactions under the Commercial Pricing Agreement and Service Agreement and the expected 2023 annual caps in respect of such affiliated transactions will be submitted for approval by the shareholders of the Company at an extraordinary general meeting of the Company to be convened (the "Extraordinary General Meeting" or the "EGM"). A circular of the Extraordinary General Meeting containing, among other things, details of such proposal will be despatched to the shareholders of the Company in due course.

In accordance with International Financial Reporting Standards 16 "Leases", the Group will recognize right-of-use assets in connection with the lease transactions under the Commercial Pricing Agreement and the Service Agreement, and accordingly the Group will be regarded as acquiring right-of-use assets for the purposes of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Hong Kong Listing Rules"). As the Group expects that the highest applicable percentage ratio calculated in accordance with Rule 14.07 of the Hong Kong Listing Rules in respect of such transactions exceeds 5% but falls below 25%, the transactions constitute discloseable transactions and are subject to notification and announcement requirements under Chapter 14 of the Hong Kong Listing Rules. As mentioned above, the transactions contemplated under the Commercial Pricing Agreement and the Service Agreement also need to comply with the shareholders' approval requirements under the Shanghai Listing Rules.

China Tower is not a connected person of the Company under Chapter 14A of the Hong Kong Listing Rules. As such, transactions between the Company and China Tower do not constitute connected transactions under Chapter 14A of the Hong Kong Listing Rules.

## **INFORMATION OF THE COMPANY**

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, with its H Shares listed on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") and its A Shares listed on the Shanghai Stock Exchange and whose principal business is the provision of fundamental telecommunications businesses including comprehensive wireline communications services, mobile communications services, value-added telecommunications services such as Internet access services, information services and other related services.

## **INFORMATION OF CHINA TOWER**

China Tower Corporation Limited (中國鐵塔股份有限公司), a joint stock limited company incorporated in the PRC with limited liability on 15 July 2014 with its H Shares listed on the Hong Kong Stock Exchange and whose principal business is the construction, maintenance and operation of telecommunications towers.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, save as otherwise disclosed in this announcement, China Tower and its ultimate beneficial owner are independent third parties (as defined under the Hong Kong Listing Rules) of the Company and connected persons of the Company.

## **THE EGM**

The EGM will be convened to consider and, if thought fit, to approve, among other things, the transactions contemplated under the Commercial Pricing Agreement and the Service Agreement. China Telecommunications Corporation (the controlling shareholder of the Company) and its associates are not required to abstain from voting on the relevant resolutions at the EGM. A circular containing, among other things, (i) details of the Commercial Pricing Agreement and the Service Agreement; and (ii) a notice of the EGM, is expected to be despatched to the shareholders of the Company in due course.

By Order of the Board  
**China Telecom Corporation Limited**  
**Ke Ruiwen**  
*Chairman and Chief Executive Officer*

Beijing, China, 13 December 2022

## ***FORWARD-LOOKING STATEMENTS***

*Forward-looking statements included in this announcement in relation to development strategies, future operation plans, outlook, etc. do not constitute a commitment to investors by the Company. 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, the Company does not intend to update these forward-looking statements. Investors are advised to pay attention to the investment risks.*

As at the date of this announcement, the Board of Directors of the Company consists of Mr. Ke Ruiwen (as the Chairman and Chief Executive Officer); Mr. Shao Guanglu (as the President and Chief Operating Officer); Mr. Liu Guiqing and Mr. Tang Ke (both as the Executive Vice Presidents); Mr. Chen Shengguang (as the Non-Executive Director); Mr. Tse Hau Yin, Aloysius, Mr. Xu Erming, Madam Wang Hsuehming and Mr. Yeung Chi Wai, Jason (all as the Independent Non-Executive Directors).