

The Board of Directors (the "Directors") of China Telecom Corporation Limited (the "Company") are pleased to present their report together with the audited financial statements of the Company and its subsidiaries (the "Group") prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2004.

## PRINCIPAL BUSINESSES

The principal businesses of the Group are: provision of comprehensive wireline telecommunications and other relevant services, including local telephone, domestic long distance telephone, international long distance telephone, Internet and managed data, leased line and other related services to its subscribers within the service area of the Group. The principal business of the Company is investment holding.

## RESULTS

Results of the Group for the year ended 31 December 2004 and the financial position of the Company and the Group as at that date are set out in the audited financial statements on pages 71 to 127 in this annual report.

## DIVIDEND

The Directors propose to declare a final dividend in the amount equivalent to HK\$0.065 per share, totalling approximately RMB5,576 million for the year ended 31 December 2004. The dividend proposal will be submitted for consideration at the Annual General Meeting to be held on 25 May 2005. Dividends will be denominated and declared in Renminbi. Dividends on

domestic shares will be paid in Renminbi and dividends on H shares will be paid in Hong Kong dollars. The relevant exchange rate will be the mean of the average rate of Renminbi to Hong Kong dollars as announced by the People's Bank of China for the week prior to the date of declaration of dividends by the Annual General Meeting. The final dividends are expected to be paid around 23 June 2005 after its approval by the Annual General Meeting.

## NEW H SHARES ISSUING AND ACQUISITION BY THE COMPANY

In May 2004, the Company issued 5,318,181,818 new H shares of RMB1.00 each, including 4,466,693,018 H shares and 8,514,888 ADSs (one ADS represents 100 H shares). Such new H shares and ADSs, at an offer price of HK\$2.30 each and US\$29.49 each respectively, were offered to Hong Kong and overseas investors under global offering. In addition, as part of the global offering, China Telecommunications Corporation and other holders of domestic shares converted 531,818,182 domestic shares of RMB1.00 each held by them into H shares for the subscription by Hong Kong and overseas investors. Net proceeds of RMB12,702 million were raised from the issue of new H shares, all of which were used to settle part of the consideration for the acquisition of telecommunications businesses in the ten provinces.

On 30 June 2004, the Company completed its acquisition from China Telecommunications Corporation of the entire equity interests in Hubei Telecom Company Limited, Hunan Telecom Company Limited, Hainan Telecom Company Limited, Guizhou Telecom Company Limited, Yunnan

Telecom Company Limited, Shaanxi Telecom Company Limited, Gansu Telecom Company Limited, Qinghai Telecom Company Limited, Ningxia Telecom Company Limited and Xinjiang Telecom Company Limited (the "Acquired Companies"), for a consideration

of RMB27,800 million. The Acquired Companies are the leading providers of wireline telecommunications services including wireline telephone, data, Internet and leased line services in their service areas.

## DIRECTORS AND SENIOR MANAGEMENT OF THE COMPANY

The following table sets forth certain information concerning the Directors and senior management of the Company as at 31 December 2004.

Name	Age	Position in the Company	Date of Appointment
Wang Xiaochu	47	Chairman of the Board of Directors and Chief Executive Officer	20 December 2004
Leng Rongquan	56	Executive Director, President and Chief Operational Officer	20 December 2004
Wu Andi	50	Executive Director, Executive Vice President and Chief Financial Officer	10 September 2002
Zhang Jiping	49	Executive Director and Executive Vice President	10 September 2002
Huang Wenlin	51	Executive Director and Executive Vice President	10 September 2002
Li Ping	51	Executive Director, Executive Vice President and Joint Company Secretary	10 September 2002
Wei Leping	59	Executive Director and Executive Vice President	10 September 2002
Yang Jie	43	Executive Director and Executive Vice President	20 October 2004
Sun Kangmin	48	Executive Director and Executive Vice President	20 October 2004
Cheng Xiyuan	61	Executive Director	10 September 2002
Feng Xiong	59	Executive Director	10 September 2002
Li Jinming	53	Non-executive Director	20 December 2004
Zhang Youcai	64	Independent Non-executive Director	10 September 2002
Shi Wanpeng	68	Independent Non-executive Director	20 June 2003
Vincent Lo Hong Sui	57	Independent Non-executive Director	10 September 2002
Wang Qi	50	Controller	10 September 2002

On 1 February 2005, Mr. Yung Shun Loy, Jacky was appointed by the Company as the assistant chief financial officer, qualified accountant and joint company secretary of the Company.

On 2 November 2004, Mr. Chang Xiaobin resigned from his position as president and chief operating officer of the Company.

On 20 December 2004, Mr. Zhou Deqiang retired from his position as executive director, chairman and chief executive officer of the Company. Mr. Chang Xiaobin resigned from his position as executive director on the same date.

The following table sets forth certain information concerning the senior management of the Company's subsidiaries at the provincial level as at 31 December 2004:

Name	Age	Position in the Company's Subsidiaries at the Provincial Level	Date of Appointment
Cheng Xiyuan	61	Chairman of Shanghai Telecom Company Limited	28 September 2002
Wang Wei	40	General Manager of Shanghai Telecom Company Limited	20 October 2004
Feng Xiong	59	Chairman and General Manager of Guangdong Telecom Company Limited	28 September 2002
Sun Jiuming	58	Chairman and General Manager of Jiangsu Telecom Company Limited	19 October 2002
Wang Jirong	51	Chairman and General Manager of Zhejiang Telecom Company Limited	10 October 2002
Zhang Jun'an	48	Chairman and General Manager of Anhui Telecom Company Limited	19 August 2003
Liu Yaoming	53	Chairman and General Manager of Fujian Telecom Company Limited	19 August 2003
Ke Ruiwen	41	Chairman and General Manager of Jiangxi Telecom Company Limited	12 September 2003
Sun Junyan	43	Chairman and General Manager of Guangxi Telecom Company Limited	19 August 2003
Zou Bingxuan	55	Chairman and General Manager of Chongqing Telecom Company Limited	19 August 2003
Liu Hongjian	44	Chairman and General Manager of Sichuan Telecom Company Limited	4 June 2004
Liao Renbin	45	Chairman and General Manager of Hubei Telecom Company Limited	5 March 2004
Wen Huiguo	51	Chairman and General Manager of Hunan Telecom Company Limited	5 March 2004

Name	Age	Position in the Company's Subsidiaries at the Provincial Level	Date of Appointment
Wang Dan	54	Chairman and General Manager of Hainan Telecom Company Limited	5 March 2004
Liao Kang	42	Chairman and General Manager of Guizhou Telecom Company Limited	5 March 2004
Wu Yongquan	59	Chairman and General Manager of Yunnan Telecom Company Limited	5 March 2004
Zhou Shifu	59	Chairman and General Manager of Shaanxi Telecom Company Limited	5 March 2004
En Guangli	57	Chairman and General Manager of Gansu Telecom Company Limited	5 March 2004
Yang Jianqing	44	Chairman and General Manager of Qinghai Telecom Company Limited	5 March 2004
Ma Linfeng	49	Chairman and General Manager of Ningxia Telecom Company Limited	5 March 2004
Gao Tongqing	41	Chairman and General Manager of Xingjiang Telecom Company Limited	5 March 2004

In March 2005, Zhang Xinjian was appointed as Chairman and General Manager of Zhejiang Telecom Company Limited, while Wang Jirong resigned from the position of Chairman and General Manager.

In March 2005, Li Hua was appointed as Vice Chairman and General Manager of Yunnan Telecom Company Limited, while Wu Yongquan resigned from the position of General Manager.

In March 2005, Yin Yiping was appointed as Vice Chairman and General Manager of Shaanxi Telecom Company Limited, while Zhou Shifu resigned from the position of General Manager.

## SUPERVISORS OF THE COMPANY

The following table sets forth certain information concerning the Supervisors of the Company as at 31 December 2004:

Name	Age	Position in the Company	Date of Appointment
Zhang Xiuqin	58	Chairperson of Supervisory Committee	10 September 2002
Wang Huanhui	60	Employee Representative Supervisor	1 April 2003
Zhu Lihao	64	Independent Supervisor	10 September 2002
Xie Songguang	56	Supervisor	10 September 2002
Li Jing	39	Supervisor	10 September 2002

## SHARE CAPITAL

The share capital of the Company as at 31 December 2004 was RMB80,932,368,321, divided into 80,932,368,321 shares with a par value of RMB1.00 each. As at 31 December 2004, the share capital of the Company comprised:

Shares	Number of shares as at 31 December 2004	Percentage of the total number of shares in issue as at 31 December 2004 (%)
Domestic shares (total):	67,054,958,321	82.85
Domestic shares held by:		
China Telecommunications Corporation	58,346,370,499	72.09
Guangdong Rising Assets Management Co., Ltd.	5,614,082,653	6.94
Jiangsu Guoxin Investment Group Co., Ltd.	957,031,543	1.18
Zhejiang Financial Development Company	2,137,473,626	2.64
Total of H shares (including ADS):	13,877,410,000	17.15
Total	80,932,368,321	100.00

Note: As at 31 December 2004, China Telecommunications Corporation held short positions in 969,317,182 domestic shares which amounted to 1.45% of the total issued domestic shares. This short position was created as part of a reform plan approved by the State Council on the administration of rural telecommunications services. According to this arrangement, China Telecommunications Corporation has agreed to transfer 969,317,182 shares of the Company to Fujian Electronic Information (Group) Co., Ltd., subject to the satisfaction of certain conditions precedent. The transfer will not be carried out before 10 September 2005. Moreover, such short position of domestic shares has been reduced when the Company conducted its global offering of H shares in May 2004, in accordance with the provisions on reduction of domestic shareholding set out in *Provisional Measures on the Administration of the Reduction of the State-owned Shares for Raising Social Security Funds* and consent letter issued by Fujian Electronic Information (Group) Co., Ltd. in March 2004.

#### MATERIAL INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2004, the interests or short positions of persons who are entitled to exercise or control the exercise of 5% or more of the voting power at any of the

Company's general meetings (excluding the Directors and Supervisors) in the shares and underlying shares of equity derivatives of the Company as recorded in the register required to be kept under Section 336 of the Securities and Futures Ordinance (Hong Kong Law Cap. 571) (the "SFO") are as follows:

Name of Shareholder	Number of H shares held	% of total H shares	Capacity
J.P. Morgan Chase & Co.	1,563,173,027	11.26%	Beneficial owner; investment manager; custodian

Save as stated above, as at 31 December 2004, in the register required to be kept under Section 336 of the SFO, no other persons were recorded to hold any interests or short positions in the shares or underlying shares of the equity derivatives of the Company.

#### DIRECTORS' AND SUPERVISORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2004, none of the Directors and Supervisors of the Company had any interests or short positions in the shares, underlying shares of equity derivatives or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

As at 31 December 2004, the Company had not granted its Directors or Supervisors, or their respective spouses or children below the age of 18 any rights to subscribe for the shares or debentures of the Company or any of its associated corporations and none of them has ever exercised any such right to subscribe for shares or debentures.

#### DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

For the year ended 31 December 2004, no Director or Supervisor of the Company had any material interest, whether directly or indirectly, in any contract of significance entered into by the Company, any of its holding companies or subsidiaries or subsidiaries of the Company's holding company, apart from service contracts.

#### EMOLUMENTS OF THE DIRECTORS AND SUPERVISORS

Please refer to note 25 of the audited financial statements for details of the emoluments of the Directors and Supervisors of the Company.

## PURCHASE, SALE AND REDEMPTION OF SHARES

Neither the Company or any of its subsidiaries has purchased, sold or redeemed any securities of the Company during the reporting period.

## SUMMARY OF FINANCIAL INFORMATION

Please refer to pages 135 to 136 of this annual report for a summary of the operating results, assets and liabilities of the Group for each of the years in the five-year period ended 31 December 2004.

## BANK LOANS AND OTHER BORROWINGS

Please refer to note 13 of the audited financial statements for details of bank loans and other borrowings of the Group.

## CAPITALISED INTEREST

Please refer to note 23 of the audited financial statements for details of the Group's capitalised interest for the year ended 31 December 2004.

## FIXED ASSETS

Please refer to note 3 of the audited financial statements for movements in the fixed assets of the Group for the year ended 31 December 2004.

## TRUST DEPOSITS AND OVERDUE FIXED DEPOSITS

As at 31 December 2004, the Company did not have any trust deposits or any overdue fixed deposits with financial institutions or any other units.

## RESERVES

Pursuant to Article 147 of the Company's articles of association (the "Articles of Association"), where the financial statements prepared in accordance with PRC accounting standards and regulations materially differ from those prepared in accordance with either international accounting standards or those of the place outside the PRC where the Company's shares are listed, the distributable profit for the relevant accounting period shall be deemed to be the lesser of the amounts shown in those respective financial statements. Distributable reserves of the Company as at 31 December 2004, calculated on the above basis and prior to the proposed final dividend for 2004, amounted to approximately RMB20,609 million.

In addition to the allocation to the statutory reserve funds, the Directors propose to make an allocation to a discretionary surplus reserve. The allocation proposal shall be submitted for consideration at the Annual General Meeting to be held on 25 May 2005.

Please also refer to note 19 of the audited financial statements for details of the movements in the reserves of the Company and the Group for the year ended 31 December 2004.

## DONATIONS

For the year ended 31 December 2004, the Group made charitable and other donations totalling RMB17 million.

#### **SUBSIDIARIES AND ASSOCIATED COMPANIES**

Please refer to notes 5 and 6 of the audited financial statements for details of the Company's subsidiaries and the Group's interests in associated companies as at 31 December 2004.

#### **CHANGES IN SHAREHOLDERS' EQUITY**

Please refer to the consolidated statement of shareholders' equity contained in the audited financial statements (page 76 of this annual report).

#### **RETIREMENT BENEFITS**

Please refer to note 33 of the audited financial statements for details of the retirement benefits of the Group.

#### **SHARE APPRECIATION RIGHTS**

Please refer to note 34 of the audited financial statements for details of the share appreciation rights offered by the Company.

#### **PRE-EMPTIVE RIGHTS**

There are no provisions for pre-emptive rights in the Articles of Association requiring the Company to offer new shares to the existing shareholders in proportion to their shareholdings.

#### **MAJOR CUSTOMERS AND SUPPLIERS**

For the year ended 31 December 2004, sales to the five largest customers represented an amount not exceeding 30% of the operating revenue of the Group.

For the year ended 31 December 2004, purchases from the five largest equipment suppliers of the Group accounted for approximately 36.6% of the total annual purchases of the Group.

For the year ended 31 December 2004, purchases from the Group's largest supplier accounted for approximately 12.9% of the total annual purchases of the Group. The amount of the Group's annual purchase includes amount of equipment purchase, investments in infrastructure and pipeline, and amount payable for interconnection settlement.

So far as the Directors are aware, no director of the Company, their associates, or any person holding more than 5% of the share capital in the Company has any interests in such suppliers.



## CONTINUING CONNECTED TRANSACTIONS

The following table sets out the amounts of continuing connected transactions of the Group during the year ended 31 December 2004 (not including transactions between the Acquired Companies and the Company's connected persons prior to 30 June 2004). Since the Company's acquisition of the Acquired Companies was completed on 30 June 2004, prior to the completion of the acquisition, the relevant transactions entered into by the Acquired Companies or their subsidiaries with the Company's connected persons did not constitute continuing connected transactions within the meaning of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (hereinafter referred to as the "Listing Rules").

Transaction	Group	Annual Monetary Cap for continuing connected transactions
	(in RMB millions)	(in RMB millions)
Share of expenses for centralised services	153	1,200
Net payment for interconnection settlement	103	n/a <sup>1</sup>
Provision of comprehensive services by China Telecommunications Corporation and its subsidiaries (the "China Telecom Group")	348	1,600
Provision of engineering services by China Telecom Group	5,631	8,327
Mutual leasing of properties	279	500
Provision of third party property sub-leasing by China Telecom Group	85	200
Provision of IT services by China Telecom Group	169	300
Provision of equipment procurement services by China Telecom Group	234	450
Provision of community services by China Telecom Group	2,182	3,410
Provision of ancillary telecommunications services by China Telecom Group	2,304	2,640

1. According to a waiver letter issued by The Stock Exchange of Hong Kong Limited on 18 May 2004, the Company is not required to set an annual monetary cap for the total amount under interconnection agreements.

On 13 April 2004, the Company and China Telecommunications Corporation, its substantial shareholder, entered into a supplemental agreement relating to centralised services agreement, interconnection agreement and a comprehensive services framework agreement.

#### *Centralised Services Agreement*

The Centralised Services Agreement was renewed on 30 December 2004 and may be renewed for further periods of one year upon expiration. The aggregate costs incurred by the Company and China Telecommunications Corporation for the provision of management services relating to the operation of the business support centre and the network management centre, the costs of headquarters and certain network support premises and related facilities (including labor costs, depreciation of equipment and premises, daily expenses, costs relating to maintenance and research) and certain large corporate customers of the headquarters of China Telecommunications Corporation, will be apportioned on a pro rata basis between the Company and China Telecommunications Corporation according to the revenues generated by each party. In relation to the use of the international telecommunications facilities, the Company and China Telecommunications Corporation have agreed to apportion the costs associated with operating such assets on a pro rata basis according to the aggregate volume of the inbound international calls terminated by, and outbound international calls originated from, the Company and China Telecom Group, respectively.

#### *Interconnection 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 MII from time to time, which is currently RMB0.06 per minute.

#### *Comprehensive Services Framework Agreement*

The Comprehensive Services Framework Agreement was renewed on 30 December 2004, and can be renewed for further periods of one year upon expiration. This agreement governs the terms and conditions of transactions between them on two levels: (i) between the Group and certain associates held by China Telecommunications Corporation as long-term investments; and (ii) between the Group and certain subsidiaries of China Telecommunications Corporation operating in other provinces (the "Provincial Subsisting Companies"). Such transactions include procurement of telecommunications equipment such as optic fibre, network designs, software upgrade, system integration, manufacture of calling cards and so on. Prices under such agreement should be determined in accordance with the government-prescribed prices. In the absence of the government-prescribed prices, the government-guided prices (if any) shall apply. In the absence of both government-prescribed prices and government-guided prices, the market prices shall apply, i.e. the prices at which the same type of services are provided by

independent third party in the ordinary course of business. If none of such prices is applicable, the prices shall be determined through agreements between the parties based on reasonable costs plus reasonable profits. For this purpose, "reasonable costs" shall mean the costs determined by the parties after negotiations.

As at 13 April 2004, the following agreements or supplemental agreements thereto were entered into by each of Shanghai Telecom Company Limited, Guangdong Telecom Company Limited, Jiangsu Telecom Company Limited, Zhejiang Telecom Company Limited, Anhui Telecom Company Limited, Fujian Telecom Company Limited, Jiangxi Telecom Company Limited, Guangxi Telecom Company Limited, Chongqing Telecom Company Limited, Sichuan Telecom Company Limited, Hubei Telecom Company Limited, Hunan Telecom Company Limited, Hainan Telecom Company Limited, Guizhou Telecom Company Limited, Yunnan Telecom Company Limited, Shaanxi Telecom Company Limited, Gansu Telecom Company Limited, Qinghai Telecom Company Limited, Ningxia Telecom Company Limited, Xinjiang Telecom Company Limited under the Company (the "Twenty Provincial Telecom Companies") and the Provincial Subsisting Companies in their respective service area.

#### *Engineering Framework Agreements*

The Engineering Framework Agreements will expire on 31 December 2006, and may be renewed for further periods of three years upon expiration. These agreements set out provisions in respect of the supervision and management of services relating to construction, design, and equipment installation and tests provided to

the Twenty Provincial Telecom Companies by the Provincial Subsisting Companies through bidding, and/or services as the general contractors for the construction and supervision of engineering projects of the Twenty Provincial Telecom Companies. The charges payable for such engineering services shall be determined by reference to market rates as reflected by prices obtained through tender process.

#### *Property Leasing Framework Agreements*

The Property Leasing Framework Agreements were renewed on 30 December 2004 and may be renewed for further periods of one year upon expiration. Pursuant to such agreements, the Twenty Provincial Telecom Companies under the Company lease properties from the Provincial Subsisting Companies for use as business premises, offices, equipment storage facilities and sites for network equipment. On the other hand, the Twenty Provincial Telecom Companies also lease certain properties to the Provincial Subsisting Companies. The rent shall be determined based on the market price with reference to the standard set forth by local pricing authorities.

#### *Property Sub-Leasing Framework Agreements*

The Property Sub-Leasing Framework Agreements were renewed on 30 December 2004 and may be renewed for further periods of one year upon expiration. Pursuant to such agreements, the Provincial Subsisting Companies sublease certain properties owned and leased by independent third parties to the Twenty

Provincial Telecom Companies under the Group for use as offices, retail outlets, spare parts storage facilities and sites for network equipment. The rent for sub-leasing of third party property shall be determined based on the market price as agreed between the relevant Provincial Subsisting Company and relevant third party through arm's length negotiation.

#### *IT Services Framework Agreements*

The IT Services Framework Agreements were renewed on 30 December 2004 and may be renewed for further periods of one year upon expiration. Pursuant to such agreements, the Provincial Subsisting Companies may participate in the bidding for the right to provide the Twenty Provincial Telecom Companies with certain information technology services, such as office automation and software upgrade. The charges payable for such IT services shall be determined by reference to market rates or as determined by prices obtained through the tender process.

#### *Equipment Procurement Services Framework Agreements*

The Equipment Procurement Services Framework Agreements were renewed on 30 December 2004 and may be renewed for further periods of one year upon expiration. Pursuant to such agreements, the Provincial Subsisting Companies have agreed to provide comprehensive procurement services, including management of tenders, verification of technical specifications and installation services. The maximum commission for such procurement services shall be calculated based on the following: (1) not more than 1% of the contract value

for procurement of imported telecommunications equipment; or (2) not more than 3% of the contract value for the procurement of domestic telecommunications equipment and other domestic non-telecommunications materials.

#### *Community Services Framework Agreements*

The Community Services Framework Agreements will expire on 31 December 2006, and may be renewed for further periods of three years upon expiration. Pursuant to such agreements, the Provincial Subsisting Companies will provide the Twenty Provincial Telecom Companies with services relating to culture, education, property management, vehicle service, medical care, hotel and conference service, community and sanitary service. The pricing terms for such services are the same as those for comprehensive services.

#### *Ancillary Telecommunications Services Framework Agreements*

The Ancillary Telecommunications Services Framework Agreements will expire on 31 December 2006, and may be renewed for further periods of three years upon expiration. Pursuant to such agreements, the Provincial Subsisting Companies agree to provide the Twenty Provincial Telecom Companies with certain repair and maintenance services, including maintenance of telecommunications equipment, fire equipment and telephone booths, as well as other customer services. The pricing terms for such services are the same as those for comprehensive services.

The independent non-executive directors have confirmed that all continuing connected transactions for the year ended 31 December 2004 to which the Group was a party:

1. had been entered into, and the agreements governing those transactions were entered into, by the Group in the ordinary and usual course of business;
2. had been entered into either:
  - (i) on normal commercial terms; or
  - (ii) where there was no available comparison to judge whether they are on normal commercial terms, on terms no less favourable than those available to or from independent third parties; and
3. had been entered into on terms that are fair and reasonable so far as the overall interests of the independent shareholders of the Company are concerned.

The independent non-executive directors have further confirmed that:

the values of continuing connected transactions entered into between the Group and its connected persons which are subject to annual caps have not exceeded their respective annual caps.

The auditors of the Group have reviewed the continuing connected transactions of the Group (not including transactions entered into by the Acquired Companies and the Company's connected persons prior to 30 June 2004) and have confirmed to the Directors that the transactions:

1. have received the approval of the Directors of the Company;
2. have been entered into in accordance with the pricing policies as stated in the relevant agreements;
3. have been entered into in accordance with the terms of the agreements governing such transactions; and the values of continuing connected transactions entered into between the Group and connected persons of the Group which are subject to annual caps have not exceeded their respective annual cap.

## EMPLOYEES

As at 31 December 2004, the Group had 253,050 employees illustrated as follows:

	Number of employees	Percentage
Management, finance and administration	40,240	15.90%
Sales and marketing	114,872	45.40%
Operations and maintenance	96,844	38.27%
Others	1,094	0.43%
<b>Total</b>	<b>253,050</b>	<b>100%</b>

As at 31 December 2004, the Group also had 91,310 temporary employees.

The Company has implemented a short-term and long-term combined incentive remuneration scheme: the primary components of an employee's remuneration include basic salary, bonus based on performance, compensation based on seniority and share appreciation rights (share appreciation rights are exclusively for senior management and senior technological experts). In addition, the Company also emphasises the importance of employee training and uses various means of training to improve the quality and capability of its key employees.

#### COMPLIANCE WITH CODE OF BEST PRACTICE

None of the Directors is aware of any information that would reasonably indicate that the Company is not, or was not during the period, in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

#### MATERIAL LEGAL PROCEEDINGS

As at 31 December 2004, as far as the Directors are aware of, the Company was not involved in any material litigation or arbitration and no material litigation claims were pending or threatened or made against the Company.

#### AUDITORS

KPMG and KPMG Huazhen were appointed as the international and domestic auditors of the Company respectively for the year ended 31 December 2004. KPMG has audited the accompanying financial statements which have been prepared in accordance with International Financial Reporting Standards. The Company has retained KPMG and KPMG Huazhen since the date of its listing. A resolution for the reappointment of KPMG and KPMG Huazhen as the international and domestic auditors of the Company for the year ending 31 December 2005 will be proposed at the annual general meeting of the Company to be held on 25 May 2005.

By Order of the Board

**Wang Xiaochu**

*Chairman and Chief Executive Officer*

Beijing, PRC

31 March 2005