

MANAGEMENT DISCUSSION AND ANALYSIS

According to paragraph 40 of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”), save as disclosed herein, the Company confirms that the current company information in relation to those matters set out in paragraph 32 of Appendix 16 has not changed materially from the information disclosed in the Company’s 2004 Annual Report.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the period, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities.

DIRECTORS’ AND SUPERVISORS’ INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2005, none of the Directors or Supervisors had any interests or short positions in any shares, underlying shares of equity derivatives or debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (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 30 June 2005, the Company has 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 the shares or debentures.

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

As at 30 June 2005, the following persons (excluding the Directors and Supervisors) held an interest or short position in any class of shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

(1) Interests in domestic shares and H shares of the Company

Name of Shareholder	Number of shares held	Type of shares	% of the respective type of shares	% of the total issued share capital	Capacity
China Telecommunications Corporation	58,346,370,499	Domestic shares	87.01%	72.09%	Principal
Guangdong Rising Assets Management Co., Ltd.	5,614,082,653	Domestic shares	8.37%	6.94%	Principal
J.P. Morgan Chase & Co.	1,393,686,269	H shares	10.04%	1.72%	Beneficial owner, investment manager, custodian

(2) Short positions in shares and underlying shares of the Company

As at 30 June 2005, 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 pursuant to the plan for the adjustment to the rural telecommunications management mechanism approved by the State Council in 2002, for the purposes of paying the consideration to People's Government of Fujian Province for acquiring the rural telecommunications assets in Fujian, China. China Telecommunications Corporation entered into a share transfer agreement with Fujian State-Owned Assets Investment Holdings Co., Ltd., an entity duly authorised by the People's Government of Fujian Province to hold the relevant shares, and agreed to transfer its 969,317,182 ordinary shares in the Company to Fujian State-Owned Assets Investment Holdings Co., Ltd. subject to the satisfaction of certain conditions precedent.

Save as stated above, as at 30 June 2005, 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.

AUDIT COMMITTEE

The audit committee has reviewed with management and the Company's international auditors, KPMG, the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including the review of this Interim Report.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has always attached great importance to corporate governance. In accordance with the requirements of regulatory authorities on corporate governance and international best practice, the Company has always been dedicated to establishing a multi-tier internal control mechanism and strengthening its corporate governance system in order to bring it in line with the international practice of a modern company, improving its corporate governance and increasing transparency of the Company. By doing so, the Company is able to enhance its efficiency and effectiveness and maximise its shareholders' interests as a whole.

The charters for Audit Committee and Remuneration Committee of the Company have been amended in March 2005 to reflect certain code provisions under the Code on Corporate Governance Practices in Appendix 14 of the Listing Rules which became effective from 1 January 2005. The roles of Chairman and Chief Executive Officer of the Company were performed by the same individual. The Board considers that this could enhance the Company's decision-making and operational efficiency, and enable the Company to grasp business opportunities effectively. Further, such arrangement is being adopted by many international leading enterprises. At the same time, the Company will increase the number of independent non-executive directors to five, which will then account for one-third of the total number of Directors, at the time of electing the second session of the Board during the Company's extraordinary general meeting to be held on 9 September 2005. The Company believes that this may further strengthen the independence and objectivity of the decisions made by the Board and may provide full and impartial supervision over the Company's management, with a view to ensuring shareholders' best interests.

Save as stated above, the Company is in compliance with all the code provisions as set out in the Code on Corporate Governance Practices in Appendix 14 of the Listing Rules throughout the six months period ended 30 June 2005.

COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules to govern securities transactions by Directors. Having made specific enquiry to all Directors of the Company, they have confirmed their compliance with the Model Code for Securities Transactions by Directors of Listed Issuers throughout the period from 1 January 2005 to 30 June 2005.

By Order of the Board

Wang Xiaochu

Chairman and Chief Executive Officer

Beijing, PRC

31 August 2005

