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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 in this interim report, the Company confirms that the Company's current information in relation to those matters set out in paragraph 32 of Appendix 16 has not been changed significantly from the information disclosed in the Company's 2007 Annual Report.

AUDIT COMMITTEE

The audit committee has reviewed with the 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 the Interim Report for the six months ended 30 June 2008.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company is in compliance with the principles and provisions of the Code on Corporate Governance Practices in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2008.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules to govern securities transactions by Directors. Having made specific enquiries to the Directors, each of the Directors has confirmed his compliance with the Model Code in connection with the Company's securities for the period from 1 January 2008 to 30 June 2008.

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

As at 30 June 2008, 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. As at 30 June 2008, 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.

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

As at 30 June 2008, the interests or the short position 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 maintained under Section 336 of the SFO are as follows:

Name of shareholder	Type of shares	Capacity	Number of shares held	Percentage of the respective type of shares (%)	Percentage of the total number of shares in issue (%)
China Telecommunications Corporation ^{(1) (2)}	Domestic shares	Beneficial owner	3,778,831,800	100.00	65.47
China Mobile Communications Corporation ⁽²⁾	Domestic shares	Beneficial owner	506,880,000	13.30	8.78
Guangdong Telecom Industry Group Corporation ⁽¹⁾	Domestic shares	Beneficial owner	236,313,086	6.25	4.09
China United Telecommunications Corporation ⁽²⁾	Domestic shares	Beneficial owner	236,300,000	6.20	4.09
Cisco Systems International B.V.	H shares	Beneficial owner	250,576,000 (L)	12.57	4.34
Commonwealth Bank of Australia	H shares	Interest of corporation controlled by the substantial shareholder	158,989,809 (L)	7.98	2.75
Invesco Hong Kong Limited	H shares	Investment manager	135,877,000 (L)	6.82	2.35
JP Morgan Chase & Co.	H shares	Beneficial owner	23,422,500 (L)		
		Custodian corporation/ approved lending agent	97,180,000 (L)		
			<u>120,602,500 (L)</u>	6.05	2.09
		Beneficial owner	15,086,000 (S)	0.76	0.26
		Custodian corporation/ approved lending agent	97,180,000 (P)	4.88	1.68
Mirae Asset Global Investments (Hong Kong) Limited	H shares	Investment manager	116,306,000 (L)	5.84	2.02

Remarks: (L)-Long Position, (S)-Short Position, (P)-Lending Pool

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MATERIAL INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY (Continued)

- (1) Since China Telecommunications Corporation ("China Telecom") indirectly holds 100% of the shares in Guangdong Telecom Industry Group Corporation and Zhejiang Telecom Industry Corporation, the 236,313,086 and 87,664,532 domestic shares held by Guangdong Telecom Industry Group Corporation and Zhejiang Telecom Industry Corporation respectively are considered and aggregated into the equity interest held by China Telecom.
- (2) Pursuant to the equity transfer arrangements entered into between China Telecom, and China Mobile Communications Corporation ("China Mobile") and China United Telecommunications Corporation ("China Unicom"), China Telecom agreed to transfer 506,880,000 and 236,300,000 domestic shares to China Mobile and China Unicom respectively. China Telecom will hold the said portion of shares until the date on which the conditions precedent to the equity transfer are met. The equity transfer is conditional upon, amongst others, the lapse of at least one year from the listing date, the transfer having been approved by the State-Owned Assets Supervision and Administration Commission of the PRC State Council and the name of the transferee being registered in the Company's share register. Details of the equity transfer arrangements are disclosed in the Company's prospectus dated 27 November 2006.

Save as stated above, as at 30 June 2008, in the register required to be maintained 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.

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.

FORWARD-LOOKING STATEMENTS

The Company would also like to caution readers about the forward-looking nature of certain of the above statements. These forward-looking statements are subject to risks and uncertainties and assumptions, some of which are beyond our control. Potential risks and uncertainties include those concerning the continued growth of the telecommunications industry in China, the development of the regulatory environment and our ability to successfully execute our business strategies. In addition, these forward-looking statements reflect our current views with respect to future events and are not a guarantee of future performance. We do not intend to update these forward-looking statements. Actual results may differ materially from the information contained in the forward-looking statements as a result of a number of factors.