

Report of the Directors

The Board of Directors (the "Board") of China Telecom Corporation Limited (the "Company") hereby presents its 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 2007.

PRINCIPAL BUSINESSES

The principal businesses of the Group are provision of comprehensive wireline telecommunications and related services, including local telephone, domestic long distance telephone, international long distance telephone, Internet access 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 used to be investment holding. Pursuant to the Company's strategic transformation and its consolidated management requirements, the Company's shareholders approved at the general meeting on 25 February 2008 the merger by way of absorption with the Company's twenty wholly-owned subsidiaries ("provincial subsidiaries"), including Shanghai Telecom Company Limited. The Company has established twenty provincial branches to take over the management and operation of the Company's former provincial subsidiaries. The resulting organisation structure and management system will be more suitable for the requirements of the Group's development strategies. In addition, the integration and allocation of the Group's internal resources were enhanced with improvement of the Group's management standard and overall efficiency, which are in the interests of the Company and its shareholders as a whole.

RESULTS

Results of the Group for the year ended 31 December 2007 and the financial position of the Company and the Group as at that date are set out in the audited financial statements on pages 115 to 194 in this annual report.

DIVIDEND

The Board proposes a final dividend in the amount equivalent to HK\$0.085 per share, totalling approximately RMB6,279 million for the year ended 31 December 2007. The dividend proposal will be submitted for consideration at the Annual General Meeting to be held on 30 May 2008. Dividends will be denominated and declared in Renminbi. Dividends on domestic shares will be paid in Renminbi, whereas dividends on H shares will be paid in Hong Kong dollars. The relevant exchange rate will be the average offer 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 at the Annual General Meeting. The final dividends are expected to be paid on around 16 June 2008 upon approval at the Annual General Meeting.

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DIRECTORS AND SENIOR MANAGEMENT OF THE COMPANY

The following table sets out certain information concerning the directors and senior management of the Company as at the date of this Report:

Name	Age	Position in the Company	Date of Appointment
Wang Xiaochu	50	Chairman and Chief Executive Officer	20 December 2004
Leng Rongquan	59	Executive Director, President and Chief Operating Officer	20 December 2004
Wu Andi	53	Executive Director, Executive Vice President and Chief Financial Officer	10 September 2002
Zhang Jiping	52	Executive Director and Executive Vice President	10 September 2002
Zhang Chenshuang	56	Executive Director and Executive Vice President	31 August 2007
Li Ping	54	Executive Director and Executive Vice President	10 September 2002
Yang Jie	46	Executive Director and Executive Vice President	20 October 2004
Sun Kangmin	51	Executive Director and Executive Vice President	20 October 2004
Li Jinming	56	Non-executive Director	20 December 2004
Zhang Youcai	67	Independent Non-executive Director	10 September 2002
Lo Hong Sui, Vincent	60	Independent Non-executive Director	10 September 2002
Shi Wanpeng	71	Independent Non-executive Director	20 June 2003
Xu Erming	58	Independent Non-executive Director	9 September 2005
Tse Hau Yin, Aloysius	60	Independent Non-executive Director	9 September 2005
Yung Shun Loy, Jacky	45	Assistant Chief Financial Officer, Qualified Accountant and Company Secretary	1 February 2005
Wang Qi	53	Financial Controller	10 September 2002

On 31 August 2007, Ms. Huang Wenlin resigned from the position of Executive Director due to a change in job responsibility. On the same day, Mr. Zhang Chenshuang assumed the position of Executive Director.

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SUPERVISORS OF THE COMPANY

The following table sets out certain information concerning the supervisors of the Company as at the date of this Report:

Name	Age	Position in the Company	Date of Appointment
Xiao Jinxue	44	Chairperson of the Supervisory Committee	29 May 2007
Zhu Lihao	67	Independent Supervisor	10 September 2002
Wang Haiyun	44	Supervisor	29 May 2007
Xu Cailiao	44	Supervisor	9 September 2005
Ma Yuzhu	54	Supervisor (Employee Representative)	9 September 2005

In May 2007, Ms. Zhang Xiuqin resigned from the position of Supervisor and Chairperson of the Supervisory Committee due to age while Mr. Li Jian resigned from the position of Supervisor due to a change in job responsibility. Mr. Xiao Jinxue and Ms. Wang Haiyun were elected as the Supervisors of the Company. Mr. Xiao Jinxue assumed the position of Chairperson of the Supervisory Committee.

SHARE CAPITAL

The share capital of the Company as at 31 December 2007 was RMB80,932,368,321, divided into 80,932,368,321 shares of RMB1.00 each. As at 31 December 2007, the share capital of the Company comprised of:

Share category	Number of shares as at 31 December 2007	Percentage of the total number of shares in issue as at 31 December 2007 (%)
Domestic shares (total):	67,054,958,321	82.85
Domestic shares held by:		
China Telecommunications Corporation	57,377,053,317	70.89
Guangdong Rising Assets Management Co., Ltd.	5,614,082,653	6.94
Zhejiang Financial Development Company	2,137,473,626	2.64
Fujian State-owned Assets Investment Holdings Co., Ltd.	969,317,182	1.20
Jiangsu Guoxin Investment Group Co., Ltd.	957,031,543	1.18
Total number of H shares (including ADSs)	13,877,410,000	17.15
Total	80,932,368,321	100.00

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

As at 31 December 2007, the interests or 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 Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO") are as follows:

Name of shareholder	Number of shares held	Type of Shares	Percentage of the respective type of shares	Percentage of the total number of shares in issue	Capacity
China Telecommunications Corporation	57,377,053,317 (Long position)	Domestic shares	85.57%	70.89%	Beneficial owner
Guangdong Rising Assets Management Co., Ltd.	5,614,082,653 (Long position)	Domestic shares	8.37%	6.94%	Beneficial owner
UBS AG	936,365,249 (Long position)	H shares	6.75%	1.16%	826,463,949 shares as beneficial owner and 109,901,300 shares as interest of controlled corporation
	569,021,240 (Short position)	H shares	4.10%	0.70%	501,802,440 shares as beneficial owner, 41,126,800 shares as security interest holder and 26,092,000 shares as interest of controlled corporation
ABN AMRO Holding N.V.	816,942,826 (Long position)	H shares	5.89%	1.01%	Beneficial owner
	2,355,539,096 (Short position)	H shares	16.97%	2.91%	Beneficial owner

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Name of shareholder	Number of shares held	Type of Shares	Percentage of the respective type of shares	Percentage of the total number of shares in issue	Capacity
Deutsche Bank Aktiengesellschaft	785,798,421 (Long position)	H shares	5.66%	0.97%	550,748,921 shares as beneficial owner, 131,411,800 shares as investment manager and 103,637,700 shares as security interest holder
	901,872,671 (Short position)	H shares	6.50%	1.11%	883,908,671 as beneficial owner, 1,924,000 shares as investment manager and 16,040,000 shares as security interest holder
KBC Group N.V.	694,144,407 (Long position)	H shares	5.00%	0.86%	Interest of controlled corporation
	390,421,431 (Short position)	H shares	2.81%	0.48%	Interest of controlled corporation

Save as stated above, as at 31 December 2007, 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.

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

As at 31 December 2007, 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 (as defined in Part XV of the SFO) as recorded in the register required to be maintained 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 Issuers.

As at 31 December 2007, 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.

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

For the year ended 31 December 2007, none of the directors or supervisors of the Company had any material interest, whether directly or indirectly, in any significant contracts entered into by the Company, any of its holding companies or subsidiaries or subsidiaries of the Company's holding company, apart from their service contracts.

EMOLUMENTS OF THE DIRECTORS AND SUPERVISORS

Please refer to note 26 of the audited financial statements for details of the emoluments of all Directors and Supervisors of the Company in 2007.

PURCHASE, SALE AND REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any securities of the Company during the reporting period.

PUBLIC FLOAT

As at the date of this Report, based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the prescribed public float under the Listing Rules and as agreed with The Stock Exchange of Hong Kong Limited.

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SUMMARY OF FINANCIAL INFORMATION

Please refer to pages 195 to 196 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 2007.

BANK LOANS AND OTHER BORROWINGS

Please refer to note 14 of the audited financial statements for details of bank loans and other borrowings of the Company.

CAPITALISED INTEREST

Please refer to note 24 of the audited financial statements for details of the Group's capitalised interest for the year ended 31 December 2007.

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 2007.

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 Financial Reporting 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 2007, calculated on the above basis and before deducting the proposed final dividends for 2007, amounted to approximately RMB24,414 million.

In addition to the allocation to the statutory reserve funds, the Board proposes 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 30 May 2008.

Please 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 2007.

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DONATIONS

For the year ended 31 December 2007, the Group made charitable and other donations to a total amount of RMB 54 million.

SUBSIDIARIES AND ASSOCIATED COMPANIES

Please refer to note 6 and note 7 of the audited financial statements for details of the Company's subsidiaries and the Group's interests in associated companies as at 31 December 2007.

CHANGES IN EQUITY

Please refer to the consolidated statement of changes in equity contained in the audited financial statements (page 119 of this annual report).

RETIREMENT BENEFITS

Please refer to note 35 of the audited financial statements for details of the retirement benefits provided by the Group.

STOCK APPRECIATION RIGHTS

Please refer to note 36 of the audited financial statements for details of the stock 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 2007, sales to the five largest customers of the Group accounted for an amount no more than 30% of the operating revenue of the Group.

For the year ended 31 December 2007, purchases from the five largest suppliers of the Group accounted for approximately 31.4% of the total annual purchases of the Group.

For the year ended 31 December 2007, purchases from the Group's largest equipment supplier accounted for approximately 15.5% of the total annual purchases of the Group. The amount of the Group's annual purchases includes equipment purchases, investments in infrastructure and pipelines.

To the knowledge of the Board, no director of the Company, their associates, or any person holding more than 5% of the issued share capital in the Company has any interests in such suppliers.

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CONTINUING CONNECTED TRANSACTIONS

The following table sets out the amounts of continuing connected transactions of the Group for the year ended 31 December 2007:

Transaction	Group (RMB million)	Annual monetary cap for continuing connected transactions (RMB million)
Portion of expenses for centralised services	250	560
Net expenses for interconnection settlement	681	N/A ¹
Provision of comprehensive services by China Telecommunications Corporation and its subsidiaries (the "China Telecom Group")	1,304	1,440
Mutual leasing of properties	398	590
Provision of IT services by China Telecom Group	364	490
Provision of equipment procurement services by China Telecom Group	120	310
Provision of engineering services by China Telecom Group	7,815	8,327
Provision of community services by China Telecom Group	2,266	3,110
Provision of ancillary telecommunications services by China Telecom Group	3,574	3,900

¹ According to a waiver letter issued by The Stock Exchange of Hong Kong Limited on 12 September 2006, the Company is not required to set an annual monetary cap for the total amount under interconnection settlement agreements.

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Centralised Services Agreement

Centralised services include the provision of management and operational services by the Company to China Telecommunications Corporation in relation to big corporate customers, its network management centre and business support centre, and also the provision of certain premises by the China Telecommunications Corporation to the Group. In addition, centralised services also include the common use of international telecommunications facilities between both parties. The aggregate costs incurred by the Company and China Telecommunications Corporation for the provision of management and operation services and use of premises under the Centralised Services Agreement are apportioned between the Company and China Telecommunications Corporation on a pro rata basis according to the revenues generated by each party. In relation to the common use of 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 originating from, the Company and China Telecommunications Corporation, respectively.

On 26 December 2007, the Company and China Telecommunications Corporation signed a Supplemental Agreement in relation to the Centralised Services Agreement. Pursuant to the Supplemental Agreement, in the situation where the Company uses the premises provided by China Telecommunications Corporation, the Company shall pay premises usage fees to China Telecommunications Corporation on a pro rata basis according to the actual apportioned used areas on the venues. The premises usage fees shall be determined through negotiation between the two parties based on comparable market rates.

The Centralised Services Agreement was renewed on 26 December 2007 for a further term of one year expiring on 31 December 2008, and may be renewed for further periods of one year upon expiration with no limit in the number of renewals, unless the Company provides a notice of non-renewal in writing to the China Telecommunications Corporation three months prior to the end of the relevant term.

Interconnection Settlement Agreement

Pursuant to the Interconnection Settlement 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 of RMB0.06 per minute currently prescribed by the Ministry of Information Industry.

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The Agreement was renewed on 30 August 2006 for a further term of two years expiring on 31 December 2008 and will be automatically renewed for a period of three years upon expiration, unless the Company provides notice of non-renewal in writing to the China Telecommunications Corporation three months prior to the end of the relevant term.

Comprehensive Services Framework Agreement

The Comprehensive Services Framework Agreement relates to the comprehensive services provided by China Telecommunications Corporation to the Company. Such comprehensive services include the procurement of telecommunications equipment (such as optic fibres), network designs, software upgrade, system integration, manufacture of calling cards and so on. The comprehensive services under such agreement are provided at: (1) government-prescribed prices; (2) in the absence of government-prescribed prices, the government-guided prices shall apply; (3) in the absence of both government-prescribed prices and government-guided prices, the market prices shall apply, that is, the prices at which the same types of services are provided by independent third parties in the ordinary course of business; (4) if none of the above prices is applicable, the prices shall be determined through negotiation between the two parties based on reasonable costs plus reasonable profit. For this purpose, "reasonable costs" shall mean the costs determined by the two parties after negotiations.

The Comprehensive Services Framework Agreement was renewed on 26 December 2007 for a further term of one year expiring on 31 December 2008, and may be renewed for further periods of one year upon expiration without limit in the number of renewals, unless the Company provides notice of non-renewal in writing to the China Telecommunications Corporation three months prior to the expiration of the relevant term.

Property Leasing Framework Agreement

The Property Leasing Framework Agreement relates to the lease of properties between the Company (including its subsidiaries) and China Telecommunications Corporation (including its subsidiaries), and vice versa.

The rental charges in respect of the properties which are subject to the Property Leasing Framework Agreement are determined based on market rates, with reference to amounts stipulated by local price bureaus, taking into consideration the specific needs of each party. The rental charges are subject to review every three years.

The Property Leasing Framework Agreement was renewed on 26 December 2007 for a further term of one year expiring on 31 December 2008 and may be renewed for further periods of one year upon expiration without limit in the number of renewals, unless the Company provides notice of non-renewal in writing to the China Telecommunications Corporation three months prior to the end of the relevant term.

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IT Services Framework Agreement

The IT Services Framework Agreement relates to the provisions of information technology services by China Telecommunications Corporation and/or its associates to certain subsidiaries of the Company. Such services include office automation and software testing.

China Telecommunications Corporation and/or its associates are entitled to participate in the bidding for the right to provide services under such agreement. The charges payable for such services shall be determined by reference to market rates as reflected by prices obtained through the tender process. If China Telecommunications Corporation and/or its associates offer terms and conditions that are at least the same as those offered by an independent third-party provider, the Company may give priority to using the services provided by China Telecommunications Corporation and/or its associates.

The IT Services Framework Agreement was renewed on 26 December 2007 for a further term of one year expiring on 31 December 2008 and may be renewed for further periods of one year upon expiration without limit in the number of renewals, unless the Company provides notice of non-renewal in writing to the China Telecommunications Corporation three months prior to the expiry of the relevant term.

Equipment Procurement Services Framework Agreement

The Equipment Procurement Services Framework Agreement relates to the provision of comprehensive procurement services, including the management of tenders, verification of technical specifications and installation services by China Telecommunications Corporation and/or its associates to the Group. The maximum commission for such procurement services shall be calculated based on the followings: (1) not more than 1% of the contract value for the 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.

The Equipment Procurement Services Framework Agreement was renewed on 26 December 2007 for a further term of one year expiring on 31 December 2008 and may be renewed for further periods of one year upon expiration without limit in the number of renewals, unless the Company provides notice of non-renewal in writing to the China Telecommunications Corporation three months prior to the expiry of the relevant term.

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Engineering Framework Agreement

The Engineering Framework Agreement sets out the terms in respect of the supervision and management of services relating to construction, design, equipment installation and tests provided to the Group through bids made by China Telecommunications Corporation and/or its associates, and/or services as the general contractors for the construction and supervision of engineering projects of the Group. The charges payable for such engineering services shall be determined by reference to the market rates. The charges payable for the design or supervision of engineering projects with a value over RMB500,000, or construction of engineering projects with a value over RMB2 million shall be determined by reference to the tender price.

The Engineering Framework Agreement will expire on 31 December 2008 and may be renewed for further periods of three years upon expiration without limit in the number of renewals, unless the Company provides notice of non-renewal in writing to the China Telecommunications Corporation three months prior to the expiry of the relevant term.

Community Services Framework Agreement

The Community Services Framework Agreement was signed in respect to the services relating to culture, education, property management, vehicle service, health and medical care, hotel and conference service, community and sanitary service provided by China Telecommunications Corporation and/or its associates to the Group. The pricing terms basis for such services are the same as those set out in the Comprehensive Services Framework Agreement.

The Community Services Framework Agreement was renewed on 26 December 2007 for a further term of one year expiring on 31 December 2008 and may be renewed for further periods of three years upon expiration without limit in the number of renewals, unless either party provides notice of non-renewal in writing to the other party three months prior to the expiry of the relevant term.

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Ancillary Telecommunications Services Framework Agreement

The Ancillary Telecommunications Services Framework Agreement relates to the provision of certain repair and maintenance services, including repair of telecommunications equipment, maintenance of fire equipment and telephone booths, as well as other customer services that are provided by the China Telecommunications Corporation and/or its associates to the Company. The pricing terms basis for ancillary telecommunications services under the Ancillary Telecommunications Services Framework Agreement are the same as those set out in the Comprehensive Services Framework Agreement.

The Ancillary Telecommunications Services Framework Agreement was renewed on 26 December 2007 for a further term of one year expiring on 31 December 2008 and may be renewed for further periods of three years upon expiration without limit in the number of renewals, unless either party provides notice of non-renewal in writing to the other party three months prior to the expiry of the relevant term.

Strategic Agreement and its Supplemental Agreement

Independent shareholders of the Company approved at extraordinary general meetings the signing of a Strategic Agreement between the Company and China Communications Services Corporation Limited (“China Communications Services”) on 30 August 2006 and the signing of a Supplemental Agreement (“Strategic Agreement and its Supplemental Agreement”) on 15 June 2007.

Pursuant to the Strategic Agreement and its Supplemental Agreement, the Company agreed that, in the period between 1 January 2007 and 31 December 2009, if service terms related to the design, implementation and supervision of the communications engineering provided by China Communications Services are basically the same as those of other service providers, the subsidiaries of the Company in the service area of China Communication Services shall annually receive such services from the wholly-owned subsidiaries of China Communications Services with total value no less than 10.6% of total annual capital expenditure of the related subsidiaries of the Company in that year. Meanwhile, pursuant to the Strategic Agreement and its Supplemental Agreement, the Company pledged that, in the period between 1 January 2007 and 31 December 2009, if the terms related to certain maintenance management services provided by China Communications Services are basically the same as those of other service providers, the subsidiaries of the Company in the service area of China Communication Services shall annually receive such services from the wholly-owned subsidiaries of China Communications Services with total value no less than RMB1,780 million.

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The business areas of the strategic alliance between the two parties governed by the terms and conditions in the Strategic Agreement and its Supplemental Agreement include: design, implementation and supervision of the communications engineering, maintenance management service, contents application service, sales channel service, usage of telecommunications and other new businesses arising from time to time which are appropriate for the collaboration between the two parties. China Communications Services pledges its support to the strategic transformation of the Company from a traditional basic telecommunications operator to an integrated information service provider, its active support to the Company's business development, and its active use of the Company's products and services in its own business. Such services shall comply with the related standards of China or the standards agreed by both parties, and shall be on terms no less favourable than those available to any third parties to which the same or similar services are provided by either party. Without breaching the requirements governed by PRC laws and regulations, in respect of the same services, where the terms and conditions of services provided by either party of the Strategic Agreement and its Supplemental Agreement are the same as those provided by an independent third party, the party under the Strategic Agreement and its Supplemental Agreement shall have the priority to be appointed as the service provider by the other party.

Pursuant to the Strategic Agreement and its Supplemental Agreement, effective period of such agreement is between 1 January 2007 and 31 December 2009. Both parties may negotiate the renewal of the Strategic Agreement upon expiration of the term, and the renewal is subject to the requirements of Chapter 14A of the Listing Rules (including disclosure and independent shareholders' approval requirements).

As China Telecommunications Corporation (the controlling company of China Communications Services) has signed certain framework agreements for the continuing connected transactions of the Company, and the transactions under the Strategic Agreement and its Supplemental Agreement are subsumed under these framework agreements; the Strategic Agreement and its Supplemental Agreement have not listed any annual caps of the transactions under them. These framework agreements are limited by the annual caps. In addition, the recommended annual caps of the transactions under the Strategic Agreement and its Supplemental Agreement are included in some of the abovementioned framework agreements between the Company and China Telecommunications Corporation (including Engineering Framework Agreement, Ancillary Telecommunications Services Framework Agreement and Community Services Framework Agreement).

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The independent non-executive directors of the Company have confirmed that all continuing connected transactions for the year ended 31 December 2007 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 (if applicable) 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 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 and have confirmed to the Board that the transactions:

1. have received the approval of the Board;
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
4. 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.

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

Please see the "Corporate Governance Report" set out in page 72 of this 2007 annual report of the Company for details of our compliance with the Code on Corporate Governance Practices.

MATERIAL LEGAL PROCEEDINGS

As at 31 December 2007, the Company was not involved in any material litigation or arbitration, and as far as the Company is aware, no material litigation or claim was pending or threatened or made against the Company.

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AUDITORS

KPMG and KPMG Huazhen were appointed respectively as the international and domestic auditors of the Company for the year ended 31 December 2007. 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 2008 will be proposed at the Annual General Meeting of the Company to be held on 30 May 2008.

By Order of the Board

Wang Xiaochu

Chairman and Chief Executive Officer

Beijing, PRC

31 March 2008