

1. SUMMARY

The Company is the only provider of integrated telecommunications services in China, offering a wide range of telecommunication services, such as GSM cellular, international and domestic long-distance, data, Internet and paging services.

The Company is one of the two cellular communications services operators in China. As of 31 December, 2000, the capacity of our GSM network could accommodate up to 19.184 million subscribers, representing approximately 3 times the 6.640 million capacity in 1999. We had a total of 12.772 million GSM cellular subscribers with a market share in our service areas of 22.7% and a market share of 32.0% in the market of net addition of subscribers.

The Company offers international and domestic long-distance, data, and Internet services. As of 31 December, 2000, the long-distance telephone network of the Company has reached 226 major cities, and IP telephony service has been launched in 231 cities. The broadband data network providing leased line, Asynchronous Transfer Mode, Frame Relay, Virtual Private Network and Internet has expanded to 220 cities.

The Company is the largest paging service operator in China with a total of 44.52 million of paging subscribers as of 31 December, 2000, representing a market share of approximately 54.0%.

The Company has completed the construction of the second largest optical fibre transmission network in China. It serves as a common platform supporting the different operating networks of the cellular communications, international and domestic long-distance, data, Internet and paging businesses. As of 31 December, 2000, the total length of the optical fibre transmission network reached 156,000 km, out of which the optical fibre backbone transmission network accounted for 56,000 km.

2. BUSINESS OVERVIEW**a. Cellular***Products and services*

In year 2000, the Company offered both post-paid and pre-paid GSM cellular communications services. The quality of these services was maintained at a relatively high level. The call-completion rate was 84.3%, which was higher than that of 81.8% in 1999 while the call-drop rate fell from 1.6% in 1999 to

1.3% in year 2000. In addition, the pre-paid service introduced and promoted fully under the “ru yi tong” brand name by the Company provided more choices to the subscribers.

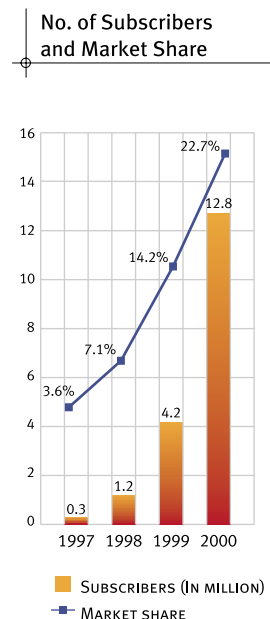
In terms of value-added services, apart from the offering of ordinary short-message and voicemail services, we have also launched the STK card based short message services in Beijing, Shanghai and Shenzhen, providing services such as mobile banking, information broadcasting, stock trading, entertainment and business assistance.

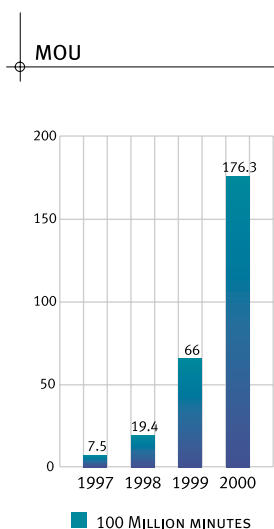
In addition, the Company provided WAP services and GPRS high-speed wireless data transmission services. As of 31 December, 2000, we have launched WAP services in 28 cities, mainly providing services such as stock trading and information enquiry. In August 2000, the GPRS commercial trial service has been launched in the city of Shenzhen.

These value-added services enable us to attract new subscribers as well as stimulate the increase in basic voice usage.

Subscriber base

As of 31 December, 2000, the Company had a total of 12.772 million GSM cellular subscribers, representing approximately 3 times the 4.154 million subscribers at the end of 1999. The Company’s market share of the cellular subscribers in our service areas increased from 14.2% at the end of 1999 to 22.7% at the end of 2000. In year 2000, the number of post-paid subscribers reached 10.601 million, representing an increase of 159.8% from 1999 and pre-paid subscriber reached 2.17 million, representing a significant increase over the 73,000 subscribers at the end of 1999. The driving forces behind such rapid growth are the expansion of our network coverage area, improvement in network quality, adoption of effective marketing strategies and active promotion of pre-paid card services.





Total MOU

Total GSM cellular minutes of usage (“MOU”) in 2000 were 17.63 billion minutes, up by 167.1% from the 6.6 billion minutes in 1999. Total MOU has been growing rapidly driven by strong cellular subscriber growth, ensuring rapid revenue growth for the Company.

Average MOU and ARPU

In 2000, the average MOU per subscriber per month for the Company was 179.5 minutes (post-paid MOU was 188.1 minutes and pre-paid MOU was 90.9 minutes), a decrease of 10.3% from the 200.2 minutes in 1999. This is due to the lower average MOU from some of the new subscribers.

In 2000, the average revenue per subscriber per month (“ARPU”) for the Company was RMB 124.3 (ARPU was RMB129.0 for post-paid subscribers and RMB75.1 for pre-paid subscribers), a decrease of RMB41.5 from RMB165.8 in 1999. This is the result of the decline in MOU and the reduction in connection fees.

Churn rate

In year 2000, the churn rate of the Company was 9.5%, representing a decrease from the 11% of 1999. The expansion of our cellular network coverage, improvements in service quality and the use of attractive tariff contributed to the declining churn rate.

Development strategy

While the Company continues to expand the capacity and coverage of the GSM cellular communications network, our focus in 2001 is to improve network operating efficiency and to develop wireless data services. Through upgrading our service quality and adopting aggressive sales and marketing strategies, we aim to further increase our GSM cellular market share and to achieve a synchronised growth in the development of subscriber base and financial performance.

In addition, our parent company, has the exclusive right to construct and operate the CDMA networks in China. We are planning to offer CDMA cellular service by leasing capacity on an exclusive basis from our parent company at an appropriate time. We also have an option to acquire the CDMA assets from our parent company. We believe that the huge Chinese cellular market can support the development of both the GSM and CDMA services. As such, the construction of a CDMA network also fits into our business development strategy.

b. International and domestic long-distance business*Circuit switched long distance*

In April 2000, the Company launched the circuit switched international and domestic long distance telephone business. As of 31 December, 2000, the long-distance telephone network has reached 226 cities with 433,000 registered subscribers.

In 2000, the Company's outgoing circuit switched long distance telephone calls totaled 0.24 billion minutes, of which domestic long distance calls totaled 0.23 billion minutes and international, and Hong Kong, Macau and Taiwan long-distance calls totaled 0.01 billion minutes. Incoming international calls totaled 0.23 billion minutes.

IP telephony

The Company's IP telephony business posed strong growth. As of 31 December, 2000, the number of cities covered by our IP telephone network increased to 231 from 12 at the end of 1999.

In year 2000, the outgoing IP telephone calls totaled 0.69 billion minutes, of which domestic long distance calls contributed 0.62 billion minutes, international and Hong Kong, Macau and Taiwan long distance calls contributed 0.07 billion minutes. Incoming international calls totaled 0.05 billion minutes.

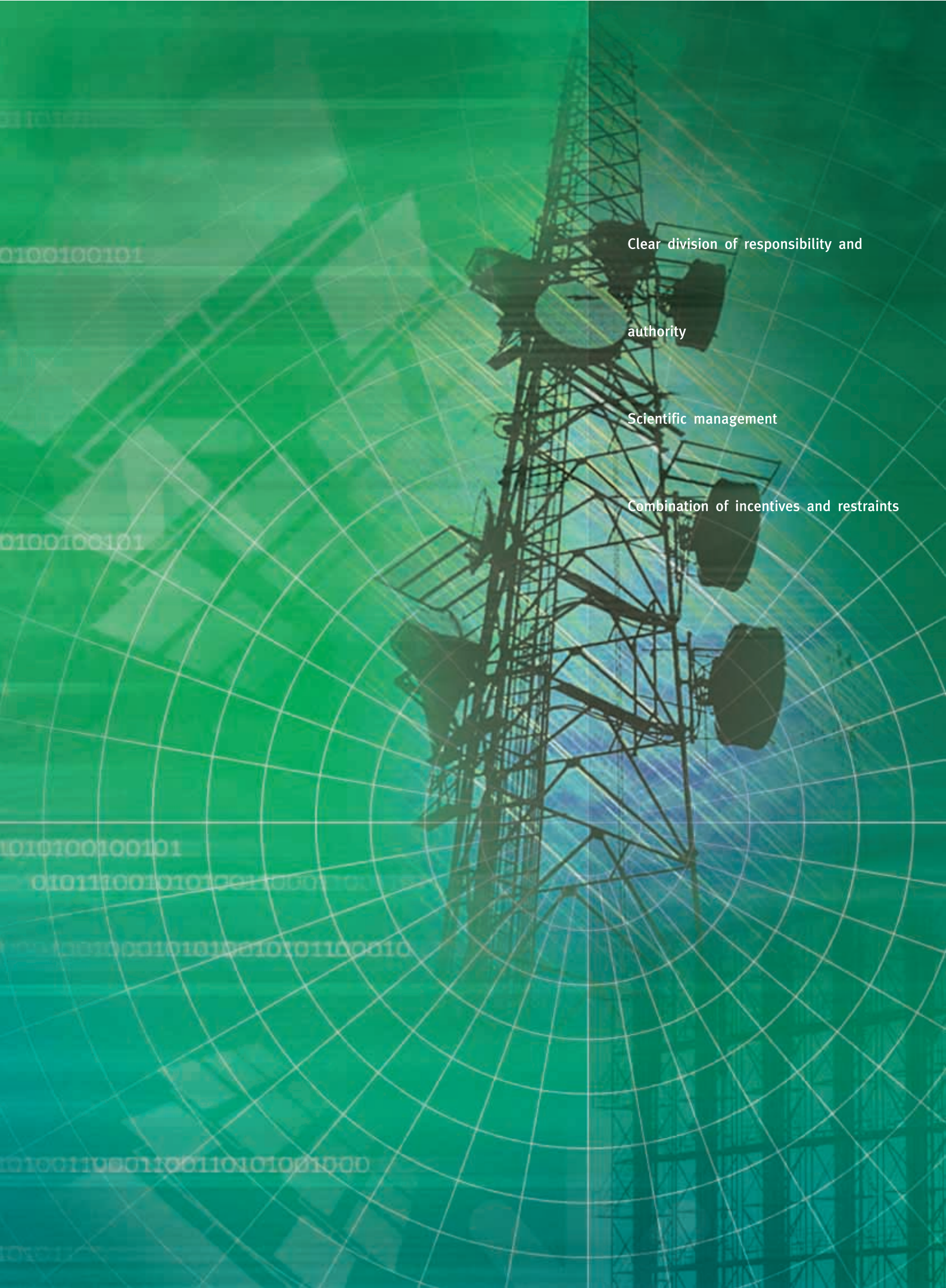
Leased line

The Company has begun to offer leased line services in 2000. Total bandwidth leased out amounted to 42 x 2Mbps as of 31 December, 2000.



New Governance

*An internationally recognised and modernised
corporate management system*



Clear division of responsibility and
authority

Scientific management

Combination of incentives and restraints

Development strategy

The Company will extend IP telephony and circuit switched long distance businesses nationwide, install long-distance telephony switching nodes in provincial capitals and other major cities and gradually integrate the IP and circuit switched long distance networks. We will fully leverage on our advanced infrastructure and tariff flexibility, step up our advertising and marketing efforts and provide our customers with high quality and cost effective long distance telephony services.

We primarily market our circuit switched long distance services to corporate customers by providing high quality services with favourable pricing. With respect to our IP telephony services, we mainly target at price-sensitive users and we also provide access services to value-added services operators and call centres.

c. Data and Internet Services

Asynchronous Transfer Mode (“ATM”)/Frame Relay (“FR”)/Virtual Private Network (“VPN”)

The Company employs ATM technology to provide customers with integrated broadband voice, video, data and Internet services and FR technology in providing customers with high speed, low-cost data communications services. We have also commenced to provide VPN service to subscribers.

Internet

In response to the fast growing demand for Internet related services, the Company provides the following services:

Dedicated Internet access: we have launched high speed Internet access through dedicated lines to serve our corporate customers since July 2000.

Dial-up Internet access: we have commenced to actively promote dial-up Internet access service since July 2000. As of 31 December, 2000, the number of our dial-up subscribers reached 415,000.

Internet Data Centre: we provide Internet Data Centre (“IDC”) services including co-location, and web hosting services to serve corporate customers and virtual IDC operators. As of 31 December, 2000, we have launched IDC services in Shanghai, Shenzhen and Wuhan.

In addition, the Company is actively developing other Internet applications services, including Internet content services and e-commerce.

Development strategy

The Company will further expand the ATM+IP backbone network coverage and upgrade transmission speed and the international gateway bandwidth to meet growing demand for data businesses. Leveraging on the strength of an integrated network, we aim to expand our data service offerings from basic data services to high value-added services. The Company will primarily target corporate customers as well as telecom carriers for our data and Internet businesses.

d. Paging*Products and services*

The Company's basic paging service offerings are numeric paging and Chinese alphanumeric paging services. We also provide various paging based wireless data services including stock quotation, flight information, weather, news and entertainment. In addition, we provide Internet-based wireless short message services, which enable our subscribers to receive paging messages, e-mails and other information from the Internet.

We have started to provide two-way paging services in Shanghai and three other cities, primarily for stock trading and e-mails purposes. The Company is also offering VPN services such as freight distribution and transportation information broadcasting to attract corporate customers.

Subscriber base

The Company offers local, provincial and nationwide roaming paging services in China. We have achieved moderate subscriber growth in spite of cellular substitution and intensifying competition. As of 31 December, 2000, the number of our paging subscribers reached 44.52 million, an increase of 1.018 million from the 43.502 million in 1999 and out of which about 200,000 subscribers are information pager users. The growth can be attributed to the advanced technology of our paging network, nationwide comprehensive coverage as well as our ability to provide provincial and nationwide roaming and value-added services.

Average revenue per subscriber per month

In year 2000, the average revenue per paging subscriber per month was RMB15.28, a decrease of RMB3.02 from RMB18.3 in 1999. The major reason for such decrease was due to the intensified competition in the paging industry that led to the decrease in tariffs.

Churn rate

In year 2000, the churn rate of the paging business increased from 20.3% in 1999 to 28.4% in 2000. The main reason for the increase was the substitute effect as a result of the swift development of the cellular communications business that led to the migration of paging subscribers to cellular service.

Development strategy

The Company is committed to optimise its paging network and improve service quality. In respect of traditional paging business, emphasis will be placed on the development of corporate customers and new businesses like cluster paging and virtual paging station. At the same time, we will actively develop value-added services such as information paging, two way paging and wireless data services in order to maintain stable revenue.

e. Network infrastructure

Network construction

The Company has completed the construction of the second largest optical fibre transmission network. It serves as the common platform supporting the different operating networks of the cellular communications, international and domestic long distance, data, Internet and paging businesses, so as to provide high quality services for its customers at lower costs. Our long distance backbone transmission network mainly utilises the advanced and proven technology of SDH+DWDM. As of 31 December, 2000, we have completed a high speed, reliable, broadband and advanced inter-provincial long distance backbone transmission network comprising a number of fibre rings.

As of 31 December, 2000, our optical fibre transmission network covered 250 cities with its total length reaching 156,000 km, of which optical fibre backbone transmission network accounted for 56,000 km. In addition, we have also commenced the construction of metropolitan area networks and integrated access networks in 119 cities. Parallel to our construction of the domestic fibre backbone transmission network, we have also participated in the construction of international backbone transmission network. In April 2000, we signed the construction agreement for the Asia Pacific Cable Network No. 2 Project. We expect to obtain 52 x 155 Mbps half circuit capacity by the end of 2001. The Company has also provided the full-circuit service between mainland and Hong Kong.

Development strategy

In year 2001, the Company will primarily adopt the advanced technology of 10G SDH + 32(40) waves DWDM for the construction of networks. We will also commence to upgrade the transmission system and expand the capacity in order to achieve the earliest nationwide connection to most of the local networks.

3. SALES AND MARKETING

The marketing strategy of the Company is to actively promote its image as an integrated telecommunications services provider and to fully capitalise on our ability to provide various telecommunications services, the preferential and asymmetrical tariff regulatory policy implemented by the government and our possession of a nationwide sales and distribution network. We will adjust our services in accordance with the requirements of different customer segments and different types of markets by adopting an approach of combining direct sales and distribution together with a differentiated marketing strategy. We have been actively seeking strategic cooperation to further expand the depth and width of marketing.

In terms of market segmentation, we have three categories of customers: retail subscribers, corporate subscribers and telecommunications operators. For retail subscribers, we conduct our sales through our own retail outlets and other sales outlets of the community. For corporate subscribers, we market through our direct sales team as well as independent sales agents. For telecommunications operators, we market through our direct sales team with tailor-made services.

We have a nationwide sales network that has over 20,000 owned and available outlets. We rely on these networks to promote various kinds of telecommunications services. This network also provides a variety of after-sale services such as customer care and fee collection.

We have set up dedicated direct sales and customer service teams to serve our high volume corporate customers at every organisational level. They focus on marketing our bundled cellular, international and domestic long distance, data, Internet and paging services to their target customer groups. We offer these customers priority service, favourable pricing and other award programs.

Our parent company has entered into a strategic cooperation agreement with China Post in February 2001, allowing us to leverage on China Post's extensive nationwide outlets to market our services as well as allowing China Post to collect fee from customers on our behalf.

In addition, we have begun the establishment of an integrated customer service system and a nationwide customer service centre with the “1001” as the nationwide service access number to centralise customer management and improve customer accessibility to our integrated services. A transitional customer service system is already in operation.

The Company actively pursues a differentiated approach in marketing to different market segments. With respect to our cellular communications businesses, we offer high quality and new services such as wireless data to attract high end customers and expand the mass market with pre-paid services. In respect of long distance, data and Internet businesses, we focus on providing a “one-stop-shop” solution by targeting the development of corporate customers, including financial institutions, large enterprises, multinational corporations and government entities as well as numerous Internet service providers and Internet content providers. With respect to our paging businesses, we will broaden the range of our value-added services to keep existing subscribers and attract new subscribers through our extensive sales network and flexible sales strategies.

4. TARIFFS

In year 2000, the relevant telecommunications tariff regulatory authorities of China implemented an asymmetrical tariff regulatory policy whereby we may deviate upward or downward from the State standard tariff by 10–20% in setting our own tariff. In accordance with the changes in market demand, we implement such policy with flexibility to actively expand our businesses.

On 25 December, 2000, the Company was required by the relevant telecommunications tariff regulatory authority to adjust certain telecommunications tariffs, including: (i) lowering of domestic, international and Hong Kong, Macau and Taiwan long distance tariffs and change in billing units; lowering of leased line and Internet service tariffs; elimination of telecommunications services surcharges; (ii) deregulation of paging, IP telephony, web hosting and other value-added service tariffs in order for the introduction of market adjusted tariffs. The Company can now determine its own cost-based tariff levels in these services after filing with the telecommunications tariffs regulatory authorities.

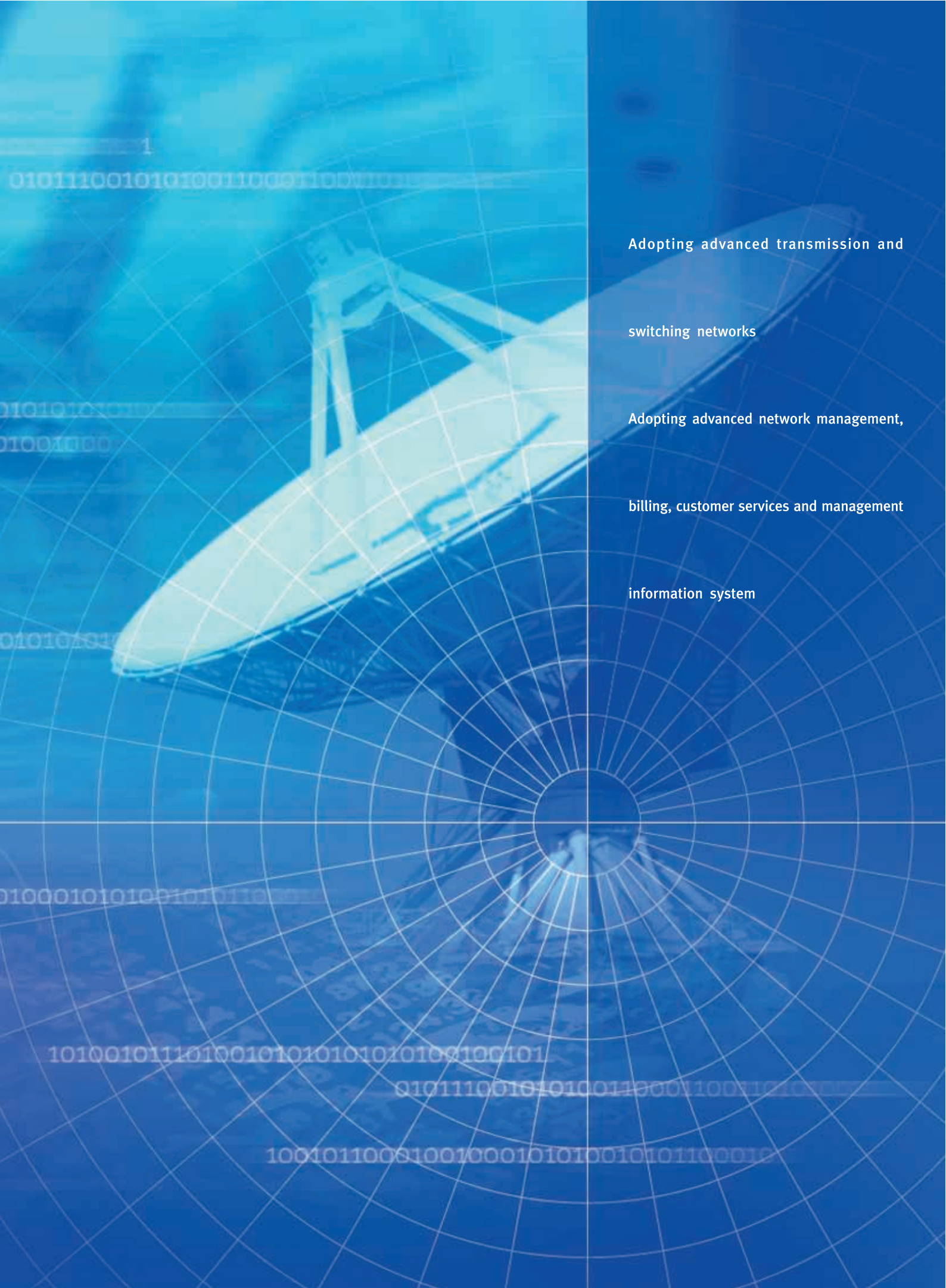
With the approval of the relevant telecommunications tariff regulatory authorities, the Company effected tariff adjustments in respect of its business in domestic and international long distance calls, long distance calls to Hong Kong, Macau and Taiwan, leased line and IP telephone services from 12:00 a.m. of 21 February, 2001. The lowering of tariff level will stimulate the demand for telecommunications services and expand the scale of the market and encourage the growth in telecommunications spending. We are now able to set our own tariffs for some businesses which were formerly pre-set by the government, allowing us more flexibility in pricing and enhancing our competitive edge in the market.



High Technology

Advanced applications,

High economic efficiency.



Adopting advanced transmission and switching networks

Adopting advanced network management, billing, customer services and management

information system

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