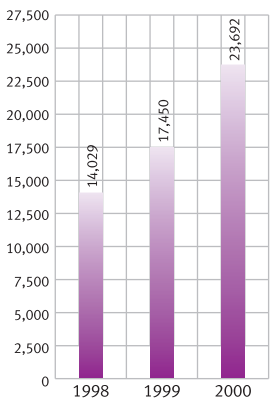
Incorporated in February 2000, China Unicom Limited owns and operates various businesses and assets injected into the Company by the Unicom Group. This Chapter analyses the financial condition and results of operations after our incorporation, as well as the financial condition and results of operations of these businesses and assets before our incorporation on the basis of presentation as referred to in the audited financial statements contained in this annual report and the prospectus of the Company dated 13 June, 2000.

We achieved impressive financial results in 2000. Total revenue increased by 35.8% from RMB17.45 billion in 1999 to RMB23.69 billion in 2000. Operating income increased substantially in 2000; net income increased nearly 3 times from RMB840 million in 1999 to RMB3.23 billion in 2000; basic net income per share increased from RMB0.09 in 1999 to RMB0.29 in 2000. Adjusted EBITDA (as defined below) increased by 68.4% from RMB6.51 billion in 1999 to RMB10.96 billion in 2000. Adjusted EBITDA margin increased from 37.3% in 1999 to 46.2% in 2000.

Our cellular business experienced rapid growth and became the most significant driver for our growth in revenue and earnings in 2000. Revenue from cellular business (which includes sales of the cellular-related telecommunication products) increased from RMB5.84 billion in 1999 to RMB12.88 billion in 2000, and the adjusted EBITDA margin for our cellular business increased from 48.7% in 1999 to 55.1% in 2000. Revenue from long distance, data and Internet businesses increased from RMB80 million in 1999 to RMB1.1 billion in 2000, and became our new source for revenue growth. The rapid development of the cellular business and the launch of long distance telephony business through Public Switched Telephone Network ("PSTN"), data and Internet businesses further optimised our revenue structure and highlighted our strength as an integrated telecommunications operator. In 2000, we improved our adjusted EBITDA margin through effective control of costs and as a result of the benefits from our economies of scale. As a result of our successfully completed initial public offering in 2000, we raised approximately US$5.65 billion in aggregated proceeds, strengthening the basis for our future development.

A. Operating Revenue

Total Operating Revenue
RMB million



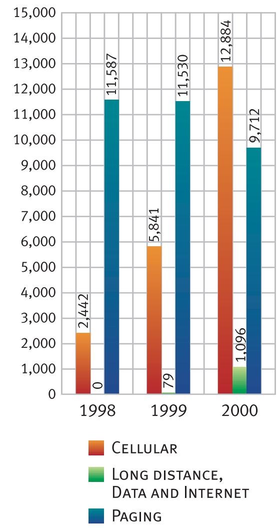
Strong Growth in Total Operating Revenue. Our total operating revenue increased by 35.8% from RMB17.45 billion in 1999 to RMB23.69 billion in 2000, primarily due to the rapid growth in cellular business and the launch of long distance telephony services through PSTN, data and Internet businesses.

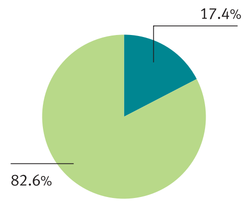
Further Optimisation of Revenue Structure. We derive revenue mainly from cellular, long distance, data, Internet and paging businesses. The table below shows the changes in our business revenue and their percentage changes in total revenue in 1998, 1999 and 2000.

	Year Ended 31 December,					
	1998		1999		**2000**	
	RMB in millions	As percentage of total	RMB in millions	As percentage of total	**RMB In Millions**	**As percentage of total**
Total Operating Revenue						
Cellular	2,442	17.4%	5,841	33.5%	**12,884**	**54.4%**
Long distance, data and Internet	—	—	79	0.5%	**1,096**	**4.6%**
Paging	11,587	82.6%	11,530	66.0%	**9,712**	**41.0%**
Total	14,029	100%	17,450	100%	**23,692**	**100%**

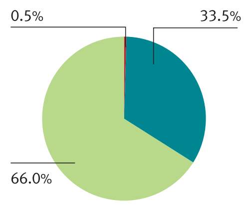
The development of cellular, long distance, data and Internet businesses further optimised our revenue structure. Revenue from cellular business (which includes sales of the cellular-related telecommunication products) as a percentage of total operating revenue increased from 33.5% in 1999 to 54.4% in 2000. Revenue from long distance, data and Internet businesses as a percentage of total operating revenue increased from 0.5% in 1999 to 4.6% in 2000. Revenue from paging business (which includes sales of paging-related telecommunication products) as a percentage of total operating revenue decreased from 66.0% in 1999 to 41.0% in 2000, reflecting our strategy in the reduction in the sale of pagers. The optimisation of revenue structure reflected our strategy of focusing on high margin and high growth businesses.

Revenue Composition
RMB million

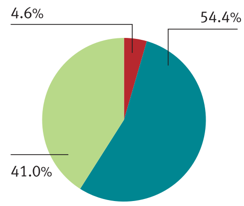




1998



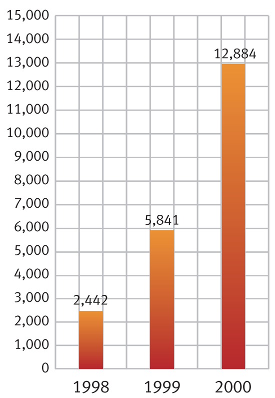
1999



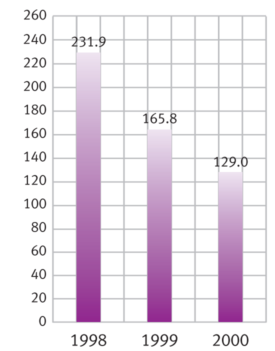
2000

Cellular
Long distance, Data and Internet
Paging

Revenue for Cellular Business
RMB million



ARPU
RMB



Rapid Growth of Cellular Business Revenue

Cellular business recorded rapid growth in 2000. As cellular subscribers increased from 4.154 million at the end of 1999 to 12.772 million at the end of 2000, revenue from cellular business also increased from RMB5.84 billion in 1999 to RMB12.88 billion in 2000 which surpassed revenue from paging business to become our largest revenue source. Average revenue per user, or ARPU, of post-paid cellular subscribers decreased by 22.2% from RMB165.8 in 1999 to RMB129 in 2000, due primarily to the decrease in connection fees as well as the reduction of average minutes of usage per subscriber per month, or MOU, caused by the increase of low-usage subscribers as a percentage of the total number of subscribers. We launched the pre-paid cellular business in 2000. ARPU for pre-paid subscribers was RMB75.1 in 2000.

Usage Fees. Revenue from usage fees for cellular business increased by 157.4% from RMB3.19 billion in 1999 to RMB8.21 billion in 2000. The increase was primarily due to the increase in the number of cellular subscribers. Usage fees accounted for 67.4% of the total service revenue from cellular business (which excludes sales of cellular-related telecommunication products) in 2000. Revenue from pre-paid cellular service was RMB650 million in 2000, representing 5.3% of the total service revenue from cellular business in 2000. Pre-paid subscribers pay a higher per minute usage fee but no connection and monthly fees.

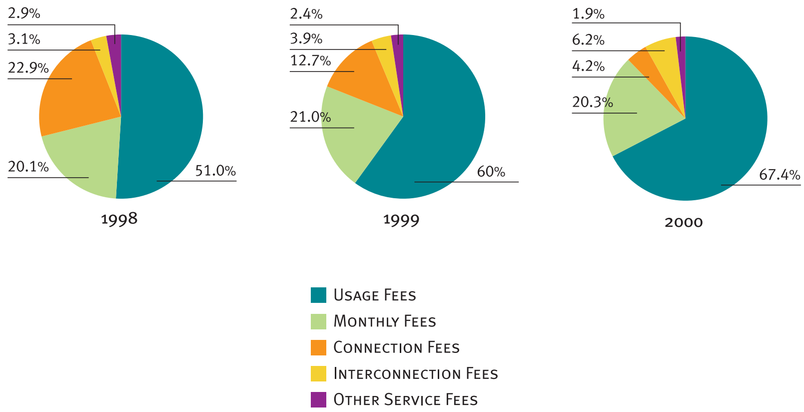
Monthly Fees. Revenue from monthly fees for cellular service increased by 121.4% from RMB1.12 billion in 1999 to RMB2.48 billion in 2000, due primarily to the increase in the number of cellular subscribers. Monthly fees accounted for 20.3% of the total service revenue from cellular business in 2000.

Connection Fees. Revenue from cellular connection fees decreased from RMB670 million in 1999 to RMB520 million in 2000, accounting for 4.2% of total service revenue from cellular business in 2000, compared to 12.7% in 1999, which reflected the decline of connection fees and its contribution to our cellular business revenue.

Interconnection Fees. Revenue from interconnection fees increased substantially by more than twice from RMB210 million in 1999 to RMB750 million in 2000, due primarily to an increase in incoming calls from other carriers' networks as a result of the expansion of our network coverage and the continuous growth of our cellular subscriber base.

Sales of Cellular-related Telecommunication Products. Revenue from sales of telecommunication products related to our cellular business increased by 32.1% from RMB530 million in 1999 to RMB700 million in 2000, due primarily to the increase in sales of SIM cards as a result of the increase in new cellular subscribers, despite the decrease in the average selling price of SIM cards.

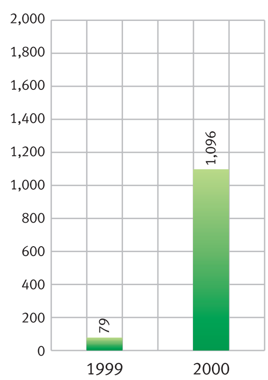
Service Revenue Composition for Cellular Business



Substantial Increase in Revenue from Long Distance, Data and Internet Businesses

New Business, New Source of Growth. In 2000, we launched long distance telephony services through PSTN, data and Internet businesses. We continued to develop our Internet protocol long distance telephony services that was launched in June 1999. Although we were at the primary stage in developing these businesses in 2000, revenue from long distance, data and Internet businesses increased more than twelve times from RMB80 million in 1999 to RMB1.1 billion in 2000, and has become a new source for our revenue growth. This growth was primarily attributable to the expansion of our nationwide network coverage and the launch of various new services, which attracted additional subscribers and resulted in an increase in total minutes of usage. Our long distance, data and Internet department also provided transmission lines to our cellular business and the intersegment revenue was RMB460 million in 2000. Our diversified revenue sources highlighted our strength as an integrated telecommunications operator and further increased our competitiveness in the telecommunications market in China.

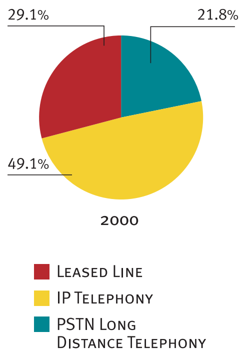
Revenue of Long Distance, Data and Internet Businesses
RMB million



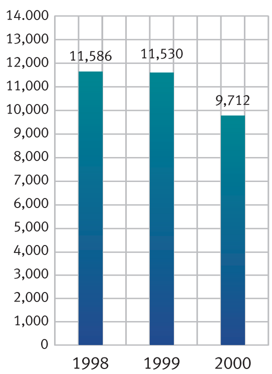
IP Telephony Services Revenue. Revenue from long distance, data and Internet businesses in 1999 consisted mostly of revenue from the IP telephony services. Revenue from IP telephony services increased to RMB540 million in 2000, from RMB80 million in 1999, mainly due to the increase in total usage. The sales of IP telephony services were mainly in the form of pre-paid calling cards. We recognise revenue from IP telephony services when pre-paid minutes are actually used.

New Services Revenue. In addition to revenue from IP telephony services, revenue from long distance, data and Internet businesses in 2000 included revenue from long distance telephony services through PSTN (RMB240 million in total) and revenue from ATM/FR data services, Internet access, Internet data centres, or IDC, and leased line services (RMB320 million in total).

Revenue Composition for Long Distance, Data and Internet Businesses in 2000



Revenue for Paging Business
RMB million



Slight Decrease in Paging Revenue

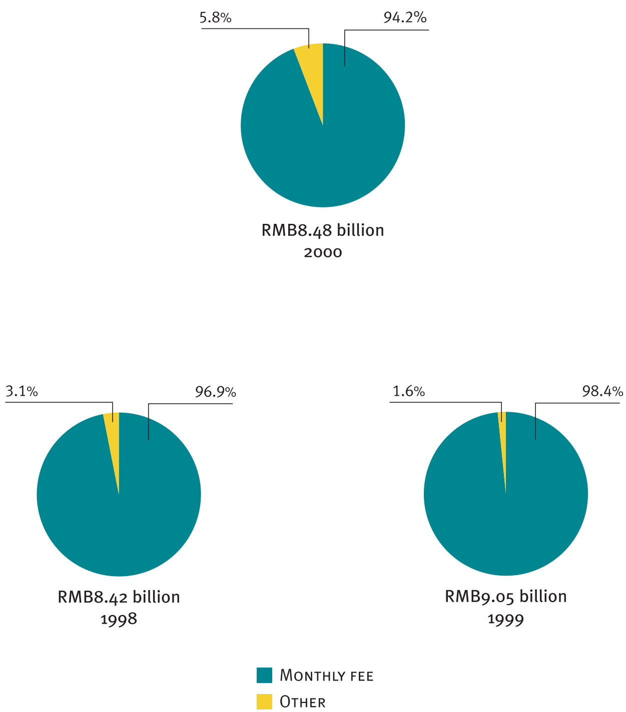
Revenue from our paging business decreased by 15.8% from RMB11.53 billion in 1999 to RMB9.71 billion (excluding the commission revenue of RMB180 million from the sales of our cellular business) in 2000. The paging service revenue (which excludes sales of paging-related telecommunication products) decreased by 6.3% from RMB9.05 billion in 1999 to RMB8.48 billion in 2000. The decrease in paging business revenue was primarily due to a further reduction in service fees caused by competition in the paging market and our strategy for the reduction in the sales of pagers.

Monthly Fees. Our revenue from the paging services was primarily from monthly fees, representing 94.2% of the total service revenue from the paging business in 2000. We require our subscribers to pay service fees at least one month in advance. Despite the slight increase in the number of paging subscribers, our revenue from monthly fees decreased by 10.2% from RMB8.9 billion in 1999 to RMB7.99 billion in 2000, mainly due to a fall in monthly fees as a result of the fall in the tariff of the paging business.

Value-added Service Revenues, Commission. Other revenue from our paging business included wireless messaging service fees, paging number selection fees and other value-added service fees, as well as commissions from the sales of cellular services for the Unicom Group. Revenue from these areas increased rapidly from RMB50 million in 1999 to RMB420 million in 2000.

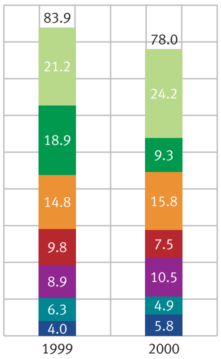
Sales of Paging-related Telecommunication Products. Revenue from the sales of telecommunication products related to our paging business decreased by RMB1.25 billion, or 50.4% from RMB2.48 billion in 1999 to RMB1.23 billion in 2000, due primarily to a gradual reduction in the sale of pagers. The percentage of our pager sales revenue to our total paging business revenue decreased from 21.5% in 1999 to 12.7% in 2000.

Service Revenue for Paging Business and Its Revenue Composition



Analysis of
Operating Expenses

Percentage of expenses to total revenue (%)



DEPRECIATION AND AMORTISATION
COSTS OF TELECOMMUNICATIONS PRODUCTS
GENERAL, ADMINISTRATIVE AND OTHER EXPENSES
PERSONNEL COSTS
SALES AND MARKETING
LEASED LINES
INTERCONNECTION EXPENSES

Composition of operating expenses (%)

DEPRECIATION AND AMORTISATION
COSTS OF TELECOMMUNICATIONS PRODUCTS
GENERAL, ADMINISTRATIVE AND OTHER EXPENSES
PERSONNEL COSTS
SALES AND MARKETING
LEASED LINES
INTERCONNECTION EXPENSES

B. Operating Expenses

Effective Control of Operating Expenses. Total operating expenses increased by 26.2% from RMB14.63 billion in 1999 to RMB18.47 billion in 2000, which was obviously lower than the revenue growth rate of 35.8% for the same period. As a percentage of total operating revenue, total operating expenses decreased to 78.0% in 2000 from 83.9% in 1999. This reflected growth in our total operating revenue, as well as our ability to effectively reduce leased line expenses by leveraging on our position as an integrated telecommunications operator. We have also continued to strengthen management, integrate our businesses and control personnel costs to achieve greater overall efficiency.

The following table sets forth the major expense items, operating income and adjusted EBITDA data as well as the respective percentage of total operating revenue in 1998, 1999 and 2000.

	Year Ended 31 December,					
	1998		1999		**2000**	
	RMB in millions	As a percentage of total operating revenue	RMB in millions	As a percentage of total operating revenue	**RMB In Millions**	**As a percentage of total operating revenue**
Total Operating Revenue	14,029	100%	17,450	100%	**23,692**	**100%**
Total Operating Expenses	12,677	90.4%	14,634	83.9%	**18,470**	**78.0%**
Leased line	1,302	9.3%	1,099	6.3%	**1,158**	**4.9%**
Interconnection charge	260	1.9%	693	4.0%	**1,380**	**5.8%**
Depreciation and amortisation	2,260	16.1%	3,691	21.2%	**5,734**	**24.2%**
Personnel	1,278	9.1%	1,713	9.8%	**1,770**	**7.5%**
Selling and marketing	1,043	7.4%	1,557	8.9%	**2,492**	**10.5%**
General, administrative and others	2,356	16.8%	2,586	14.8%	**3,743**	**15.8%**
Cost of telecommunication products	4,178	29.8%	3,294	18.9%	**2,193**	**9.3%**
Operating Income	1,352	9.6%	2,816	16.1%	**5,222**	**22.0%**
Adjusted EBITDA	3,612	25.7%	6,507	37.3%	**10,956**	**46.2%**

Leased Line. At the moment, we still depend on some leased lines for our cellular and paging businesses. We have continued to expand our nationwide optical fibre network in 2000 and reduced leased line expenses by utilising our own transmission network. Despite a decrease in leased line tariffs, total leased line expenses increased from RMB1.1 billion in 1999 to RMB1.16 billion in 2000 due primarily to the increased usage from our rapid business expansion in 2000.

However, as a percentage of total operating revenue, leased line expenses decreased from 6.3% in 1999 to 4.9% in 2000, reflecting a reduction in leased line tariffs and increase in the utilisation of our own transmission network.

Interconnection Expenses. Due mainly to the expansion of the scale of our cellular network, increase in subscribers, and the launch of our long distance telephony services, interconnection expenses increased from RMB690 million in 1999 to RMB1.38 billion in 2000. As a percentage of total operating revenue, interconnection expenses increased from 4.0% in 1999 to 5.8% in 2000. Interconnection expenses for the cellular business increased from RMB690 million in 1999 to RMB1.27 billion in 2000. We started incurring interconnection expenses for our long distance telephony services and data services in 2000, which amounted to about RMB110 million for this period.

Depreciation and Amortisation. Depreciation and amortisation expenses are related to the depreciation of fixed assets and the amortisation of deferred assets. Depreciation and amortisation expenses increased by 55.4% from RMB3.69 billion in 1999 to RMB5.73 billion in 2000. Depreciation and amortisation as a percentage of total operating revenue increased from 21.2% in 1999 to 24.2% in 2000, due mainly to the increase in capital expenditure along with further expansion of our networks.

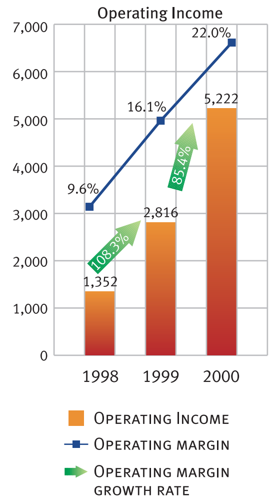
Personnel Costs. Despite the fact that our business grew rapidly in 2000, we managed to control the increase in the number of employees. We also fully utilise our employees in different ways. We employed approximately 35,400 employees at the end of 2000 (at the end of 1999, we employed approximately 33,088 employees). Personnel costs increased to RMB1.77 billion in 2000 from RMB1.71 billion in 1999. Personnel costs as a percentage of total operating revenue decreased from 9.8% in 1999 to 7.5% in 2000. We ensured that the pay level of our employees is competitive and employees are rewarded on a performance related basis within the general framework of our salary and bonus system.

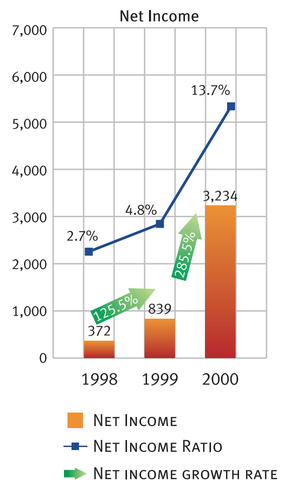
Selling and Marketing Expenses. Selling and marketing expenses consisted mainly of sales commission to dealers and promotion and advertising expenses. Selling and marketing expenses increased by 59.6% from RMB1.56 billion in 1999 to RMB2.49 billion in 2000. Selling and marketing expenses as a percentage of total operating revenue increased from 8.9% in 1999 to 10.5% in 2000. The percentage of new subscribers obtained through sales dealers over the total number of new subscribers increased in 2000. Sales commission increased from RMB910 million in 1999 to RMB1.74 billion in 2000, primarily due to the rapid subscriber growth and the launch of our new services. Promotion and advertising expenses increased rapidly from RMB620 million in 1999 to RMB720 million in 2000.

General, Administrative and Other Expenses. General, administrative and other expenses increased by 44.4% from RMB2.59 billion in 1999 to RMB3.74 billion in 2000. As a percentage of total operating revenue, such expenses increased from 14.8% in 1999 to 15.8% in 2000, reflecting our business growth. Provision for bad debt increased from RMB290 million in 1999 to RMB450 million in 2000. We made bad debt provision for all accounts receivable aged more than three months. Provision for doubtful debts in our cellular business increased from RMB190 million in 1999 to RMB360 million in 2000, while bad debt rate decreased. Provision for doubtful debts in our paging business slightly decreased in 2000 as compared to 1999.

Cost of Telecommunication Products Sold. Costs of telecommunication products sold decreased from RMB3.29 billion in 1999 to RMB2.19 billion in 2000, primarily due to our gradual reduction in the sale of pagers.

Huge Growth in Operating Income and Net Income
RMB million





C. Net Income

Operating Income. Total operating revenue in 2000 increased by 35.8% from 1999, while operating expenses increased by 26.2% in 2000, as compared to 1999. Operating income increased by 85.4% from RMB2.82 billion in 1999 to RMB5.22 billion in 2000, due mainly to rapid growth in total operating revenue and effective control of operating expenses. The operating margin increased from 16.1% in 1999 to 22.0% in 2000.

Interest Income and Interest Expense. Interest income increased from RMB110 million in 1999 to RMB1.75 billion in 2000, which mainly consisted of interest income arising from proceeds of our initial public offering. Interest expenses increased from RMB810 million in 1999 to RMB1.35 billion in 2000, due to an increase in bank loans. Interest-bearing debt increased from RMB20.13 billion at the end of 1999 to RMB35.65 billion at the end of 2000. Net interest income was RMB400 million in 2000, compared to RMB700 million of net interest expense in 1999.

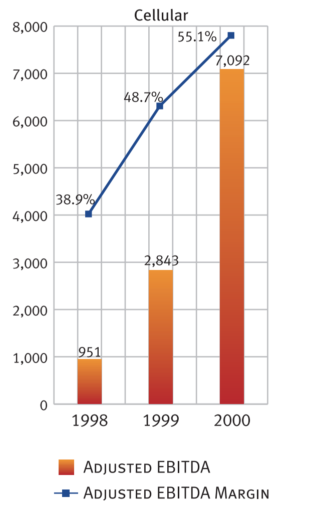
Loss Arising From Terminations of China-China-Foreign Arrangements. Loss from terminations of the China-China-Foreign arrangements was RMB220 million in 1999 and RMB1.19 billion in 2000. We have paid off all such loss from terminations of the China-China-Foreign arrangements. Please refer to the financial statements included in this annual report.

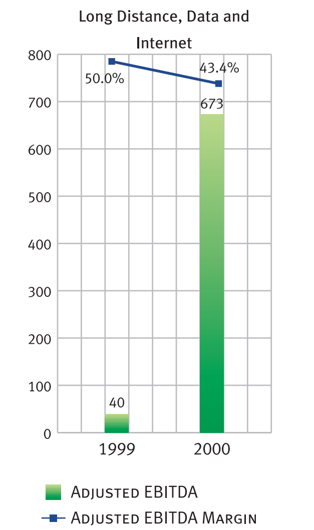
Income Tax. Income tax expenses were RMB560 million in 1999 and RMB1.1 billion in 2000, reflecting an actual tax rate of 31.6% and 24.6% respectively. The prevailing income tax rate in China, applicable to us is 33%. The actual tax rate was lower than 33% in 2000 as a large portion of interest income, arising from proceeds of our initial public offering deposited at banks in Hong Kong, is not subject to Hong Kong profits tax.

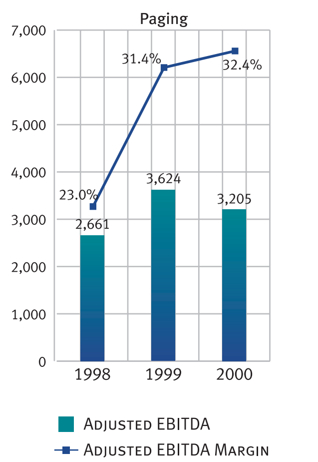
Net Income. Net income increased approximately 3 times from RMB840 million in 1999 to RMB3.23 billion in 2000. Basic net income per share increased to RMB0.29 in 2000 from RMB0.09 in 1999. Net income ratio increased from 4.8% in 1999 to 13.7% in 2000. If the loss from terminations of China-China-Foreign arrangements was not accounted for, the pro forma net income increased from RMB990 in 1999 million to RMB4.03 billion in 2000, while the pro forma net income ratio increased to 17.0% in 2000.

Comparison to Our Estimated Net Income. We estimated our net income in 2000 would be no less than RMB525 million under Hong Kong GAAP during the initial public offering. Actual net income in 2000 was RMB3.23 billion. We attribute the excess of actual net income over estimated net income principally to the fact that the actual operating expenses were lower than estimated, the rate of increase of actual operating expenses was lower than estimated, and the actual interest income was higher than estimated.

Adjusted EBITDA and
Adjusted EBITDA Margin
RMB million







D. Adjusted EBITDA

Adjusted EBITDA represents income before net financial charges, other expenses, taxation, depreciation and amortisation and loss arising from the terminations of China-China-Foreign arrangements. Since the telecommunications business is a very capital intensive business, capital expenditure and the level of debts and interest expenses may have a significant impact on net income for companies with similar operating results. Therefore, we believe that, for a growing telecommunications company such as ourselves, EBITDA provides a more accurate reflection of the Company's operating results. While EBITDA is commonly used in the telecommunications industry worldwide as an indicator of operating performance, debt capacity and liquidity, it is not presented as a measure of performance in accordance with generally accepted accounting principles and should not be considered as representing net cash flows from operating activities. Our adjusted EBITDA as described in this annual report is not necessarily comparable with similar titled measures for other companies.

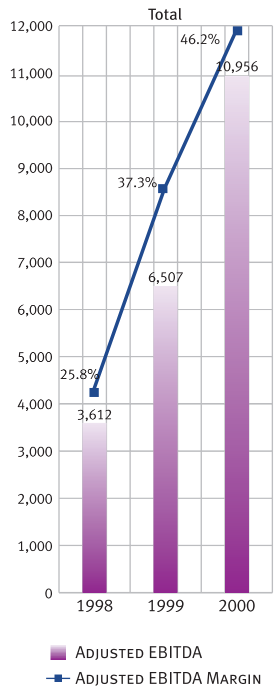
Adjusted EBITDA increased by 68.4% from RMB6.51 billion in 1999 to RMB10.96 billion in 2000. The increase in adjusted EBITDA reflects the rapid growth in our operating revenue and the effective control of our operating expenses. Adjusted EBITDA margin (adjusted EBITDA as a percentage of operating revenue) increased from 37.3% in 1999 to 46.2% in 2000, reflecting rapid growth of our operating revenue and further optimisation of our revenue structure on the one side, and our enhanced management and effective control of operating expenses on the other side.

Adjusted EBITDA for our cellular business increased 1.5 times from RMB2.84 billion in 1999 to RMB7.09 billion in 2000, while adjusted EBITDA margin also increased from 48.7% in 1999 to 55.1% in 2000, due primarily to the rapid growth of revenue and the decline of operating expenses as a precentage of revenue.

Adjusted EBITDA for our long distance, data and Internet businesses increased 15 times from RMB40 million in 1999 to RMB670 million in 2000, while adjusted EBITDA margin decreased from 50.1% in 1999 to 43.4% in 2000, due primarily to an increase in leased line expenses, and selling and marketing expenses, as a percentage of the business revenue.

Adjusted EBITDA for paging business decreased from RMB3.62 billion in 1999 to RMB3.21 billion in 2000, while adjusted EBITDA margin increased from 31.4% in 1999 to 32.4% in 2000, due primarily to a rapid decrease in leased line expenses for paging business and a reduction in the sale of our pagers that were operated at a loss.

Adjusted EBITDA and Ajudsted EBITDA Margin
RMB million



Note: the total adjusted EBITDA for cellular, long distance, data and Internet, and paging businesses does not include the unallocated amount of certain expenses.

E. Debt-Equity Structure

Sound Debt-Equity Structure. We successfully completed our global initial public offering in June 2000, which raised approximately US$5.65 billion, and were dual listed on both The New York Stock Exchange Inc. and The Stock Exchange of Hong Kong Limited. As of the end of 2000, we have RMB44.72 billion of cash and cash equivalent and RMB7.84 billion of short-term bank deposits. Our aggregate short-term and long-term bank loans and loans from other institutions, totaled RMB20.13 billion at the end of 1999 (including loans in the amount of RMB10.50 billion from the Unicom Group and loans in the amount of RMB6.2 billion from certain China-China-Foreign joint ventures) and RMB35.65 billion at the end of 2000.

Debt/Asset Structure
(RMB million)

	31 December, 1999	**31 December, 2000**
Cash	6,211	**52,556**
Total assets	45,366	**112,829**
Short term debts(1)	7,894	**8,501**
Long term debts	12,234	**27,151**
Minority interests	2,530	**883**
Shareholders' equity	8,538	**57,224**
Debt-to-assets ratio(2)	72.6%	**39.0%**
Debt-to-equity ratio(3)	265.4%	**63.9%**

Notes:

(1) including the CCF debts

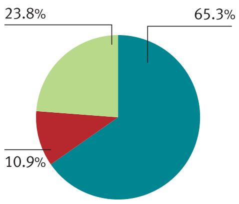
(2) debt-to-assets = (long term debt + short term debt + minority interests) / (long term debt + short term debt + minority interests + shareholders' equity)

(3) debt-to-equity = (long term debt + short term debt + minority interests) / shareholders' equity

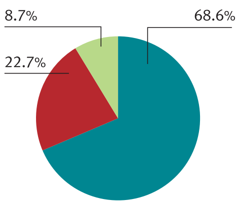
Our debt-to-assets ratio decreased from 72.6% at the end of 1999 to 39.0% at the end of 2000. Our debt-to-equity ratio decreased from 265.4% at the end of 1999 to 63.9% at the end of 2000. We have no net liability excluding cash and cash equivalent and short-term bank deposits. A sound debt-equity structure formed the solid foundation for our business development. We also focused on the optimisation of our capital structure, development of financing sources and the reduction of financing cost.

As of 31 December, 2000, our working capital (current assets minus current liabilities) was RMB30.29 billion, compared to the working capital deficit of RMB11.35 billion as of 31 December, 1999. This increase was primarily due to no further repayment of loans to China-China-Foreign joint ventures, increase in cash and cash equivalents brought in by the initial public offering, as well as the substantial increase in short-term bank deposits. As of 31 December, 1999 and 31 December, 2000, accounts receivable (excluding accounts receivable from China Telecom and our related companies) totaled RMB900 million and RMB1.55 billion respectively. The increase in accounts receivable was primarily a result of an increase in revenue from our services.

Capital Expenditure



RMB12.7 billion
1999



RMB25.2 billion
2000

Cellular
Long distance, data and Internet
Paging

F. Capital Expenditures

The following table sets forth our capital expenditures in major businesses in 1998, 1999 and 2000.

	Year Ended 31 December,			
	1998	1999	2000	2001
	RMB	RMB	RMB	RMB
		(in millions)		
Cellular	4,220	8,290	17,280	18,850
Paging	3,200	3,020	2,190	1,560
Long distance, data and Internet	870	1,390	5,710	9,220
Others	–	–	–	6,670
Total	8,290	12,700	25,180	36,300

In 2000, we made great efforts to control the cost of construction of our networks. The actual capital expenditure in 2000 was lower than the estimated expenditure while the network construction was completed pursuant to our construction plan and to some extent, ahead of our schedule. Capital expenditures in 2000 was RMB25.18 billion. Capital expenditure in cellular business was RMB17.28 billion, mostly spent on the construction of our cellular network, intelligent network and the trial of new technologies. The capacity of our cellular network increased about three times from 6.6 million subscribers at the end of 1999 to 19.18 million subscribers at the end of 2000. Capital expenditure in paging operations was RMB2.19 billion, mostly spent on the optimisation of network, improvement of base station and development of our sales network. Capital expenditure in international and domestic long distance, data and Internet operations reached RMB5.71 billion, mainly for network construction, including construction of inter-provincial and provincial backbone optical fibre cable. We plan to invest approximately RMB36.3 billion for capital expenditures in 2001. We intend to invest around RMB18.85 billion on projects related to our cellular business, RMB1.56 billion on projects related to our paging business, and RMB9.22 billion on projects related to our long distance, data and Internet businesses in 2001. The other planned capital expenditures in 2001 that will benefit all of our business segments is about RMB6.67 billion, mainly including the establishment of a customer service, billing and information system, construction of a multi-function hub building, and the development of technologies.

We expect our future capital expenditures will primarily focus on the expansion of our cellular network, nationwide optical fibre network as well as the network for our data and Internet businesses. We principally relied on a combination of cash generated from operating activities, capital market financing and short-term and long-term bank loans to satisfy our capital expenditures. Our capital expenditures in 2001 will be funded by cash in hand and cash generated from operations.

Substantially all of our revenue and expenses are denominated in Renminbi. Only a small portion of our equipment purchases is denominated in foreign currency. Future depreciation of Renminbi against foreign currencies may result in an increase of cost of equipment purchased in foreign currencies, and the increase of operating expenses may adversely affect our results of operations.

High Growth

High speed growth in

Economic efficiency

Business development

Market share

Continuous network expansion

Continuous increase in market share

Continuous growth in economic efficiency

Continuous improvement in service quality