

BUSINESS REVIEW



Customer-oriented High Quality Customer Service Better Returns to Shareholders

The table below summarizes selected operating data of the Group for the period from 1998 to 2000. Operating figures shown in this table and the “Business Review” section are pro-forma figures unless otherwise stated, which means that it is assumed that the Group’s existing structure (including thirteen mobile telecommunications companies) had been in place during the four years from 1 January 1997 to 31 December 2000.

Selected Operating Data of the Group for 1998 to 2000

	2000	1999	1998
Mobile Subscribers ('000)	45,133.9	25,742.6	15,527.7
Net Additional Subscribers ('000)	19,391.3	10,214.9	6,279.0
Total Usage (Million Minutes)	125,143.1	89,440.7	58,469.6
Average Usage per	• All Users		
User per Month (MOU)	• Contract Users		
(Minutes/ User/Month)	• Prepaid Users		
	299	366	393
	326	366	393
	125	N.A.	N.A.
Average Revenue Per	• All Users		
User per Month (ARPU)	• Contract Users		
(RMB/User/Month)	• Prepaid Users		
	221	299	366
	241	299	366
	87	N.A.	N.A.

The Group's pro-forma combined subscriber base reached 45.134 million subscribers, representing an increase of 75.3 per cent. over 1999. The Company successfully acquired interests in seven mobile communications companies in Mainland China, resulting in a seamless network covering the coastal region of Mainland China, and a total population of over 600 million. The commencement of a wireless data business is encouraging, reflecting robust forward progress. The Group introduced Monternet, and established a joint venture with Hewlett Packard and other parties to set up a wireless data research and development centre to jointly develop a wireless data services platform.

Introduction - Quality Mobile Telecommunications Services Provider

The Company has grown substantially since its initial public offering in 1997. Since then and until the end of 1999, the number of total subscribers grew at a compound annual rate of 66.8 per cent. With such strength, the number of total subscribers further increased in 2000 by a significant 75.3 per cent., reaching 45.134 million subscribers, and providing network coverage to thirteen provinces, municipalities and autonomous region in Mainland China.

In addition to actively developing our traditional mobile businesses, the Group also actively invested in an IP backbone network (CMNet), set up platforms for mobile Internet services, and continued to explore opportunities in other wireless telecommunications businesses offering significant growth potential. We also worked with various e-commerce service providers to pursue new development initiatives.

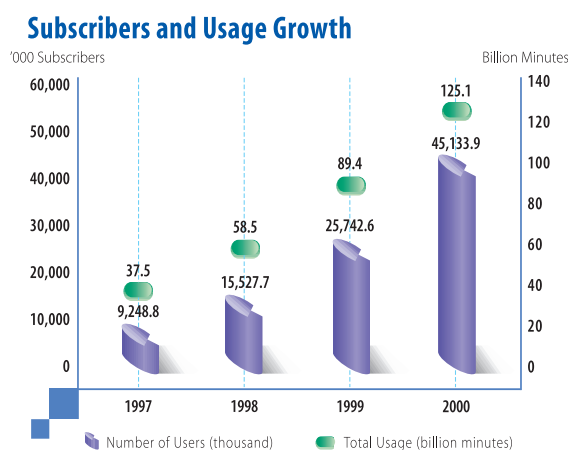
The Group has further improved its service to customers and subscriber satisfaction by rationalizing operations and continuing to increase its focus on customer services. The Group's management believes that these measures enhance our image as a quality mobile telecommunications services provider and assist us in maintaining our leading market position.

Voice-related Telecommunications Services

- **Total subscribers increased from 25.743 million subscribers at the end of 1999 to 45.134 million subscribers at the end of 2000. Total usage volume increased by 39.9 per cent. compared to 1999, totaling 125.14 billion minutes in 2000.**
- **The Group introduced diversified products, including pre-paid card services, VoIP long distance call services, and tariff packages for mobile telecommunications services. The Company's management believes that these new products further enhance market segmentation, help to stimulate usage, and better meet the needs of subscribers with different usage patterns.**

Subscriber Base and Total Minutes of Usage

Voice-related telecommunications services continued to be the main revenue source of the Group in 2000. By 31 December 2000, the subscriber base of the Group's 13 mobile communications subsidiaries totaled 45.134 million subscribers. The net additional subscribers in 2000 reached 19.391 million. The aggregate subscriber usage volume reached 125.14 billion minutes in 2000, representing an increase of 39.9 per cent. over 1999. As at 31 December, 2000, the subscriber base and the total usage volume of the operating companies in our original six provinces were 27.148 million subscribers and 77.52 billion minutes, respectively. The acquisition of the seven mobile communications companies in November 2000, expanded the coverage of the Group's network to include the coastal region and many of the major economic centers in Mainland China, providing a more extensive market for the Group's future development. As at 31 December 2000, the aggregate subscriber base and the total usage volume of these seven mobile communications companies were 17.986 million subscribers and 47.63 billion minutes, respectively.



As at 31 December 2000, the capacity of the Group's mobile telecommunications networks (calculated on the basis that each wireless voice channel can support 30 subscribers) reached 59.541 million subscribers, with a network utilization rate of 76 per cent.

Average Revenue Per User Per Month and Minutes of Usage

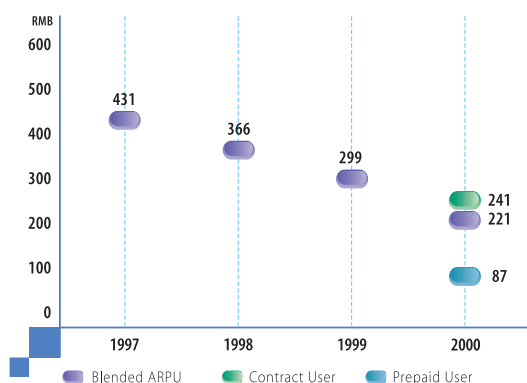
Average minutes of usage per user per month (MOU) in 2000 was 299 minutes, declining by 18.1 per cent. compared with 1999. The decline in MOU was mainly due to the substantial increase in lower usage subscribers, and, in particular, subscribers of pre-paid services. Average revenue per user per month (ARPU) was RMB 221 in 2000, representing a decline of 26.1 per cent. compared with 1999. In addition to the decline in MOU, the decrease in ARPU was also attributable to the reduction of connection fees and the introduction in 2000 of VoIP long distance call services.

The Group's 13 mobile communications companies introduced "Shenzhouxing" pre-paid cards services during the first quarter of 2000. No connection fees or monthly fees are charged for pre-paid card services. In addition, the retail price of handsets has declined substantially in recent years. These factors have significantly reduced the initial cost of subscribing to mobile telecommunications services, and therefore has accelerated the development of the low-end market. By 31 December 2000, subscribers to "Shenzhouxing" and other pre-paid card services of the Group's thirteen mobile communications companies totaled 12.725 million, and the mobile penetration rate in these provinces had reached 9.3 per cent., reflecting the Group's successful efforts in further penetrating and nurturing the market.

Since pre-paid card services target lower-usage subscribers with lower MOU, the ARPU of pre-paid users is also lower. The substantial increase in the number of pre-paid card users was the main reason for the reduction in overall ARPU in 2000. In 2000, the MOU and ARPU of pre-paid card users were 125 minutes and RMB87, respectively. The MOU and ARPU of contract subscribers in 2000 were maintained at 326 minutes and RMB241, respectively.

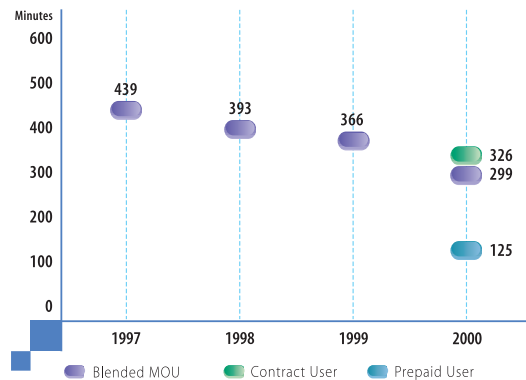
Although pre-paid users use less services overall, they also consume less network capacity and require less network expansion investment and network operation and maintenance costs than contract subscribers. Accordingly, on balance, pre-paid card services have had a positive impact on the Company's profitability.

Analysis of Changes in ARPU



In order to provide its subscribers with additional service offerings and to further enhance our competitiveness, the Group launched VoIP long distance call services on 17 May 2000. Owing to our aggressive marketing strategy and quality services, our VoIP long distance call services have been widely recognized and accepted by subscribers, resulting in a substantial increase in the total volume of domestic long distance calls.

Analysis of Changes in MOU



VoIP long distance calls offer significant discounts compared to conventional long distance calls. As all VoIP long distance traffic is transmitted over the Group's networks, the Group can save on interconnection expenses payable to fixed-line operators, thereby reducing operating expenses for VoIP services to a level lower than that for conventional long distance calls. As a result, VoIP services have led the Group to achieve "higher usage and lower ARPU, but higher profit", and the Group believes that VoIP long distance call services can enhance the profitability of its operations.

Analog to Digital Upgrade

As at 31 March 2001, the Group had approximately 1.5 million analog subscribers, accounting for 2.9 per cent. of the aggregate subscriber base. In order to increase the utilization rate of transmission networks, enhance manpower and equipment utilization rates, save on operating costs and provide better service to analog subscribers, the Group intends to discontinue the operation of analog networks and encourage the migration of all existing analog subscribers accounts to GSM services accounts by the end of 2001. As at the end of 2000, the net book value of analog mobile communication assets was RMB1.525 billion, accounting for only 1.71 per cent. of the value of the Group's total fixed assets. The Group has decided to fully provide for these assets at the end of 2000, as the estimated recoverable value of these assets is lower than their net book value.

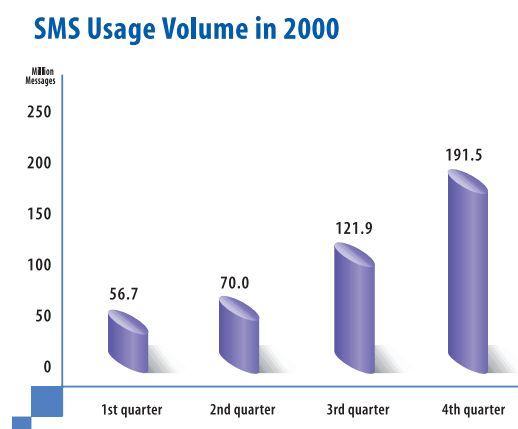
In order to increase the utilization rate of frequency spectrum, the Group has obtained approval from the relevant regulatory authorities responsible for allocating frequency spectrum in China to substitute the original 5MHz analog mobile telecommunications spectrum for 5MHz of digital mobile telecommunications spectrum in the 1,800MHz frequency band, following the termination of the Group's analog mobile services. As consequence, the Group will have a total of 19MHz of frequency in the 900MHz band and 15MHz of frequency in the 1,800MHz band for digital mobile telecommunications, which will result in more efficient use of the 900MHz and 1,800MHz frequency bands for digital mobile telecommunications.

With the continuous development of the mobile communications business of the Group and advancements in mobile communications businesses, the Group believes that the advantages of GSM digital mobile telecommunications networks in the areas of emerging services, including mobile data services and mobile e-commerce, will become increasingly apparent. The time has come for the Group to become a dedicated digital mobile communications operator.

New Business and Data Business

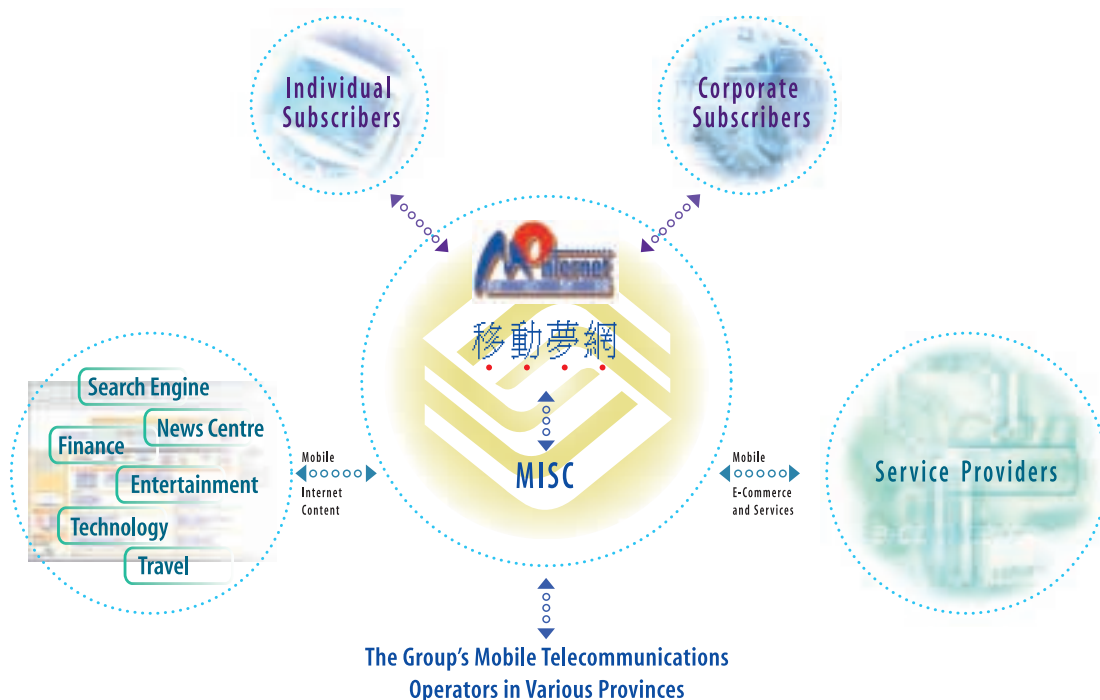
- **Usage volume of mobile telephone SMS in the last quarter of 2000 represented an increase of 237.7 per cent. over the usage volume in the first quarter of 2000.**
- **The Group launched the “Monternet” initiative and commenced construction of Mobile Information Service Center (“MISC”) and GPRS mobile data communication networks within areas covered by its networks.**

Mobile telephone SMS registered significant growth in 2000. The usage volume of SMS by the Group’s subscribers increased from 56.72 million messages in the first quarter of 2000 to 191.52 million messages in the fourth quarter of 2000, representing an increase of 237.7 per cent. In the view of the Company’s management, this enormous increase reveals the huge potential for future development of the wireless data telecommunications market in Mainland China.



As for the business development of the Group in coming years, the Group will concentrate on developing mobile data services. The Group will develop its mobile data services with a focus on a unified mobile portal website “Monternet”, and “Mobile Information Service (MISC) Platform”.

Monternet is the brand name for the Group’s mobile Internet services initiative, which we have developed to serve as a portal for all mobile Internet services. The Group introduced the Monternet Program in the last quarter of 2000. Since then, over 102 service providers (“SP”) have contracted to join the Monternet Program to co-operate in the exploration of the mobile Internet market. Such co-operation entails the SPs providing mobile Internet content and services on the communications channels and the MISC platform furnished by the Group. The Company believes that Monternet will significantly accelerate the growth of the Group’s mobile data business.



Mobile Information Service Centre (MISC) Platform

The MISC is intended to serve as the common platform for all mobile Internet services of the Group. MISC will be installed in stages based on a distributed structure in the Group's provincial operating subsidiaries. A unified MISC platform will provide the Group's mobile telephone subscribers with mobile data roaming capabilities. The MISC platform will also provide a uniform data interface open to third-party SPs, through which standard network information (such as billing information) can be provided. The segregation of service platforms from the base mobile telecommunications networks will ensure that all mobile communications services developed through the platform can be smoothly migrated at such time as the mobile communications networks are upgraded to 2.5G and 3G, and make it a truly "future compatible network".

Customer Service and Tariffs

- In 2000, the Group established a general customer service hotline and service centers to serve major accounts thereby establishing standard service procedures and ensuring customer satisfaction.
- Since 2000, the Group launched VoIP long distance call services and introduced tariff package to provide subscribers with more choices of services, increasing the Group's market competitiveness.

Customer Service

Our continuous efforts to improve service quality and ensure customer satisfaction have been key elements supporting the Group's well-established reputation as a quality mobile telecommunications operator.

In 2000, the Group's 13 mobile communications companies established a general customer service hotline. In addition to an interactive voice response system, there were over 2,570 seats of operators providing subscribers with information on billing, service termination, loss reporting and responses to general consumer enquiries.

The Group considers high usage corporate and individual subscribers to be valuable assets. In this regard, the 13 operating subsidiaries of the Group have established service centers to serve major accounts, and have established service guidelines and databases for these customers. Designated account managers have also been appointed to coordinate all issues relating to sales and services for these major accounts.

Establishing standard service procedures and enhancing the management of the various sales and services centers are key means to improve the quality of service to customers. By the end of 2000, the Group had 26,390 sales and retail outlets, representing an increase of 119.3 per cent. from the previous year. The Group owned 1,389 outlets, while third parties operated the remaining 25,001 outlets. For its sales outlets and major retail chains operated by third parties, the Group has established standard service procedures and a standardised logo identification and has implemented a centralized subscriber management system as part of its Business Operation Support System ("BOSS"), thereby reducing the time required for providing various customer support services.

To further improve the quality of customer service, the Group has retained a professional market research company to actively determine customer satisfaction via an Internet survey (offering suitable rewards as an inducement to survey participants), telephone interviews and in-depth discussions. The Group believes that by using survey reports prepared by independent third parties, it can improve its service procedures and identify solutions to service-related challenges.

Tariffs

Since 2000, the Group has introduced various new mobile communications services. The introduction of VoIP long distance call services has provided subscribers with greater choices and, at the same time, has reinforced the Group's competitiveness. Table 1 below sets out the comparison of tariffs between conventional long distance call services and VoIP long distance call services as at 21 February 2001.

Table 1 Comparison of tariffs between VoIP long distance call services and conventional long distance call services

	Tariffs on VoIP Long Distance Calls (RMB/Minute)	Tariffs on Conventional Long Distance Calls (RMB/6 seconds)
Intra-provincial Long Distance Calls	0.30	0.07
Inter-provincial Long Distance Calls	0.30	0.07
International Long Distance Calls	4.80	0.80
Long Distance Calls to Hong Kong, Macau and Taiwan	1.50/2.50	0.20

In order to satisfy specific mobile communications needs in different markets and to further differentiate various products, the Group has obtained approval from the relevant authorities regulating the telecommunications industry in China to pioneer the launch of packaged mobile telecommunications plans in Mainland China. A total of six different packages (see Table 2) have been approved by the regulatory authorities to date. In relation to the promotion of the usage plans in different markets, the Group will select appropriate packages and promotion schedules to suit the needs of particular markets.

Table 2 Tariffs on Packaged Mobile Communications Services

Monthly fees (RMB)	Basic Usage Covered by the Monthly Fee(1) (Minute)	Usage Charges During Peak Hours ⁽²⁾ for each minute exceeding the covered basic usage (RMB)	Usage Charges During Off-Peak Hours ⁽²⁾ for each minute exceeding the covered basic usage (RMB)
98	170	0.60	0.30
168	330	0.50	0.25
268	600	0.45	0.22
388	1,000	0.40	0.20
568	1,700	0.35	0.18
788	2,588	0.30	0.15

Note 1: Basic usage covered by the Monthly Fee does not cover inter-provincial and international roaming usage.

Note 2: Peak hours represent the period between 0700 and 2300 daily while off-peak hours represent the period between 2300 to 0700 the following day.

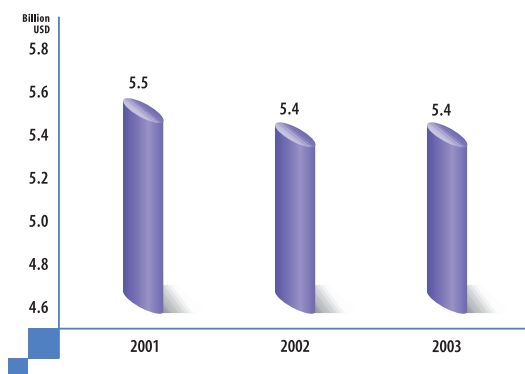
Investment and Capital Expenditure

- **In 2000, the Group's capital expenditure amounted to approximately US\$3.5 billion, which was invested primarily in the expansion of GSM networks, new technologies and products, and other areas.**
- **The Group's planned capital expenditure for 2001 through 2003 is US\$16.3 billion.**

The Group's planned capital expenditures for 2000, 2001 and 2002 were originally US\$5.2 billion, US\$5.6 billion and US\$5.6 billion, respectively. The actual investment made in 2000 was US\$3.5 billion. It should be noted that this amount was sufficient to achieve most of the investment objectives targeted by the Group. Reductions in the purchase price of telecommunications equipment in 2000 were the primary cause of the variance. Due to a prolongation of the construction cycle, some of the expenditures on transmission projects were deferred. Furthermore, several network upgrade projects, including GPRS, have been postponed in light of insufficiently mature technologies and applications.

In order to facilitate further business development and explore new business opportunities, the Group estimates total capital expenditure of US\$16.3 billion for the period between 2001 and 2003. The capital expenditures are expected to be financed primarily out of the Group's internal cash flow generated from operations.

Three Year Capital Expenditure Plan



The Group will invest the planned capital primarily in GSM network expansion, new technologies and new product development, transmission network deployment, operating support system projects and other areas.

In addition to expanding the Group's GSM mobile telecommunications network capacity, the Group is also investing significantly in the development of the inter-provincial IP backbone network CMNet, the Intelligent Network overlaying the existing GSM Network and wireless data communications network.

CMNet is a new generation open telecommunications network based on broadband IP technologies. CMNet will enable the Group to explore more opportunities in the wireless data communications business, and to transform itself from a traditional wireless voice telecommunications operator into a wireless multimedia services provider. The Group will make use of the CMNet to transmit the majority of its VoIP long distance calls and wireless data service traffic arising from the use of GPRS networks in the future.

In 2000, the Group expanded its Intelligent Network to further strengthen its competitiveness and to provide its subscribers with diversified services. With the Intelligent Network platform, the Group was able to develop new services, including pre-paid card services with nationwide roaming functions, virtual private networks and wireless advertising. Moreover, the Intelligent Network provides platform support for the Group's future business development.

The Group believes that the wireless data communications sector will enjoy significant growth in the future, therefore it will be the main focus of the Group's development plan. In 2000, the Group established a number of GPRS data communications trial networks. The Group also intends to set up GPRS networks for commercial use in various major cities in the coastal region of Mainland China in 2001. The purpose of setting up the GPRS networks is to provide high-speed mobile Internet services. The Group plans to invest in upgrading the existing GSM networks from 2001 to 2003 to install shared voice/data channels and dedicated data channels with WAP over GPRS functions. This will enable the Group to achieve a smooth transition from the existing 2G networks to 2.5G digital mobile telecommunications networks and establish a solid market foundation from which 3G services can be launched.

Strategic Alliance with Vodafone Group

The Group entered into a Memorandum of Understanding with Vodafone on 4 October 2000, and a Strategic Alliance Agreement was executed between the parties in February of 2001. Vodafone holds approximately 2 per cent. of the entire issued share capital of the Company after subscribing for US\$2.5 billion worth of shares in the Company. The Group and Vodafone have started the sharing of management experience and the exchange of human resources at various levels, and certain operating subsidiaries have been selected for trial co-operation in respect of marketing planning for corporate users, distributor management, customer relations management and network optimization technologies.

Growth Strategy

The Group believes that the rapid growth of the subscriber base and the retention of quality subscribers are the keys to the development of mobile telecommunications operators. The Group will consolidate the operational management of mobile telecommunications companies in the thirteen provinces to further upgrade its quality of service, enhance subscribers' satisfaction and loyalty, and continue to reinforce the Group's image as a quality mobile telecommunications operator. The Group believes that these measures will help foster rapid growth in the total subscriber base while ensuring the quality of subscribers.

The Group believes that the development of 3G mobile telecommunications technologies will bring about significant business opportunities for mobile telecommunications operators. However, it is increasingly recognized by many international operators that substantial demand in the 3G market will emerge somewhat later than had been originally anticipated. The Group will continue to closely follow the development of 3G mobile telecommunications technologies in the international market. The Group will take a proactive approach, while remaining careful and prudent, in determining the optimal marketing strategy for implementing 3G technologies in China. The Group will continue to implement its established strategy in relation to mobile data technologies, and gradually upgrade its existing GSM networks. Based on the uniform portal website Monternet and the MISC, the Group will concentrate on the development of mobile Internet and mobile e-commerce with 2.5G mobile communications technologies, with the objective of elevating its business focus along the value chain of the mobile telecommunications industry. The Group will continue its three-fold strategy of enhancing organic and external growth, while taking an active role in identifying other business opportunities in the broader telecommunications sector, to maximize returns for shareholders.