Outstanding growth opportunities
Tremendous value creation since IPO

The information set out below presents the unaudited Pro-forma Combined operating results ("Pro-forma Combined") of the Group since 1 January 1999. The Group's Pro-forma Combined operating results are prepared on the assumption that the existing corporate structure of the Group (including 13 mobile communications operating subsidiaries) had been in place throughout the two financial years ended 31 December 1999 and 2000.

	Pro-forma Combined Operating Results		
	2000	1999	Change
	RMB	RMB	
	Million	Million	%
Operating revenue (Turnover)			
Usage fees	**64,220**	47,726	34.6
Monthly fees	**14,364**	10,935	31.4
Connection fees	**2,976**	6,885	(56.8)
Other operating revenue	**10,655**	7,479	42.5
	92,215	73,025	26.3
Operating expenses			
Leased lines	**8,092**	7,999	1.2
Interconnection	**13,094**	12,549	4.3
Depreciation	**14,694**	13,922	5.5
Personnel	**4,773**	3,023	57.9
Other operating expenses	**14,800**	10,803	37.0
	55,453	48,296	14.8

	Pro-forma Combined Operating Results		
	2000	1999	Change
	RMB	RMB	
	Million	Million	%
Profit from operations	**36,762**	24,729	48.7
Profit attributable to shareholders	**24,666**		
Profit attributable to shareholders (before write-down and write-off of analog network equipment, net of taxation)	**25,699**		
EBITDA	**52,562**	39,277	33.8

In 2000, the Group's businesses continued to grow rapidly, and operating efficiency improved steadily, resulting in satisfactory financial results overall. The acquisition of interests in the seven mobile communications companies in 2000 further improved economies of scale for the Group. The Group's capital structure and operating synergies were further enhanced.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Summary of Financial Results for 2000

In 2000, compared to other major global economies, China achieved strong economic growth with GDP growth at 8.0 per cent. With the growing importance of information technologies, China's telecommunications industry has led the growth of other sectors of the Chinese economy. At the same time, when compared with other developed telecommunications markets world-wide, China has demonstrated strong consumer demand and unique developmental potential. These positive economic and market factors have created a favorable environment for the Group's development.

Audited consolidated operating revenue, EBITDA and net profit of the Group for 2000 were RMB64,984 million, RMB37,500 million and RMB18,027 million, respectively, representing increases of 68.3 per cent., 73.6 per cent. and 275.8 per cent. over 1999 figures, respectively, while earnings per share was RMB1.25 (approximately Hong Kong dollar 1.18), representing an increase of 212.5 per cent. from the 1999 figure. Pro-forma Combined* operating revenue for 2000 was RMB92,215 million, representing an increase of 26.3 per cent. from the 1999 figure. Pro-forma Combined EBITDA increased 33.8 per cent. to RMB52,562 million. Pro-forma Combined net profit was RMB24,666 million.

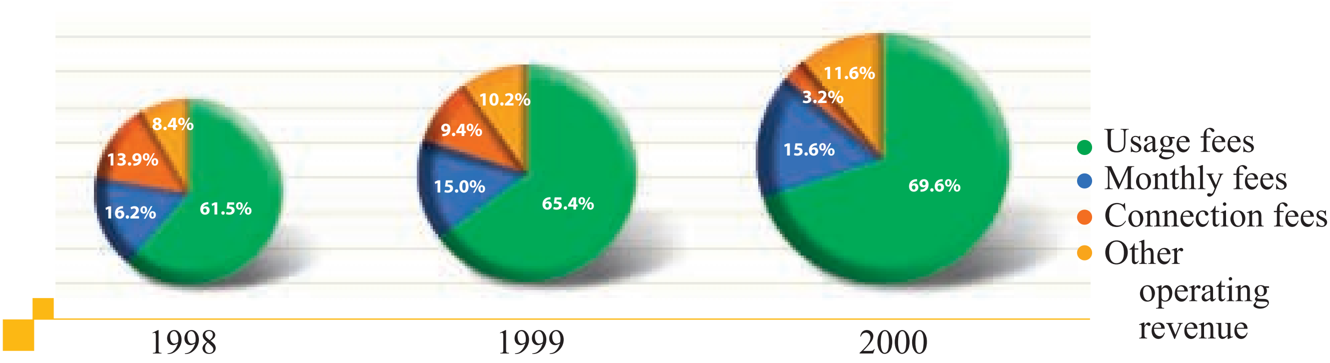
*Note: * The unaudited Pro-forma Combined operating results of the Group are prepared on the assumption that the existing corporate structure of the Group (including 13 mobile communications operating subsidiaries) had been in place throughout the three financial years ended 31 December 1998, 1999 and 2000.*

Operating Revenue (Turnover)

Operating revenue achieved satisfactory growth with recurrent revenue contributing an increasing proportion and revenue from value-added services growing in importance.

The Group's Pro-forma Combined operating revenue for 2000 was RMB92,215 million, representing an increase of 26.3 per cent. from the 1999 figure. The combined operating revenue of the six mobile operating subsidiaries in Guangdong, Zhejiang, Jiangsu, Fujian, Henan and Hainan totaled RMB58,802 million, representing an increase of 26.1 per cent. from the 1999 figure and maintaining a favorable growth trend. The full-year combined operating revenue of the seven mobile operating subsidiaries in Beijing, Shanghai, Tianjin, Hebei, Liaoning, Shandong and Guangxi ("Seven New Subsidiaries") was RMB33,413 million, representing an increase of 26.6 per cent. from last year's figure and contributing significantly to the growth of the Group's Pro-forma Combined operating revenue.

Composition of Pro-forma Combined Operating Revenue for 1998, 1999 and 2000



In 2000, recurrent revenue items such as usage fees and monthly fees grew dramatically on a Pro-forma Combined basis, compared to 1999, accounting for an increasing percentage of total revenue. Basic usage fees were still the largest contributor, accounting for approximately 70.0 per cent. of the Pro-forma Combined usage fees. Long distance calling charges (including both domestic and international long distance calling charges) and basic outgoing roaming charges accounted for approximately 30.0 per cent. of total Pro-forma Combined usage fees in 2000. However, the percentage of long distance call charges and basic roaming charges to total usage fees varied significantly among categories of subscribers with different consumption patterns.

At the same time, the Group is pleased to note the encouraging progress in its SMS and other value-added services in 2000. The Pro-forma Combined revenue from value-added services in 2000 was RMB1,932 million, representing an increase of 40.1 per cent., or RMB553 million, over 1999, and accounting for 2.1 per cent. of the Pro-forma Combined operating revenue. Revenue from value-added services provided by Guangdong mobile, Shanghai mobile and Tianjin mobile, exceeded 2.5 per cent. of their respective operating revenue. Although the revenue from value-added services has yet to account for a significant part of the total revenue, its rapid growth indicates promising prospects for the development of mobile data business.

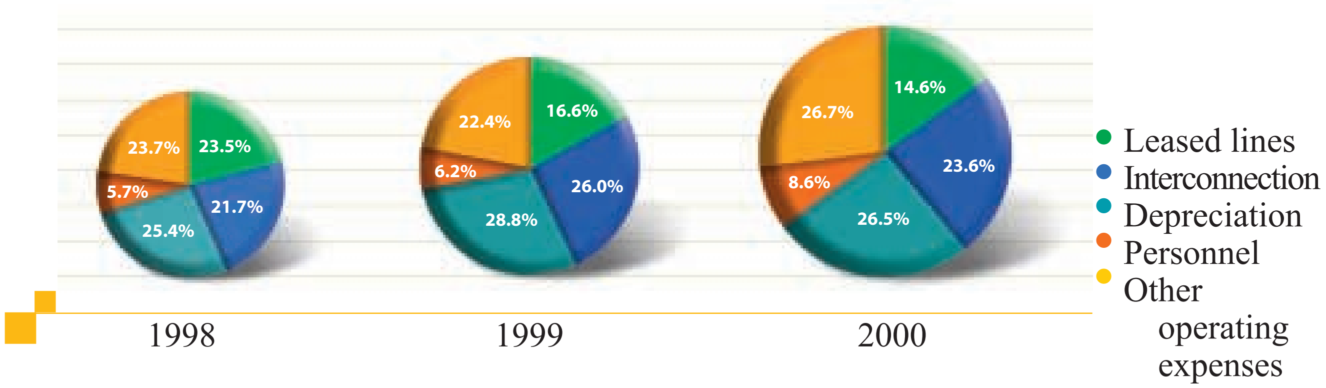
The average connection fee for each new contract subscriber decreased from RMB 674 in 1999 to RMB 210 in 2000, resulting in this one-off revenue item decreasing to 3.2 per cent. of the Pro-forma Combined operating revenue. As such, the Group believes that any reduction in connection fees will not have a material impact on the Group's future revenue growth. Instead, it is expected to have a positive effect in attracting subscribers and expanding the Group's subscriber and revenue base.

Operating Expenses

As a result of the Group's enhanced economies of scale and effective management in 2000, the increase in overall operating expenses slowed, which led to a reduction in monthly operating expenses per subscriber, improvement in the expense structure and an increase in operating efficiency.

The Pro-forma Combined operating expenses for 2000 were RMB 55, 453 million, reflecting an increase of 14.8 per cent. over 1999, which was much lower than the growth rate of 26.3 per cent. in the Pro-forma Combined operating revenue. In 2000, the Pro-forma Combined monthly average operating expenses per subscriber were RMB 133, representing a dramatic decrease of 32.5 per cent. over 1999, which far exceeded the decline in the Pro-forma Combined monthly average revenue per subscriber for the same period, resulting in enhanced profitability per subscriber. These improvements were mainly attributable to improved cost control measures and the Group's enhanced economies of scale. The enhanced economies of scale also led to favorable changes to the Group's cost structure in 2000 by rationalizing the composition of expenses and lowering the proportion of fixed costs to total costs, thereby enhancing the Group's ability to withstand operating risks. In 2000, the Group spent RMB0.60 on a Pro-forma Combined basis for every RMB1.00 of operating revenue earned, representing a cost savings of 9.1 per cent. over the unit cost of RMB0.66 in 1999. This reflects further improvement in the Group's operating efficiency.

Composition of Pro-forma Combined Operating Expenses in 1998, 1999 and 2000



In 2000, the Group continued to improve its network management and increased the utilization of its transmission lines. This, together with lower leased lines tariffs, resulted in leased lines expenses remaining roughly the same as 1999, and a reduction of leased lines expenses as a percentage of the Pro-forma Combined operating expenses. The Pro-forma Combined leased lines expenses per thousand call minutes were RMB64.66, representing a decrease of 27.7 per cent. over the 1999 figure of RMB89.44.

The Group further enhanced its network utilization, resulting in increased traffic volume transmitted through the Group's mobile networks, and introduced VoIP services in 2000 with lower interconnection charges. As a result, the Pro-forma Combined interconnection expenses in 2000 were RMB13, 094 million, accounting for 23.6 per cent. of the Pro-forma Combined operating expenses and 20.4 per cent. of Pro-forma Combined usage fees, respectively, which were lower than those of 1999.

The Pro-forma Combined depreciation expenses of the Group recorded a slight increase of 5.5 per cent. for the year 2000, when compared to the year 1999, despite significant capital expenditures during the year. This was mainly due to a substantial savings in depreciation charge in 2000 as a result of the write-down and write-off of analog network equipment in 1999. The percentage of the Pro-forma Combined depreciation expenses in relation to operating expenses decreased slightly from 28.8 per cent. in 1999 to 26.5 per cent. in 2000.

The percentage of Pro-forma Combined personnel expenses in relation to Pro-forma Combined operating expenses increased by 2.4 percentage points in 2000 compared to 1999. This increase is mainly attributable to an increase in performance-based incentive compensation as a result of the Group's further improved operating results. The implementation of compensation reforms has improved motivation on the part of the Group's employees, and has helped the Group retain and attract talented staff, thereby enhancing the Group's competitiveness over the long term.

The Group's other operating expenses increased by 37.0 per cent. in 2000 on a Pro-forma Combined basis. These expenses accounted for 26.7 per cent. of the Pro-forma Combined operating expenses in 2000 (which was 4.3 percentage points higher than that of 1999), and accounted for 16.05 per cent. of the Pro-forma Combined operating revenue in 2000 (which was 1.25 percentage points higher than that of 1999). These increases were largely due to a 71.5 per cent. growth in sales and marketing expenses. Although the average Pro-forma Combined sales commission expenses for each new subscriber in 2000 decreased significantly from 1999, the Pro-forma Combined total sales commission expenses still recorded a sizeable increase, primarily due to the 75.3 per cent. growth of the Group's Pro-forma Combined subscriber base. Additionally, the Group's market development efforts, including business advertising and brand promotion efforts, have also increased, which has led to the rise in sales and marketing expenses.

EBITDA *

In 2000, EBITDA grew steadily and EBITDA margin remained at a relatively high level.

The Group's Pro-forma Combined EBITDA for 2000 increased by 33.8 per cent. in 2000 to RMB52,562 million. The increase in EBITDA reflects the satisfactory growth of the Group's total operating revenue and effective management control over expenses as well.

The Pro-forma Combined EBITDA margin of the Group grew by 3.2 percentage points from 53.8 per cent. in 1999 to 57.0 per cent. in 2000, indicating a steady growth at a high level.

The Group will continue to focus on the development of its core businesses and will adopt optimal planning and management of profit levels and EBITDA, with a view to achieving sustainable and good development over the long term.

*Note: * EBITDA represents earnings before interest income, interest expense, non-operating income/(expenses), income taxes, depreciation, amortization, and the write-down and write-off of fixed assets. While EBITDA is commonly used in the international telecommunications industry as an indicator of operating performance, leverage and liquidity, it is not presented as a measure of operating performance in accordance with generally accepted accounting principles and should not be considered as representing net cash flows from operating activities. In addition, the Group's computation of EBITDA may be different from that of other similarly titled measures of other companies. Therefore, a direct comparison may not be meaningful.*

Acquisitions and Synergies

Newly acquired mobile businesses in 2000 exceeded forecasts and contributed to geographical integration and enhanced synergies within the Group.

The Group completed the acquisition of interests in the Seven New Subsidiaries in November 2000. All of the Seven New Subsidiaries achieved satisfactory operating results during 2000. They had an aggregate subscriber base of 17.986 million at the end of 2000, which exceeded by 4.0 per cent. the number included in the forecast contained in the Company's prospectus dated 1 November 2000 ("Forecast"), projecting 17.3 million subscribers. The full-year combined operating revenue for the year 2000 of the Seven New Subsidiaries was RMB33,413 million, slightly exceeding the Forecast of RMB33,400 million, by 0.04 per cent., and representing an increase of 26.6 per cent. over the 1999 figure. The full-year combined net profit before the write-down and write-off of analog network equipment (net of taxation) for the year 2000 was RMB8,786 million. The full-year combined net profit after provision for analog network equipment for the year 2000 was RMB8,428 million, representing an increase of 214.3 per cent. over 1999 and exceeding the Forecast of RMB8,300 million by 1.5 per cent. The full-year combined EBITDA for 2000 of the Seven New Subsidiaries was RMB18,570 million, representing an increase of 39.4 per cent. over 1999 and exceeding the Forecast of RMB17,900 million by 3.7 per cent. The full-year combined operating cash flow was RMB20,821 million, exceeding the Forecast of RMB18, 290 million by 13.8 per cent.

In general, the Seven New Subsidiaries maintained a promising growth trend. With the addition of the Seven New Subsidiaries, the Group expects to further capitalize on synergies resulting from the geographic expansion of its operating regions and enhanced economies of scale, thereby improving the return to shareholders.

Funding and Capital Structure Improvement

Notwithstanding the volatile capital markets, the Company successfully achieved its financing objectives and improved capital structure through the issuance of new shares and convertible notes and tapping the RMB syndicated bank loan market for the first time.

The Group has always put much effort into developing its businesses, improving its capital structure and increasing its investment return through sound capital allocation. By having a sound financing structure, the Group achieved its financing objectives and completed the acquisition notwithstanding volatility in the global capital markets. This has led to an improved capital structure, with the debt to capitalization ratio (capitalization represents the sum of total debts and shareholders' equity) increasing from 19.1 per cent. as at the end of 1999, to 30.9 per cent. as at the end of 2000. The financing included the issuance of convertible notes and a syndicated RMB bank loan, the first in the Company's history, which broadened the Group's financing channels and expanded its investor base. The low cost RMB financing is favorable for optimizing the Group's financial structure and reducing risk.

At the end of 2000, total cash balances (including bank deposits) of the Group was RMB39,906 million, of which, approximately 82.6 per cent., 14.2 per cent. and 3.2 per cent. were denominated in RMB, US dollars and Hong Kong dollars, respectively.

At the end of 2000, short term and long-term borrowings of the Group totaled RMB37,469 million, representing an increase of RMB23,987 million over 1999. Approximately 64.6 per cent. and approximately 35.4 per cent. of the borrowings were denominated in RMB and US dollars, respectively. Approximately 29.3 per cent. of the total borrowings of the Group were made at floating interest rates. The average interest rate of borrowings (ratio of interest expenses to the average balance of borrowings) of the Group decreased from approximately 6.34 per cent. in 1999 to approximately 5.18 per cent. in 2000, whereas the interest coverage multiple (ratio of earnings before interest income, interest expense and tax to interest expenses) amounted to approximately 24 times. This demonstrates that, while the Group adopts prudent policies in financial risk management and maintains a conservative capital structure, it also appropriately makes use of leverage to achieve cost-effective financing.

Prudent Financial Management Strategies

Prudence has been the focal points of our financial policies. The Group managed its financial risks by taking advantage of appropriate financial leverage, lowering the overall funding costs, managing its leverage ratio in a reasonable manner, and controlling its financial exposure. Also, the Group carefully managed its investment portfolio and strictly controlled the direction of its investments to ensure funds were concentrated on economic investment projects. The Group's financial management strategies include (i) exploring diverse income sources and saving on operating costs, thereby enhancing operational returns, and (ii) consolidating and improving economies of scale, thereby continuing to produce sound returns to our shareholders.