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$ billions (RHS)
The New

Solid

Solid financial profile providing a secure foundation for future development

FINANCIAL REVIEW

In 2003, the Group effectively leveraged its position as the market leader in Mainland China's mobile telecommunications industry and its economies of scale and continued to pursue refined management methods. Despite intensified competition and the outbreak of SARS, the Group's operating revenue grew by 10.3 per cent. to RMB 158,604 million. EBITDA margin and net profit margin were maintained at the relatively high levels of 58.2 per cent. and 22.4 per cent., respectively. The Group maintained its solid capital structure and strong free cash flow.

For ease of comparison, unless otherwise specified, the financial information relating to the income statements and business information for 2001 and 2002 set out in this Financial Review represents the Group's unaudited pro-forma combined ("**Pro-forma Combined**") data and has been prepared on the assumption that the existing corporate structure of the Group with 21 operating subsidiaries was in place since 1 January 2001. Financial information relating to the balance sheet and the cash flow statement set out in this Financial Review is extracted from the audited financial statements.

Extracts from income statement

	2003 Consolidated (RMB Millions)	2002 Pro-forma Combined (RMB Millions)	Change %
Operating revenue (Turnover)			
Usage fees and monthly fees	**131,693**	123,405	6.7
New business revenue	**16,205**	8,735	85.5
Other operating revenue	**10,706**	11,644	(8.1)
	158,604	143,784	10.3
Operating expenses			
Leased lines	**4,914**	5,961	(17.6)
Interconnection	**12,868**	14,840	(13.3)
Depreciation	**36,611**	30,470	20.2
Personnel	**7,700**	7,501	2.7
Other operating expenses	**43,308**	31,875	35.9
	105,401	90,647	16.3
Profit from operations	**53,203**	53,137	0.1
Other net income	**2,464**	1,739	41.7
Profit attributable to shareholders	**35,556**	34,032	4.5
EBITDA	**92,278**	85,346	8.1

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

Summary of Financial Results for 2003

While intensified competition in Mainland China's telecommunications market and the sudden outbreak of SARS, in certain regions of China appreciably affected the Company's operations during the first half of 2003, the Group maintained its established development strategies that focused on its core mobile telecommunications businesses. The Group further enhanced and restructured its brands, adopted effective competitive strategies targeting different market segments, refined its closed-loop budget, performance and remuneration management, carried out cost-effective investments and pursued refined management techniques. As a result, the Group continued to achieve favorable growth in 2003. Driven by growth in total usage and subscriber base and the wide acceptance of the Group's new businesses, operating revenue for 2003 reached RMB158,604 million (all monetary amounts below are expressed in RMB, unless otherwise specified), representing an increase of 10.3 per cent. over 2002. Owing to increased investments in sales and marketing initiatives in response to increasingly intense market competition and increased depreciation

Extracts from Balance sheet

	2003 Consolidated (RMB Millions)	2002 Consolidated (RMB Millions)	Change %
Current assets	**69,457**	56,102	23.8
Non-current assets	**237,846**	229,919	3.4
Total assets	**307,303**	286,021	7.4
Current liabilities	**78,150**	60,114	30.0
Non-current liabilities	**30,168**	52,451	(42.5)
Total liabilities	**108,318**	112,565	(3.8)
Minority Interests	**182**	191	(4.7)
Shareholders' equity	**198,803**	173,265	14.7

Extracts from Cash Flow Statement

	2003 Consolidated (RMB Millions)	2002 Consolidated (RMB Millions)	Change %
Net cash from operating activities	**85,534**	69,422	23.2
Net cash used in investing activities	**(54,292)**	(64,117)	(15.3)
Net cash (used in)/ from financing activities	**(24,688)**	5,449	N/A

Note: As a result of the amendments to the accounting treatment of deferred taxation under "Statement of Standard Accounting Practice No. 12", retrospective adjustments were made to certain financial figures for 2002.

expenses arising from discreet investments intended to stimulate usage volume growth, operating expenses increased by 16.3 per cent. to 105,401 million. However, the Group's effective cost control measures led to a reduction in leased line and interconnection expenses. EBITDA was 92,278 million, representing an increase of 8.1 per cent. from 2002. EBITDA margin was sustained at a high level of 58.2 per cent. Profit attributable to shareholders was 35,556 million, representing an increase of 4.5 per cent. from that of last year, while audited consolidated earnings per share was 1.81, representing an actual increase of 6.5 per cent. from last year.

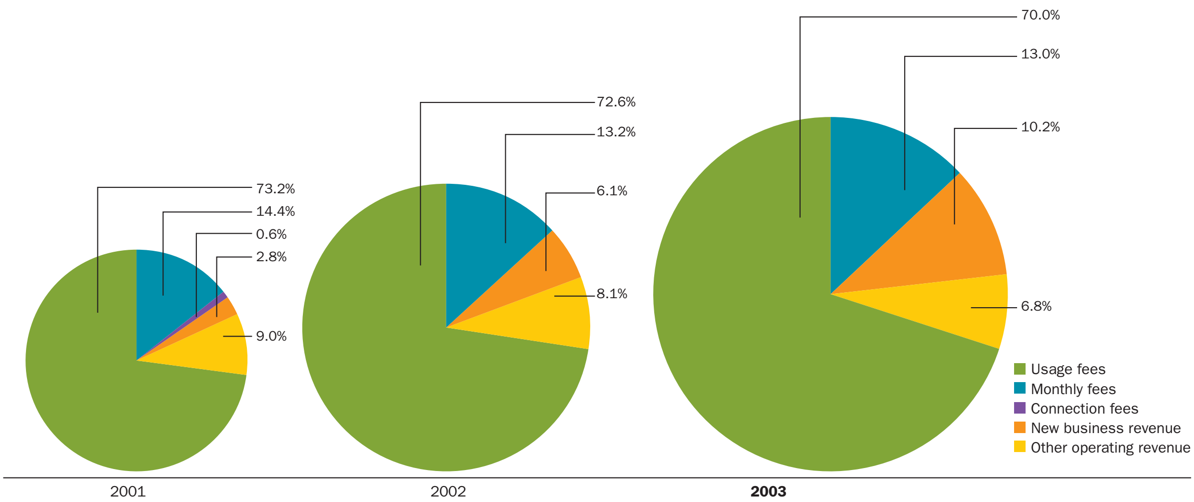
In 2003, the Group sustained its strong cash flow as a result of increased revenue, effective cost control measures and efficient capital expenditure management. The Group's net cash from operating activities and free cash flow reached 85,534 million and 35,529 million, respectively. At the same time, the Group's total debt to capitalization ratio and interest coverage multiple remained sound. Moody's and Standard and Poor's, respectively, upgraded the Company's corporate credit rating, reflecting further market acknowledgement of the prudent approach consistently adopted by the Group.

Operating Revenue (Turnover)

Operating revenue for 2003 reached 158,604 million, representing an increase of 10.3 per cent. over 2002. Despite intensified market competition in 2003, the Group continued to pursue its established competitive strategies, and further enhanced and restructured its brands, employing appropriate market segmentation. The Group also leveraged its competitive advantages of network scale and capacity, especially during off-peak hours, to promote increased voice usage volume. Benefiting primarily from continued growth in the Group's subscriber base and voice usage volume and combined with the rapid expansion of the Group's new businesses, despite the decline in revenue per minute, the rate of decline in the Group's average revenue per user per month (ARPU) moderated significantly and the Group's operating revenue recorded stable growth.

The Group targeted different market segments by

Composition of Operating Revenue



adopting specific marketing strategies to promote voice usage volume, such as introducing personalized service packages that focus on different subscriber groups and continuing brand integration to further enhance brand image. In 2003, the Group proactively developed corporate and institutional customers and increased both the size and market share of the corporate customer base. In addition, revenue from the Group's voice business, representing a major portion of the Group's operating revenue, continued its strong growth trend. Usage fees and monthly fees reached 131,693 million, representing an increase of 6.7 per cent. from 2002 and 83.0 per cent. of the Group's operating revenue.

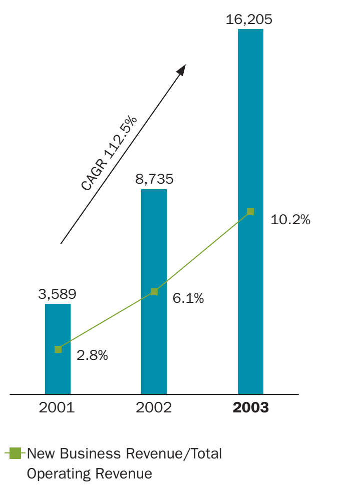
Revenue from new businesses continued its rapid and robust growth trend and has become a key driver of the Group's overall operating revenue growth. Revenue from new businesses reached 16,205 million in 2003, representing an increase of 85.5 per cent. over 2002, and accounted for 10.2 per cent. of the Group's operating revenue, an increase of 4.1 percentage points over the same period in 2002. These revenue streams demonstrate the robust growth trend of the Group's new businesses. Short Message Services (SMS) continued to be the main contributor to revenue growth of the Group's new businesses. SMS usage volume and revenue grew rapidly when compared to 2002, with revenue from SMS reaching 9,909 million in 2003, representing an increase of 133.9 per cent. from 2002. At the same time, the Group also leveraged its competitive advantages in networks, technologies and innovations, and launched a series of new and pioneering businesses, providing customers with diversified and personalized data services and further consolidating the Group's leading position in mobile data businesses in Mainland China. Revenue from other data businesses in 2003 reached 2,849 million, representing an increase of 112.1 per cent. over last year.

Operating Expenses

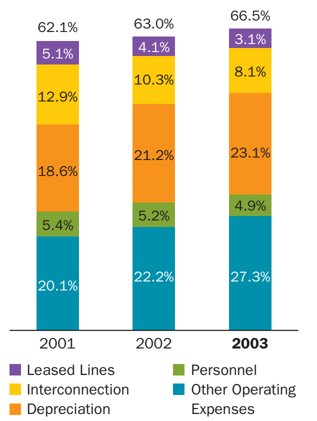
Operating expenses for 2003 were 105,401 million, representing an increase of 16.3 per cent. from the previous year. Average operating expenses per user per

New Business Revenue

(RMB Millions)



Proportion of Operating Expenses in Operating Revenue



month for 2003 were 67.9, representing a decline of 6.0 per cent. from the previous year, and average operating expenses per minute of usage were 0.282, representing a decline of 19.2 per cent. from the previous year.

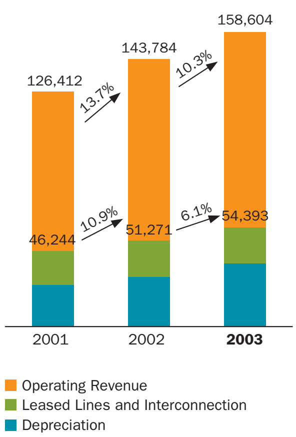
Giving due consideration to the growth in usage fees and usage volume, the Group took steps to augment its network structure and increase its efficiency. The Group also terminated surplus leased lines, thereby further reducing leased line expenses. The Group's leased line expenses for 2003 were 4,914 million, representing a decline of 17.6 per cent. from the previous year. Leased line expenses as a percentage of operating revenue also decreased from 4.1 per cent. in 2002 to 3.1 per cent. in 2003.

Given the 43.5 per cent. increase in usage volume in 2003, the Group increased its efforts to optimize network structure and carefully reorganize and re-route traffic volume. In 2003, interconnection expenses were 12,868 million, representing a decrease of 13.3 per cent. from the previous year. Interconnection expenses accounted for 8.1 per cent. of total operating revenue in 2003, representing a decline of 2.2 percentage points from that of 2002.

Depreciation expenses were 36,611 million in 2003, representing an increase of 20.2 per cent. from 2002 and accounting for 23.1 per cent. of operating revenue, and was a key contributing factor to the increase in operating expenses. To complement the marketing strategies that stimulate increased voice usage volume and the further development of its new businesses, the Group expanded its network capacity and constructed various support networks. Notwithstanding the increase in the Group's capital expenditure and corresponding depreciation expense, the high quality of services provided by the Group's premium networks, the increasing popularity of its new businesses, and growth in usage volume have resulted not only in a more moderate rate of decline in ARPU, but also in increased customer loyalty. Coupled with the growth in its customer base, the

Appropriate Investments

(RMB Millions)



Despite increased depreciation, appropriate investments supported:
- *Steady growth of business and operating revenue*
- *Savings in leased lines and interconnection*

Group achieved stable growth in total revenue. The Group's construction of its own transmission network and improvements in the overall network utilization rate have led to a reduction in leased line expenses and interconnection expenses. Total depreciation, leased line and interconnection expenses increased 6.1 per cent. in 2003, which is lower than the increase of 10.3 per cent. in operating revenue over the same period. At the same time, the improvement in network efficiency and the reduction in the average depreciation expense per minute from 0.117 in 2002 to 0.098 in 2003, amply demonstrated the effectiveness of the Group's investments.

The Group bolstered its human resources reforms, and further optimized the closed-loop budget, performance and remuneration management system, thereby enabling the Group to retain and attract talented staff while maintaining effective control over personnel expenses. Personnel expenses were 7,700 million in 2003, representing an increase of 2.7 per cent. from 2002. However, as a percentage of operating revenue, personnel expenses declined by 0.3 percentage points from their 2002 level to 4.9 per cent. in 2003. The Group had a total of 63,859 employees as at 31 December 2003.

Other operating expenses (consisting primarily of sales and marketing expenses, maintenance, and administration and other general expenses) increased by 35.9 per cent. over 2002 to 43,308 million, accounting for 27.3 per cent. of the operating revenue. This increase was a key factor contributing to the relatively rapid rise in the Group's operating expenses. In response to the current competitive market environment, the Group supplemented its service promotion and marketing efforts to retain customers. Sales and marketing expenses (including advertising, promotion, marketing, sale commissions, the customer point reward program and associated mobile handset costs) in 2003 were 21,071 million, representing an increase of 7,266 million from 2002. Investments in sales and marketing initiatives have improved customer satisfaction and loyalty and have expanded the subscriber base, thereby enabling the Group to record favorable growth in revenue and ensure long-term profitability. In view of the Group's emphasis on rigorous customer credit management and the strict oversight of any defaults in payment by customers, the Group restrained its bad debt ratio to a relatively low level of 1.27 per cent. in 2003. As competition further intensifies, sales and marketing expenses are expected to face increasing pressures in the future. However, the Group will continue to pursue refined management methods, to effectively control expenditure growth, in particular, to better control costs in relation to low-end subscribers and to emphasize cost effectiveness to maximize returns.

EBITDA, Profit from Operations and Profit Attributable to Shareholders

Profit from operations for 2003 reached 53,203 million. Despite the relatively rapid growth in depreciation and SG&A expenses and the moderating rate of growth in profit from operations, the Group believes that appropriate capital expenditure and investments in marketing and selling efforts will assist the Group in retaining its high-value customers and further expanding its subscriber base, thereby providing a foundation for the Group's long-term and sustainable profit-generating capability.

EBITDA for 2003 was 92,278 million, representing an increase of 8.1 per cent. over 2002. EBITDA margin remained at a high level of 58.2 per cent. The Group's profit attributable to shareholders in 2003 was 35,556 million, representing an increase of 4.5 per cent. over 2002. These reflect the Group's ceaseless efforts to generate improved returns and create value for its shareholders. The Group will continue to focus on developing its core mobile telecommunications business with a view to realizing sustainable and favorable long-term growth.

Strong Cash Flow and Sound Capital Structure

In 2003, the Group's net cash from operating activities was 85,534 million and free cash flow (net cash from operating activities after deduction of capital expenditure incurred) was 35,529 million. At the end of 2003, the Group's total cash and bank balances were 56,356 million, of which 93.9 per cent., 5.3 per cent. and 0.8 per cent. were denominated in RMB, U.S. dollars and Hong Kong dollars, respectively.

During 2003, in accordance with its overall capital arrangement, the Group repaid, in advance of the original repayment timetable, 5,200 million of the deferred consideration arising out of the year 2002 acquisition of Anhui Mobile and the other 7 subsidiaries, in order to fine-tune its debt profile and lower its cost of capital. The Group's debt to capitalization ratio (capitalization represents the sum of total debt and shareholders' equity) at the end of 2003 was approximately 18.3 per cent. This reflects the Group's success in maintaining its financial position at a sound level and provides a solid foundation for the implementation of the Group's development strategies of organic and external growth, including the intended acquisition of the mobile telecommunications companies in 10 provinces and autonomous regions in Mainland China.

To further reduce the cost of capital, the Group continued to fortify its centralized treasury function, making appropriate capital allocations, thereby enhancing the Group's ability to deploy internal funds with maximum utility. At the end of 2003, the Group's short-term and long-term borrowings totaled 44,600 million, representing a decrease of 16,380 million from those as at the end of 2002. Of the total borrowings, 53.1 per cent. was in RMB (consisting principally of RMB bonds, bank loans and finance leases), and 46.9 per cent. was in U.S. dollars (consisting principally of U.S. dollar-denominated fixed rate notes and convertible notes, as well as the balance of the deferred consideration for the acquisition of the 8 provincial operators in 2002). Approximately 49.7 per cent. of the Group's borrowings were made at floating interest rates. The actual average interest rate of borrowings (ratio of interest expenses to the average balance of borrowings, including capitalized interest) of the Group in 2003 was approximately 4.3 per cent., whereas the actual interest coverage multiple (ratio of profit before interest and tax to interest expenses) was 26 times. This reflects the prudent financial risk management policies consistently adopted by the Group, as well as its solid cash flow and sound repayment capability. In 2003, Moody's upgraded the Company's corporate credit rating to Baa1 and Standard and Poor's has also recently upgraded the Company's corporate credit rating to BBB+, reflecting that the prudent financial measures consistently adopted by the Group have won further recognition from the market.

The Group will continue to pursue prudent financial policies, strictly control financial risk, maintain its strong cash-flow generating capability, realize its competitive advantages, allocate its resources in a scientific manner, maintain debt at a sustainable level, lower its overall cost of capital and reinforce and develop favorable economic efficiency, with a view to generating greater returns for our shareholders.