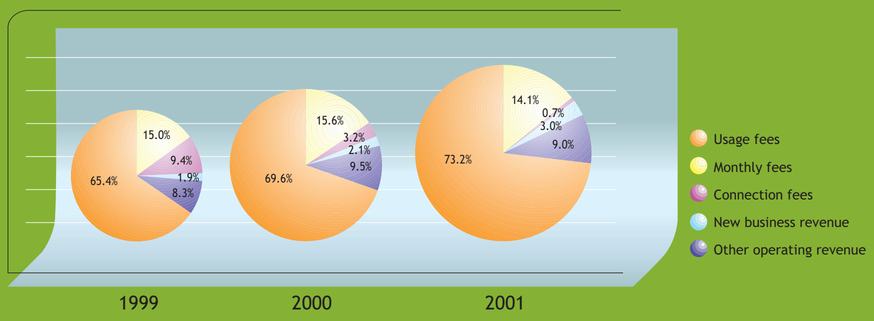
The Group's revenue in 2001 exceeded RMB100 billion for the first time. Benefiting from enhancements to management and the increased effects of economies of scale, EBITDA margin reached 60.1 per cent., with the Group's profitability rising well ahead of its peers. The Group has achieved good financial results, with a sound capital structure, strong free cash flow and a net cash balance of RMB7.5 billion.

The 2001 data set out in this Financial Review represents the Group's consolidated results. For ease of comparison, the 1999 and 2000 data set out below represents unaudited pro-forma combined ("Pro-forma Combined") results, assuming that the existing corporate structure of the Group with 13 operating subsidiaries was in place since 1 January 1999.

	2001 Consolidated RMB Million	2000 Pro-forma Combined RMB Million	Change %
Operating revenue (Turnover)			
Usage fees	73,458	64,220	14
Monthly fees	14,085	14,364	(2)
Connection fees	711	2,976	(76)
New business revenue	3,034	1,932	57
Other operating revenue	9,043	8,723	4
	100,331	92,215	9
Operating expenses			
Leased lines	5,005	8,092	(38)
Interconnection	13,055	13,094	–
Depreciation	17,664	14,694	20
Personnel	5,325	4,773	12
Other operating expenses	18,270	14,800	23
	59,319	55,453	7
Profit from operations	41,012	36,762	12
Profit attributable to shareholders	28,015	24,666	14
EBITDA	60,270	52,562	15
Total debt to total capitalization ratio	20.8%	30.9%	
Interest coverage multiple	24.5X	16.6X	

Composition of Operating Revenue



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

Summary of Financial Results for 2001

Despite the far more moderate pace of growth of the global economy in 2001, the Chinese economy maintained its rapid growth which, in turn, continued to drive the strong demand for mobile telecommunications services. Benefiting from the strong economic growth in Mainland China, together with the Group's pro-active business development strategy and careful and effective management and operation, the financial results in 2001 continued to maintain favourable growth. The audited consolidated operating revenue, EBITDA and EBITDA margin of the Group for 2001 were RMB100,331 million (all monetary amounts below are expressed in RMB unless otherwise specified), 60,270 million and 60.1 per cent., respectively, representing increases of 9 per cent., 15 per cent. and approximately 3 percentage points over the 2000 Pro-forma Combined figures, respectively. Profit attributable to shareholders was 28,015 million, representing an increase of 14 per cent. over the 2000 Pro-forma Combined figure, while earnings per share was 1.51, representing an increase of 21 per cent. over the actual figure in 2000. Overall consolidated financial results were satisfactory.

Operating Revenue (Turnover)

Despite the effects of various one-off tariff adjustments and reductions, the Group's revenue in 2001 continued to maintain favorable growth. Revenue exceeded 100 billion for the first time. New businesses have become the Group's important growth drivers.

Operating revenue for 2001 was 100,331 million, representing an increase of 9 per cent. over the 2000 Pro-forma Combined figure, benefiting principally from the expansion of the subscriber base and the continued growth in usage volume. However, due to the sizeable one-off tariff adjustments in early 2001, which included the cancellation of various surcharges, the adjustment of long distance call tariffs and the cancellation of connection fees from 1 July 2001, revenue growth in 2001 slowed relative to the trend evidenced over the last few years. Despite the pressure put on the Group's revenue growth in 2001 by various one-off tariff adjustments and reductions, the Group believes that these factors have contributed positively to stimulating growth in the subscriber base and usage volume.

Revenue from new businesses grew steadily in 2001, reaching 3,034 million and representing an increase of 57 per cent. over the 2000 Pro-forma Combined figure. Revenue from new businesses accounted for 3.0 per cent. of operating revenue, representing an increase of approximately 1.0 percentage point over the 2000 Pro-forma Combined figure. Revenue from new businesses of a number of the Group's subsidiaries, including those in Guangdong and Tianjin, reached approximately 4 per cent. of their operating revenue. Revenue from new businesses has gradually become an important contributor to the Group's revenue growth, reflecting positive prospects for the further future development of mobile data businesses.

As the number of subscribers has continued to increase, the combined revenue from usage fees and monthly fees increased by approximately 11 per cent. over the 2000 Pro-forma Combined figures, accounting for 87.3 per cent. of operating revenue and representing an increase of 2.1 percentage points over the 2000 Pro-forma Combined figure. The increase in such recurrent revenue as a proportion of total revenue further bolstered the Group's revenue foundation.

Operating Expenses

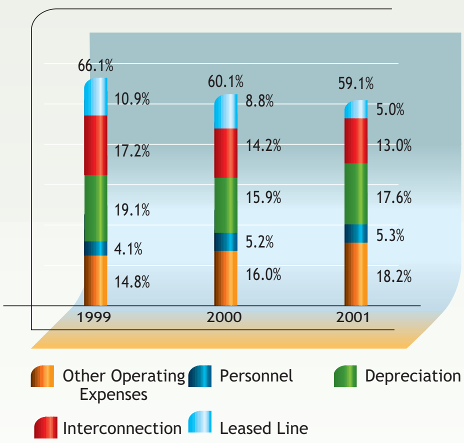
Benefiting from enhancements to management and the increased effects of economies of scale, the Group's operating expenses were well managed, with the increase in operating expenses remaining below the increase in operating revenue for the third consecutive year. Average Expenses per User per Month and Average Expenses per Minute continued to decrease, resulting in a more rationalized cost structure .

Operating expenses for 2001 were 59,319 million, representing a mere increase of 7 per cent. over the 2000 Pro-forma Combined figure, which was lower than the growth rate in operating revenue for the same period. Although the Average Revenue per User per Month decreased by 34 per cent. in 2001 as a result of factors such as the one-off tariff adjustments and reductions, the Average Expenses per User per Month over the same period decreased by 35 per cent. to 86, resulting in an operating profit margin of 41 per cent., an increase of 1 percentage point over the 2000 Pro-forma Combined figure.

The Group continued to enhance its control over operating costs during the year, and realized the benefits of economies of scale and synergies. The results were reflected in a decrease in the Average Expenses per User per Month, as well as enhancements to the Group's cost structure.

Leased line expenses for 2001 were 5,005 million, representing a significant decrease of 38 per cent. from the 2000 Pro-forma Combined figure. Leased line expenses as a percentage of total operating revenue also decreased to 5.0 per cent., representing a decrease of 3.8 percentage points from the 2000 Pro-forma Combined figure. This was partly due to a significant decrease in leased line tariffs since early 2001. Moreover, the Group continued to improve its networks by constructing on its own certain transmission lines serving high traffic areas, on a gradual basis. This has curtailed leased line expenses and interconnection expenses, while injecting flexibility into the Company's operations and enhancing its cost competitiveness.

Proportion of operating expenses in total operating revenue



Despite the increase of 29 per cent. on a Pro-forma Combined basis in traffic volume in 2001 when compared to 2000, interconnection expenses remained substantially the same as the 2000 Pro-forma Combined figure at 13,055 million, accounting for 13.0 per cent. of total operating revenue. This represents a decrease of 1.2 percentage points from the 2000 Pro-forma Combined figure, mainly resulting from the realization of economies of scale which allowed the Group to increase the traffic volume transmitted over the Group's networks. Moreover, the interconnection expenses of the Group have decreased commensurately as a result of IP (Internet Protocol) long distance telephony services gaining wider acceptance.

Depreciation expenses increased by 20 per cent. from the 2000 Pro-forma Combined figure, accounting for 17.6 per cent. of total operating revenue. The increase in depreciation expenses was mainly due to the corresponding increase in network capacity in line with the continued steady business growth of the Group, the investments made in GSM networks to enhance network coverage and quality, and additional strategic investments in certain transmission networks and stations initiated in light of business needs and economic benefits.

The Group had a total of 38,748 employees as at 31 December 2001. Personnel expenses were 5,325 million in 2001, accounting for 5.3 per cent. of total operating revenue, which was similar to the 2000 Pro-forma Combined figure. The Group's advantageous personnel cost structure was further optimised, with increased incentives to outstanding employees, which enabled the Group to retain and attract talented staff. The Group also made efforts to effectively control the total personnel expenses and maintain salaries at a reasonable percentage of operating revenue. In order to align the interests of staff with those of shareholders, share options were granted to employees under the Company's share option scheme. Shares options involving 76,773,000 shares were granted during the year 2001. Further details of the share option scheme are set forth in the "Directors' Report" and Note 31 of the "Notes to the Accounts" in this Annual Report.

Other operating expenses (principally including selling and promotion expenses, administrative expenses and one-off analog subscriber migration costs) increased by 23 per cent. over the 2000 Pro-forma Combined figure, accounting for 18.2 per cent. of total operating revenue. This was mainly due to the effects of the one-off migration costs incurred as a result of the Group expediting the migration of analog subscribers in 2001. The migration of analog subscribers was completed in 2001 and all analog networks operated by the Group ceased operation on 31 December 2001. The discontinuation of analog networks will help the Group to curtail such expenses as analog network maintenance and leased line expenses. Operating a unified, all-digital network will help promote operational efficiency and facilitate offerings of high quality digital communications services and additional value-added services to the original analog mobile telecommunications subscribers. Another important factor for the increase in other operating expenses was the rapid increase in the number of subscribers which resulted in an increase in selling and promotion expenses over 2000. Selling and promotion expenses (including, among others, advertising, marketing and promotion expenses and sales commissions) for 2001 were approximately 6,548 million. Benefiting from economies of scale, the Group's average other operating expenses per user per month continued to decrease to 26 in 2001, representing a decrease of 25 per cent. from the 2000 Pro-forma Combined figure. Bad debt expenses continued to be held at a favorable level, given the increase in pre-paid subscribers, coupled with the Group's strengthened customers credit management. Bad debt ratio in 2001 was only 1.7 per cent., and remained at a low level.

EBITDA and Profit Attributable to Shareholders

The sound management of revenues and expenditures and the benefits of economies of scale led to strong profitability, with EBITDA margin reaching 60.1 per cent.

The Group's EBITDA for 2001 was 60,270 million, representing an increase of 15 per cent. over the 2000 Pro-forma Combined figure and continuing the favorable trend. The EBITDA margin of the Group grew by approximately 3 percentage points from the Pro-forma Combined figure of 57.0 per cent. in 2000 to 60.1 per cent. in 2001, and maintained its high-level steady growth. The Group's profit attributable to shareholders in 2001 was 28,015 million, representing an increase of 14 per cent. over the 2000 Pro-forma Combined figure. The Group's Average Revenue per Minute for 2001 was 0.622, representing a decrease of 16 per cent. over the 2000 Pro-forma Combined figure, which was mainly resulting from the one-off tariff adjustments in early 2001. The Group's Average Expenses per Minute for 2001 were 0.369, representing a decrease of 17 per cent. from the 2000 Pro-forma Combined figure. This reflects the solid growth of the Group's operating revenue and the heightened controls over operating expenses, as well as the further realization of the benefits of economies of scale and synergies, resulting in the continued increase in the Group's operational efficiency. The Group will continue to focus on developing its core businesses and will adopt optimal strategies to manage EBITDA and profit levels, with a view to achieving sustainable and favorable development over the long term.

Strong Cash Flow and Sound Capital Structure

Sound business growth, pro-active cost control and effective management of capital expenditures led to strong free cash flow. A sound capital structure enables the Group to accumulate reserves in order to capture business development opportunities.

The Group's continued strong cash flow has benefited from the increase in the Group's revenue and its effective cost management efforts. The Group's free cash flow (net cash inflow from operating activities after deducting capital expenditure) for 2001 was 24,390 million, and its net cash inflow from operating activities reached as much as 63,890 million.

The Group's total debt to total capitalization ratio (total capitalization represents the sum of total debts and shareholders' equity) by the end of 2001 was approximately 20.8 per cent., representing a decrease of 10.1 percentage points from 2000. This reflects the Group's efforts in adopting prudent financial risk management policies and maintaining a sound capital structure, which establishes a solid foundation for the Group's continued organic and external development in the future. At the end of 2001, the total cash balances (including bank deposits) of the Group was 36,791 million, of which 82.9 per cent., 13.9 per cent. and 3.2 per cent. were denominated in RMB, US dollars and Hong Kong dollars, respectively.

During 2001, the Group further strengthened the centralized treasury function with a view to reducing cost of capital. Funds were allocated appropriately among subsidiaries to ensure that the capital resources of the Group are fully utilised. At the end of 2001, short-term and long-term borrowings of the Group totalled 29,300 million, representing a decrease of 8,169 million from those at the end of 2000. Of the total borrowings, 59.5 per cent. was in RMB (consisting principally of RMB-denominated bonds, bank loans and finance leases) and 40.5 per cent. was in US dollars (consisting principally of US dollar-denominated fixed rate notes and convertible notes). Approximately 34.1 per cent. of the 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 in 2001 was maintained at approximately 5 per cent., whereas the interest coverage multiple (ratio of profit before interest and tax to interest expenses) was 24.5 times, and net cash amounted to 7,491 million. This reflects the Group's long-standing prudent financial risk management policies, as well as its solid cash flow and sound repayment capabilities.

The Group will continue to pursue prudent financial policies, strictly control financial risks, improve financial management procedures, maintain debts at a stable level, continue to enhance its capital structure, endeavour to broaden revenue sources and reduce expenditures, and reinforce and develop favorable economic efficiency, with a view to generating greater returns to our shareholders.