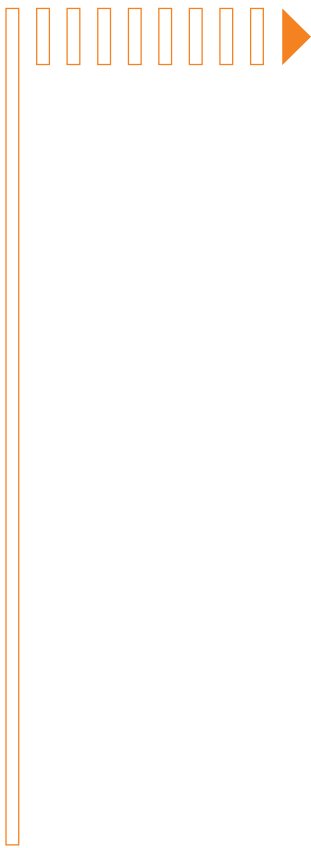
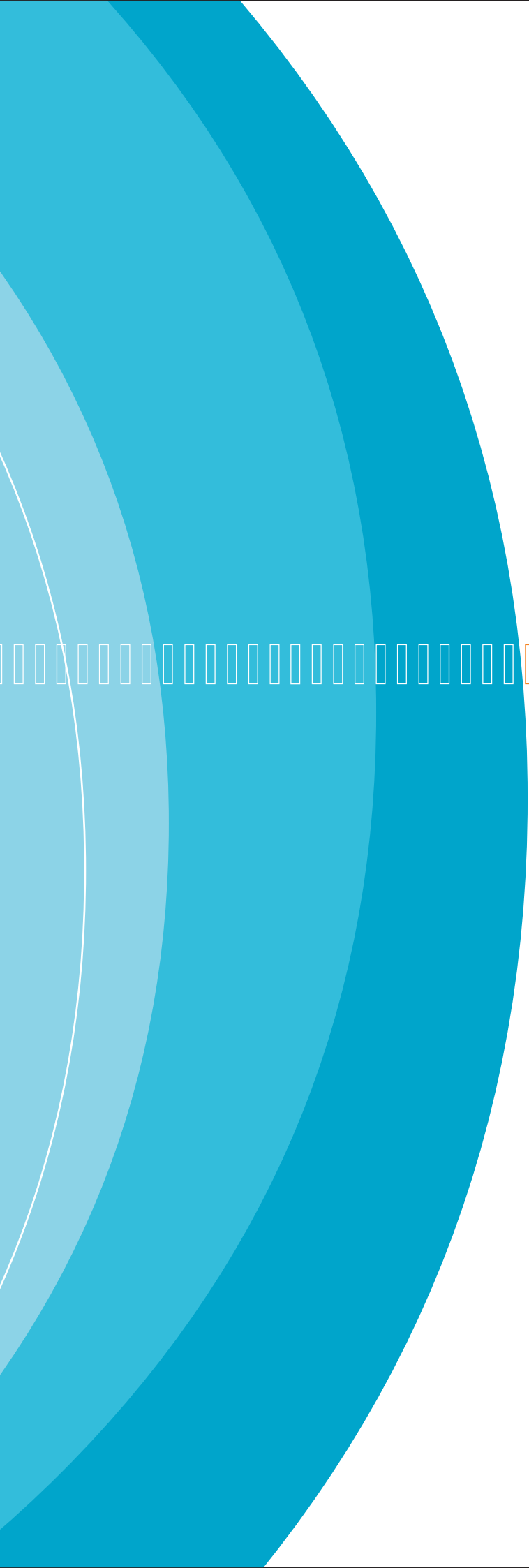


GROWTH IN VALUE





FINANCIAL REVIEW

In 2005, the Group persisted in “service and offering leadership” and consolidated its leading position in the mobile telecommunications market in Mainland China. The Group fully realized its economies of scale and brand advantages, and with the sustained rapid growth in operating revenue and profit, the Group maintained its sound capital structure and robust free cash flow. Operating revenue for 2005 reached RMB243,041 million, representing an increase of 26.3 per cent. from 2004. EBITDA and profit attributable to shareholders reached RMB133,338 million and RMB53,549 million, respectively, representing a growth of 24.8 per cent. and 28.3 per cent., respectively, from 2004. EBITDA margin and margin of profit attributable to shareholders maintained at high level of 54.9 per cent. and 22.0 per cent., respectively. Basic earnings per share reached RMB2.71, representing an increase of 27.8 per cent. from 2004. The Group has achieved commendable overall financial results and has maintained rapid and healthy development.

For ease of comparison, on the assumption that the Group's current structure of holding thirty-one operating subsidiaries had been in place since 1 January 2004, the Group's operating revenue, EBITDA, and profit attributable to shareholders achieved in 2005 enjoyed an increase of 19.1 per cent., 18.4 per cent. and 24.7 per cent., respectively, over the operating revenue, EBITDA and profit attributable to shareholders in respect of the thirty-one provinces, autonomous regions and municipalities of previous year.

* For ease of comparison, unless otherwise specified, the financial information relating to the income statement for 2004 set out below in this Financial Review represents the Group's unaudited combined data in respect of the thirty-one provinces, which assumes that the existing corporate structure of the Group with thirty-one operating subsidiaries was in place since 1 January 2004. 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.

The financial information set out in this Financial Review has reflected the effect of the Group's adoption of the new and revised Hong Kong Financial Reporting Standards (“HKFRSs”, which collective term includes all applicable Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations) in 2005.

FINANCIAL REVIEW (CONT'D)

Extracts from income statement

	2005 Consolidated (RMB Million)	2004 31 Subsidiaries Combined (RMB Million)	Change %
Operating revenue (Turnover)	243,041	203,993	19.1
Usage fees and monthly fees	181,765	163,334	11.3
New businesses revenue	50,187	31,651	58.6
Other operating revenue	11,089	9,008	23.1
Operating expenses	169,355	142,600	18.8
Leased lines	3,224	4,199	(23.2)
Interconnection	15,309	12,705	20.5
Depreciation	56,368	47,910	17.7
Personnel	14,200	10,910	30.1
Other operating expenses	80,254	66,876	20.0
Profit from operations	73,686	61,393	20.0
Other net income	3,284	3,343	(1.8)
Profit attributable to shareholders	53,549	42,952	24.7
EBITDA	133,338	112,646	18.4

Extracts from balance sheet

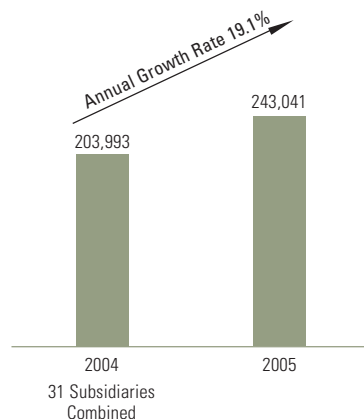
	2005 Consolidated (RMB Million)	2004 Consolidated (RMB Million)	Change %
Current assets	121,076	79,909	51.5
Non-current assets	299,951	288,843	3.8
Total assets	421,027	368,752	14.2
Current liabilities	109,954	97,666	12.6
Non-current liabilities	37,966	37,682	0.8
Total liabilities	147,920	135,348	9.3
Minority interests	283	243	16.4
Shareholders' equity	272,824	233,161	17.0

Extracts from cash flow statement

	2005 Consolidated (RMB Million)	2004 Consolidated (RMB Million)	Change %
Net cash generated from operating activities	131,709	103,779	26.9
Net cash used in investing activities	(87,116)	(73,302)	18.8
Net cash used in financing activities	(25,173)	(24,457)	2.9

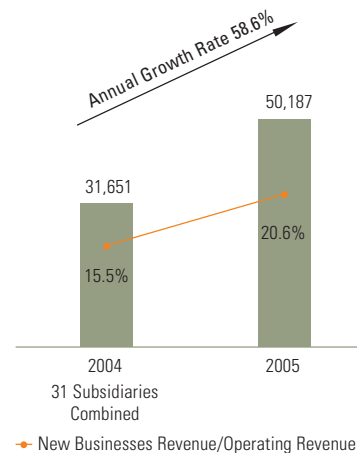
OPERATING REVENUE

(RMB Million)



NEW BUSINESSES REVENUE

(RMB Million)



MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Summary of Financial Results

In 2005, the Group benefited from the sustainable growth of the China's economy and the competitive environment, which took on a rationalized trend. The Group persisted in "service and offering leadership" and adopted effective marketing strategies and plans, and effectively leveraged the Group's competitive advantage in terms of its leading position and economies of scale in the mobile telecommunications market in Mainland China. The Group enhanced its brand development, made efficient capital expenditures and put in place effective cost control measures, and comprehensively implemented refined management methods, thereby achieving commendable financial results.

Driven by the growth in subscriber base, voice usage volume and new businesses, operating revenue for 2005 reached RMB243,041 million (all monetary amounts below are expressed in RMB, unless otherwise specified), representing an increase of 19.1 per cent. over the previous year. The operating revenue from new businesses, which has continued its rapid growth momentum, reached 50,187 million and accounted for over 20 per cent. of the Group's operating revenue. To ensure steady growth in subscriber base and to maintain the competitiveness of its network, the Group appropriately increased its efforts in sales and marketing initiatives and made suitable expansion to its network capacity and performed network maintenance at the same time. As such, operating expenses reached 169,355 million, representing an increase of 18.8 per cent. over the previous year. Such percentage range increase in operating expenses is lower than that in operating revenue, together with the continuous decrease in average operating expenses per user per month and per minute, demonstrated the competitive advantages in terms

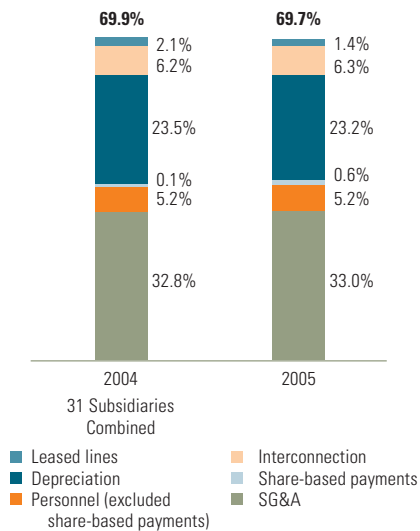
of refined and effective cost control measures and economies of scale. EBITDA was 133,338 million, representing an increase of 18.4 per cent. from the previous year. EBITDA margin was 54.9 per cent.. Profit attributable to shareholders was 53,549 million, representing an increase of 24.7 per cent. from that of the previous year. Basic earnings per share was 2.71, representing an increase of 27.8 per cent. from the previous year which demonstrated a relatively high profitability.

The Group sustained its robust cash flow as a result of favorable business growth, effective cost control measures, meticulous capital expenditure management and the effect of economies of scale. In 2005, the Group's net cash generated from operating activities and free cash flow reached 131,709 million and 60,256 million, respectively. The Group's total debt to capitalization ratio and interest coverage multiple remained at a sound level. Each of Moody's and Standard and Poor's upgraded the Company's corporate credit rating, reflecting that the prudent approach consistently adopted by the Company has won further recognition from the market.

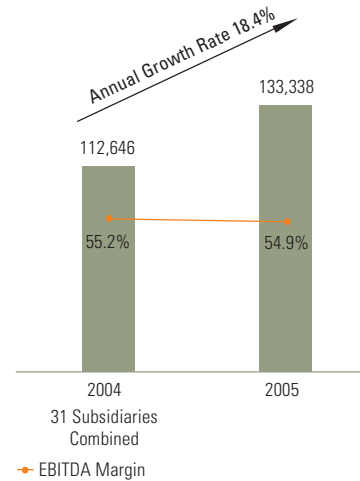
Operating Revenue (Turnover)

Operating revenue for 2005 reached 243,041 million, representing an increase of 19.1 per cent. over the previous year. The Group continued to pursue rational competition and, through adopting effective marketing strategies and plans, the Group enhanced its leading position in earnest. Subscriber base continued its rapid growth momentum. The average net increase of the Group's number of subscribers reached 3.53 million per month. Total minutes of usage increased to 903,122 million minutes, representing an increase of 36.6 per cent. from the previous year. The revenue per minute declined by 12.8 per cent. from the previous year. Such rate of decline was under effective control and the growth rate of both the voice usage volume and revenue increased proportionately. The growth in

PROPORTION OF OPERATING EXPENSES OVER OPERATING REVENUE



EBITDA
(RMB Million)



subscriber base and voice volume usage ensured the rapid growth in operating revenue and ARPU stability.

The Group strengthened the promotion of new businesses. Revenue from new businesses continued its rapid and robust growth momentum and its role as a driver of the Group's overall operating revenue growth was further intensified. Revenue from new businesses reached 50,187 million in 2005, representing an increase of 58.6 per cent. over the previous year, and accounted for 20.6 per cent. of the Group's operating revenue, representing an increase of 5.1 percentage points compared to that of 15.5 per cent. in 2004. The Group continued to maintain a leading position in mobile data businesses in Mainland China. Revenue from Short Message Services (SMS) and other data businesses reached 37,122 million in 2005 and accounted for 74.0 per cent. of the Group's revenue from new businesses. While the SMS business continued to maintain its relatively high growth rate, businesses such as WAP and "Color Ring" grew rapidly. The mobile music business has shown promising potential and the growth rate of revenue from non-SMS data businesses has been accelerating. The sources of revenue generated by new businesses were further diversified.

Operating expenses

The Group benefited from refined and effective cost control measures, efficient capital expenditures and the advantages of economies of scale. As a result, the percentage range increase in operating expenses as compared to the previous year was lower than the increase in operating revenue, and the costs structure became more rationalized. Operating expenses for 2005 were 169,355 million, representing an increase of 18.8 per cent. from the previous year. Operating expenses for 2005 amounted to

69.7 per cent. of the operating revenue, representing a decline of 0.2 percentage points from the previous year. Average operating expenses per user per month for 2005 were 62.9, representing a decline of 1.9 per cent. from the previous year, and the average operating expenses per minute of usage were 0.188, representing a decline of 13.1 per cent. from the previous year.

The Group continued to optimize the Group's network structure, augment the Group's network, optimize network usage during off-peak hours, and increase network resources utilization rate. By suitably adjusting line capacity and terminating surplus leased lines, the Group further reduced leased line expenses. The Group's leased line expenses for 2005 were 3,224 million, representing a decline of 23.2 per cent. from the previous year. Leased line expenses accounted for 1.4 per cent. of the operating revenue.

As a result of the sustained growth of subscriber base and the continuous increase in voice usage volume, network interconnection expenses were 15,309 million in 2005, representing an increase of 20.5 per cent. from that of the previous year and amounted to 6.3 per cent. of the operating revenue. The Group will increase its efforts to optimize network structure and carefully reorganize and re-route traffic volume so that the proportion of interconnection expenses to operating revenue will be maintained at a reasonable level.

Depreciation expenses were 56,368 million in 2005, representing an increase of 17.7 per cent. from the previous year. Depreciation expenses accounted for 23.2 per cent. of operating revenue, representing a decline of 0.3 percentage points from that of the previous year. The Group's costs

structure became more rationalized. To effectively support the healthy growth of subscriber base and the development of new businesses and to maintain and consolidate its network advantages, the Group carried out necessary network optimization and expansion of its network capacity and constructed various support networks. Notwithstanding the increase in the Group's capital expenditures and related depreciation expenses, the high quality of service provided by the Group's premium networks increased customer loyalty and supported the rapid development of the Group's businesses as well as its excellent financial results. At the same time, overall network utilization rate remained at a relatively high level, the average depreciation expense per minute reduced from 0.072 in 2004 to 0.062 in 2005 and the proportion of capital expenditure to operating revenue reduced by 2.3 percentage points from the previous year to 29.4 per cent., which amply demonstrated the effectiveness of the Group's investments.

The Group continued to strengthen its highly-efficient staff management and incentive structure, promote human resources management, persistently implement effective and comprehensive budget management and performance-based evaluation, thereby maintaining a competitive advantage in terms of human resources while effectively controlling personnel expenses. Personnel expenses were 14,200 million in 2005, and accounted for 5.8 per cent. of the operating revenue. However, personnel expenses (excluding share options) as a percentage of operating revenue amounted to 5.2 per cent., which remained generally stable when compared with the previous year. The Group had a total of 99,104 employees as at 31 December 2005. In order to align the interest of the employees with that of the shareholders, the Group granted share options to eligible employees pursuant to the share option scheme of the Company. Share options involving 289,777,500 shares were granted in 2005. Details of the share option schemes are set out in the "Report of the Directors" and note 32 to the financial statements in this annual report.

Other operating expenses (consisting primarily of sales and marketing expenses, customer services, subscriber retention costs, bad debts, administration and other general expenses) were 80,254 million, representing an increase of 20.0 per cent. from the previous year, and accounted for 33.0 per cent. of the operating revenue. In order to enhance brand development and customer service levels, retain high-value customers and increase customer loyalty, the Group increased its efforts in marketing, promotions and customer service. As a result, sales and marketing expenses increased. In view of the Group's emphasis on rigorous customer credit management and the stringent control over defaults in payment by customers, the Group restrained its bad debt ratio to a relatively low level of

1.22 per cent. in 2005, representing a decline of 0.06 percentage points from the previous year. In addition, in order to meet the requirements of new technology and development of new businesses, in 2005, the Group upgraded certain outdated equipment, wrote off and disposed off corresponding assets amounted to 6,056 million, thereby further improving its assets quality, and laying down solid foundation for the transition of its network to the next generation and also the development of new businesses in the future.

The Company will continue to pursue refined management methods, effectively control expenditure growth, constantly optimize its cost structure, and emphasize cost effectiveness in order to maximize returns.

EBITDA, PROFIT FROM OPERATIONS AND PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The Group has consistently endeavored to maintain long-term, sustainable and favorable profit growth. EBITDA margin and margin of profit attributable to shareholders in 2005 remained high at 54.9 per cent. and 22.0 per cent., respectively. Operating profit was 73,686 million and maintained stable growth. EBITDA was 133,338 million, representing an increase of 18.4 per cent. over the previous year. Profit attributable to shareholders was 53,549 million, representing an increase of 24.7 per cent. over the previous year. Basic earnings per share was 2.71, representing an increase of 27.8 per cent. over the previous year. These commendable earnings level reflect the Group's ceaseless efforts to generate improved returns and create value for its shareholders. These results also reflect that on the basis of favorable operating revenue growth, the Group strengthened its effective management of operating expenses, so as to further accomplished economies of scale and continuously enhanced its operational efficiency. The Group will continue to pursue sustainable and steady long-term growth.

STRONG CASH FLOW AND SOUND CAPITAL STRUCTURE

In 2005, the Group continued to maintain a strong cash flow. The Group's net cash generated from operating activities was 131,709 million and free cash flow (net cash generated from operating activities after deduction of capital expenditure incurred) was 60,256 million. At the end of 2005, the Group's total cash and bank balances were 106,386 million, of which 95.3 per cent., 0.6 per cent. and 4.1 per cent. were denominated in RMB, U.S. dollars and Hong Kong dollars, respectively.

To further reduce the cost of capital, the Group continued to reinforce its centralized treasury function, making appropriate allocations of overall capital, thereby enhancing the Group's ability to deploy internal funds with maximum utility. In accordance with its overall capital arrangement, in 2005, the Group redeemed US\$690 million convertible notes with its own funds. Robust cash generating capability and stable capital management have provided a solid foundation for the long-term development of the Group.

At the end of 2005, the Group's debt to capitalization ratio (capitalization represents the sum of total debt and total equity value) was approximately 12.2 per cent.. The sum of long-term loans and short-term loans, was 37,972 million, representing a decline of 8,585 million over the previous year, which reflects that the Group's financial position continued to remain at a sound level. Of the total borrowings, 37.8 per cent. was in RMB (consisting principally of RMB bonds, bank loans, etc.), and 62.2 per cent. was in U.S. dollars (consisting principally of the balance of the deferred consideration for the acquisition of the eight and the ten provincial telecommunications operators). Approximately 75.5 per cent. of the Group's borrowings were made at floating interest rates. The actual average interest rate of borrowings (including capitalized interest) of the Group in 2005 was approximately 3.19 per cent., whereas the actual interest coverage multiple (ratio of profit before interest and tax to interest expenses) was 58 times. This position reflects the prudent financial risk management policies consistently adopted by the Group, as well as its solid cash flow and sound repayment capability. In 2005, whilst upgrading China's sovereignty rating, Standard & Poor's also upgraded the Company's corporate credit rating from "BBB+/Positive Outlook" to "A-/Positive Outlook" and Moody's also upgraded the Company's corporate credit rating from "A3/Outlook Positive" to "A2/Outlook Stable", demonstrating the further recognition of

the Group from the market as a corporation of sound financial strength, tremendous business opportunities and prudent financial management.

DIVIDENDS

The Company holds in the highest regard the interests of its shareholders and the returns achieved for its shareholders, especially minority shareholders. Having taken into account such factors as the on-going health status of the Company's fundamental structure, strong cash flow position and requirements to ensure the sustainable future growth of the Company's business, the Board recommends payment of a final dividend of HK\$0.57 per share for the financial year ended 31 December 2005. This, together with the interim dividend of HK\$0.45 per share already paid during 2005, amounts to an aggregate dividend payment of HK\$1.02 per share for the full financial year, representing an increase of 54.5 per cent. over the annual dividend of HK\$0.66 per share for the full year of 2004. Dividend payout ratio for the year 2005 is 39 per cent.. At the same time, the Company plans the dividend payout ratio for the full year of 2006 to be 42 per cent.. The Board is of the view that the Company's strong free cash flow is capable of supporting the investments required to maintain the stable growth of the Company, while also providing a favorable cash return to shareholders. The Company will endeavor to achieve a longer term sustainable, steadily increasing dividend, with a view to generating the best possible return for shareholders.

The Group will continue to pursue prudent financial policies, strictly control financial risk, maintain its robust cash-flow generating capability, allocate its resources in a scientific manner, maintain debt at a sustainable level and reinforce and develop favorable economic efficiency, with a view to continue generating greater returns for shareholders.