



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

On 31 October 2005, the Company acquired from China Netcom Group the telecom businesses and assets in Heilongjiang Province, Jilin Province, Neimenggu Autonomous Region and Shanxi Province (collectively the "Acquired Business"). Since the Company and the Acquired Business were under the common control of China Netcom Group, the acquisition was deemed as a restructuring of entities under common control. As such, it accounted for by merger accounting pursuant to Accounting Guidelines 5 "Merger Accounting for Common Control Combinations". Accordingly, all business operations and assets of the Acquired business were accounted for based on their carrying amounts, as if they have been held by the Company throughout the historical periods covered by the report.

In 2005, our operating revenues increased steadily while operating expenses were kept under effective control. Our profitability recorded a substantial growth with strong operating cash flow.

Our operating revenues recorded a satisfactory increase of 4.5% to RMB87,232 million in 2005 from 2004. Under continued and effective cost control, our operating expenses increased to RMB66,727 million in 2005 from 2004 by merely 1.1%, which was less than the growth in revenue. EBITDA was RMB45,554 million, with an EBITDA margin of 52.2%. Operating profit increased substantially by 17.0 % from 2004 to RMB20,505 million and reached net profit to RMB13,888 million. Capital expenditure was kept under effective control at RMB27,562million. Our free cash flow⁽¹⁾ amounted to RMB5,995 million and interest coverage ratio⁽²⁾ was 10.9 times. The basic earnings per share was RMB2.11.

(1) Cash flow from operating activities minus our capital expenditures

(2) EBITDA to interest expense

The following table sets out the operating revenues, operating expenses, operating profit and net profit of the Company (based on amount and percentage of total revenues).

	Years Ended 31 December			
	2004		2005	
	Amount	Percentage of Revenues	Amount	Percentage of Revenues
	(RMB in millions, except percentage data)			
Operating revenues	83,494	100%	87,232	100%
Operating expenses	65,973	79.0	66,727	76.5
Operating profit	17,521	21.0	20,505	23.5
Net profit	2,699	3.2	13,888	15.9

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Revenue

Sources of our revenue consist of revenues from fixed-line telephone services, broadband and other Internet-related services, business and data communications services and international telecommunications services.

Our revenue was RMB87,232 million in 2005, representing a growth of RMB3,738 million or 4.5% over RMB83,494 million in 2004. This growth primarily reflected increases in broadband services, value-added services, domestic interconnection fees and international telecommunications services.

The following table illustrates a breakdown of our revenue and their percentage of our total revenue in 2004 and 2005.

	Years Ended 31 December			
	2004		2005	
	Amount	Percentage of Revenue	Amount	Percentage of Revenue
(RMB in millions, except percentage data)				
Domestic Telecommunications Services:				
Fixed-line telephones services:				
Local:				
Local usage fees	24,858	29.8%	24,582	28.2%
Monthly fees	17,964	21.5	18,261	20.9
Upfront installation fees	1,568	1.9	1,442	1.7
Subtotal	44,390	53.2	44,285	50.8
Domestic long distance	11,266	13.5	10,260	11.8
International long distance	1,234	1.5	1,180	1.4
Value-added services	2,993	3.6	4,000	4.6
Interconnection fees	5,441	6.5	6,517	7.5
Upfront connection fees	4,346	5.2	3,405	3.9
Subtotal	69,670	83.4	69,647	79.8
Broadband services	5,202	6.2	7,812	9.0
Other Internet-related services	1,004	1.2	540	0.6
Subtotal	6,206	7.4	8,352	9.6



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	Years Ended 31 December			
	2004		2005	
	Amount	Percentage of Revenue	Amount	Percentage of Revenue
(RMB in millions, except percentage data)				
Business and data communications services				
Managed data	1,520	1.8	1,395	1.6
Leased line	2,095	2.6	2,238	2.6
Subtotal	3,615	4.4	3,633	4.2
Other services	1,360	1.6	2,345	2.7
Subtotal	80,851	96.8	83,977	96.3
International Telecommunications Services:				
International long distance	181	0.2	284	0.3
International interconnection fees	1,012	1.2	1,266	1.5
Broadband services	105	0.1	104	0.1
Other Internet-related services	255	0.3	272	0.3
Managed data	309	0.4	407	0.5
Leased Lines	496	0.6	683	0.8
Other services	285	0.3	239	0.3
Subtotal	2,643	3.2	3,255	3.7
Total	83,494	100.0	87,232	100.0

Domestic telecommunications services

Fixed-line telephone services

Local telephone services. Revenue from our local telephone services (including PHS services) comprises local usage fees, monthly fees and upfront installation fees.

Revenue from our local telephone services was RMB44,285 million in 2005, representing a decrease of RMB105 million, or 0.2%, from RMB44,390 million in 2004, accounting for 50.8% of our total revenue in 2005. Competition in the telecommunications services market intensified in 2005 with an increasing trend of mobile substitution. However, the decline in this sector was partially offset by the growth in PHS services.

Local usage fees. Usage fees for local services include local usage fees charged for local telephone calls and VOIP long distance calls, and usage fees for dial-up Internet access.

Local usage fees amounted to RMB24,582 million in 2005, representing a decrease of RMB276 million, or 1.1%, from RMB24,858 million in 2004. The decline was mainly attributable to reduced usage volume of local calls, which dropped by 6.2 billion pulses or 2.7% from last year to 228.4 billion pulses in 2005. The usage volume of our dial-up Internet access fell by 50.4%, reflecting the migration of Internet dial-up traffic to broadband services.

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Monthly fees. Monthly fees represent the fixed amount of service charges to our customers for using our fixed-line telephone services.

In 2005, our revenue from monthly fees were RMB18,261 million, representing an increase of RMB297 million, or 1.7%, from RMB17,964 million in 2004. The revenue growth was largely attributable to the steady increase in the number of our fixed-line subscribers in our service regions.

Upfront installation fees represent the amortised amount of the upfront fees received for installation of fixed-line telephone services. These upfront installation fees are amortised over the expected customer relationship period, which is currently estimated to be ten years.

Revenue from the upfront installation fees was RMB1,442 million in 2005, representing a decrease of RMB126 million, or 8.0%, from RMB1,568 million in 2004. This was principally attributable to upfront installation discount offered to new subscribers and a slow-down in the growth of our subscriber base.

Long distance services. Revenue from our long distance services consists of usage fees for domestic and international long distance calls.

Our revenue from our long distance calls was RMB11,440 million in 2005, representing a drop of RMB1,060 million, or 8.5%, from RMB12,500 million in 2004. The usage volume of long distance calls was 31.6 billion minutes in 2005, representing an increase of 1.8 billion minutes, or 6.0%, from 29.8 billion minutes in 2004. The decrease in revenue was mainly resulted from a decrease in our realized tariff due to the continuous increase in the proportion of long distance calls carried on our VOIP network.

Value-added services. Revenue from our value-added services consists of fees that we charge our customers for the provision of caller identification, PHS short messages, ring tone, telephone information services, tele-conferencing and other value-added services.

Revenue from our value-added services was RMB4,000 million in 2005, representing an increase of RMB1,007 million, or 33.6%, from RMB2,993 million in 2004. With the continuous expansion of subscriber base in our service regions, value-added services revenue generated from fixed-line telephone and PHS services has become one of our main sources of revenue growth. In 2005, penetration of our caller identification service reached 65.9%, while the number of PHS short messages amounted to 6.8 billion, representing an increase of 241% as compared with the previous year.

Interconnection services. Revenue from our interconnection services represents interconnection fees charged to other domestic telecommunications carriers and associates for interconnection of both local and long distance calls.

Revenue from our interconnection services with domestic carriers was RMB6,517 million in 2005, representing an increase of RMB1,076 million or 19.8%, from RMB5,441 million in 2004. The increase was primarily due to increases in the interconnection fees from other domestic carriers, and that the Company began to settle interconnection fees with associates.

Upfront connection fees. Upfront connection fees represent the amortised amount of the upfront fees received for the initial activation of fixed-line telephone services.

Revenue from our upfront connection fees was RMB3,405 million in 2005, decreased by RMB941 million, or 21.7%, from RMB4,346 million in 2004, and will continue to decline in the coming years until they are amortised completely.



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Broadband Services

Our broadband services refer to those with revenue generated from DSL, LAN, and broadband-related value-added services.

With phenomenal growth in revenue, broadband services have become the major revenue driver of the Company. Revenue of broadband services was RMB7,812 million in 2005, representing an increase of RMB2,610 million, or 50.2%, from RMB5,202 million in 2004. The growth in revenue from broadband services is mainly attributable to the sustained expansion of subscriber base and enriched broadband content services. As of the end of 2005, the number of broadband services subscribers in our service regions was 11.48 million, representing an increase of 2.99 million, or 35.1%, from 8.49 million in 2004.

Other Internet-related Services

Other Internet-related services of the Company refer to those with revenue generated from the provision of Internet dial-up (other than communication fees) and dedicated Internet access services.

Revenue from other Internet-related services of the Company was RMB540 million in 2005, representing a drop of RMB464 million, or 46.2%, from RMB1,004 million in 2004. The fall was mainly due to the increasing number of subscribers following the development of broadband services.

Business and data communications services

Managed data services. Revenue from our managed data services represents fees that we charge for DDN, frame relay, ATM, MPLS VPN and X.25 services.

Revenue from our managed data services was RMB1,395 million in 2005, representing a drop of RMB125 million, or 8.2%, from RMB1,520 million in 2004. The drop was primarily due to decrease in realized tariff as a result of intensified market competition.

Leased line services. Revenue from our leased line services represents fees that we receive from our business and carrier customers for leasing circuit capacity to them, including the lease of digital circuits, digital trunk lines and optic fibers.

Operating revenue from our leased line service was RMB2,238 million in 2005, representing an increase of RMB143 million, or 6.8%, from RMB2,095 million in 2004. This was primarily attributable to our effective competition strategy in actively exploring business customer group and attracting more companies to lease our networks. As such, we successfully made up for the decline in leased line revenue resulting from a shift of other carriers to their own networks.

Other services. Revenue from other services includes revenue from service and maintenance fees, lease payments for non-telecommunications equipment and revenue from sales of products such as PHS and DSL modems.

Revenue from other services was RMB2,345 million in 2005, representing an increase of RMB985 million, or 72.4%, from RMB1,360 million in 2004. The increase was mainly due to a faster growth in revenue from terminal sales in connection with our communications services.

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International telecommunications services

Revenue from our international telecommunications services consists of fees charged for provision to carrier customers of wholesale voice services, and leased line, Internet, managed data and other telecommunications services provided to business and carrier customers located outside the PRC.

Revenue from our international telecommunications services was RMB3,255 million in 2005, representing an increase of RMB612 million, or 23.2%, from RMB2,643 million in 2004. The increases were primarily due to a rapid increase in revenue from leased line services, interconnection fees and managed data services of our international telecommunications services.

Operating expenses

The key components of our operating expenses are depreciation and amortisation expenses, network, operations and support expenses, selling, general and administrative expenses, staff costs and other operating expenses. Under our strategy in stringently controlling cost and boosting efficiency in 2005, operating expenses continued to record a relatively low growth of RMB754 million or 1.1% from RMB65,973 million in 2004 to RMB66,727 million in 2005. Such growth rate was substantially lower than the rise in revenue.

Years Ended 31 December

	2004		2005	
	Amount	Percentage of revenue	Amount	Percentage of revenue
	(RMB in millions, except percentage data)			
Depreciation and amortisation expenses	25,180	30.2%	25,049	28.7%
Network, operations and support expenses	13,973	16.7	14,417	16.5
Selling, general and administrative expenses	12,877	15.4	13,438	15.4
Staff costs	11,950	14.3	12,333	14.1
Other operating expenses	1,993	2.4	1,490	1.7
Total operating expenses	65,973	79.0	66,727	76.5

Depreciation and amortisation expenses

We depreciated our property, plant and equipment on a straight-line basis over the estimated useful lives of the assets, after taking into account their estimated residual value. In 2005, our depreciation and amortisation expenses were RMB25,049 million, representing a reduction of RMB131 million, or 0.5%, from RMB25,180 million in 2004. The decrease was primarily attributable to the revaluation deficit of our fixed assets upon acquisition of telecom businesses and assets of the acquired business in the four northern provinces including Shanxi etc., resulting in a slight decline in our total assets. In the meantime, the steady fall in our capital expenditure is also a major factor pulling down the expenses.



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Network, operations and support expenses

Network, operations and support expenses primarily consist of repair and maintenance expenses incurred in connection with the operation of our telecommunications networks, interconnection fees, utility expenses and installation fees for additional access lines put in service each year. In 2005, these expenses amounted to RMB14,417 million, representing an increase of RMB444 million, or 3.2%, from RMB13,973 million in 2004. The increase was primarily attributable to increase in the number of customers and in interconnection volume between the Company and the other carriers and associates. As a result, interconnection fees gradually increased. However, as the Company continued the implementation of centralized management of resources, thereby reducing the repair and maintenance expenses by RMB751 million, or 14.4%, as compared to 2004.

Selling, general and administrative expenses

Selling, general and administrative expenses primarily consist of sales and marketing expenses, general and administrative expenses.

In 2005, our selling, general and administrative expenses were RMB13,438 million, representing an increase of RMB561 million, or 4.4%, from RMB12,877 million in 2004. The growth in these expenses was primarily attributable to further intensified market competitions in the service regions as well as rise in marketing expenses for securing new customers and retaining old ones. As a result of our commitment in reducing administrative and management expenses, our office expenses, convention expenses and traveling expenses continued to decrease, reflecting further optimized allocation of our resources.

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Staff costs

Staff costs principally consist of expenses for salary and benefits, contributions to pension plans and others.

In 2005, our staff costs were RMB12,333 million, representing an increase of RMB383 million, or 3.2%, from RMB11,950 million in 2004, which was primarily attributable to a modest raise in staff salary and benefits. In 2005, the Company established a preliminary performance-linked system of staff cost allocation and distribution and increased the compensation to front-line staff. Under this system, our labour structure was further optimized. Furthermore, we implemented various employee benefit programmes which had profound effect in attracting talents and motivating our staff.

Other operating expenses

In 2005, other operating expenses of the Company were RMB1,490 million, representing a decrease of RMB503 million, or 25.2%, from RMB1,993 million in 2004, which was mainly due to our rigid and effective control over other operating expenses.

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Operating profit before interest income, dividend income and deficit on revaluation of fixed assets

In 2005, our operating profit before interest income, dividend income and deficit on revaluation of fixed assets was RMB20,505 million, representing an increase of RMB2,984 million, or 17.0%, from RMB17,521 million in 2004, which was primarily attributable to the higher increase in revenue over the increase in operating expenses.

Profit from operations

In 2005, our profit from operations was RMB20,691 million, representing an increase of RMB14,384 million, or 228.1%, from RMB6,307 million in 2004. This was primarily attributable to the revaluation deficit of fixed assets of RMB11,318 million upon acquisition of telecommunications business and assets of the acquired business in the four northern provinces including Shanxi etc.. Another important factor for the significant increase in operating profit was the higher growth rate of revenue compared to operating expenses.

Finance costs

In 2005, our finance costs were RMB3,374 million, representing a decrease of RMB556 million, or 14.1%, from RMB3,930 million in 2004, which was primarily attributable to the slight increase in exchange gain resulted from the appreciation of Renminbi and a decrease in total bank loans.

Taxation

In 2005, our taxation expense was RMB3,429 million, with an effective tax rate of 19.8%.

Our effective tax rate was lower than the State statutory tax rate, mainly because the revenue from upfront connection fees that we recognized during the period were exempted from taxation under the PRC laws. Another reason was that the Company enjoyed a tax reduction of RMB837million after making up the accumulated pre-restructuring losses with current profit. Yet, such factor is non-recurring in nature and will no longer affect effective tax rate in the future.

Profit for the year

As a result of the foregoing, our profit for 2005 was RMB13,888 million, representing an increase of RMB11,189 million, or 414.6%, from RMB2,699 million in 2004.

Profit for the year reconciled to US GAAP

Our consolidated profit for 2005 determined under US GAAP was RMB10,465 million. Our profit for 2005 determined under US GAAP was lower than that under Hong Kong GAAP. This was principally due to a revaluation deficit of RMB25,778 million in 2003 taken to the carrying value of our assets under Hong Kong GAAP and the revaluation deficit of RMB11,318 million in 2004 of business and assets acquired by the Company in the four northern provinces. in 2005, which resulted in lower depreciation charges recorded under Hong Kong GAAP than those under U.S. GAAP. The Company expects that this factor will continue to contribute to a major difference in the accounts prepared under the two sets of GAAPs in the coming years.



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Capital expenditures

The following table sets forth our actual or planned total capital expenditures for the periods indicated:

	(RMB in millions)
2003	36,450
2004	28,256
2005	27,562
2006 (Planned)	27,300

In 2005, our capital expenditures were RMB27,562million, representing a decline of RMB694million, or 2.5%, over RMB28,256 million in 2004, which was primarily attributable to our focus in improving the utilization rate of our existing network equipment, implementation of efficiency-based capital expenditure policy, and the reasonable reduction in capital expenditures. During the year, we continued to increase investments in operation and supporting systems, with an endeavour of providing customers with better network, billing and sales services. In addition, we were committed to improving the quality of our broadband services and expanding our broadband network coverage with increased investment in broadband and content services segments. On the other hand, in 2005 the investment in the PHS segment was moderately reduced as we shifted our focus from expansion to optimization of the existing PHS network.

It is expected that our capital expenditures are subject to uncertainty, and actual capital expenditures in the future may differ significantly from our budget. The timing, amount and nature of capital expenditures are subject to various factors, including the general economic environment, customer's demand, technology development and other relevant factors.

We anticipate that we will utilize cash derived from operating activities, short- and long-term loans, debentures and other borrowings and equity financing to satisfy our capital expenditure needs. We consider that we have sufficient capital resources to satisfy our capital expenditure requirements in the future.

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Liquidity and capital resources

Liquidity

Our net cash outflow in 2005 was RMB5,707 million, representing a decrease of RMB8,915 million from the net cash inflow of RMB3,208 million in 2004. The reason for the decrease in net cash inflow compared with 2004 was that we derived substantial amount of cash from the global offering in the fourth quarter in 2004, resulting in a significant increase in cash and cash equivalents at the end of 2004.

The following table summarizes our net cash flows for the periods indicated:

	Years Ended 31 December	
	2004	2005
	(RMB in millions)	
Net cash inflow from operating activities	33,653	33,557
Net cash outflow from investing activities	(28,702)	(24,608)
Net cash outflow from financing activities	(1,743)	(14,656)
Net cash inflow/(outflow)	<u>3,208</u>	<u>(5,707)</u>

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Net cash inflow from operating activities

Our net cash inflow from operating activities in 2005 was RMB33,557 million, representing a decrease of RMB96 million, or 0.3%, from RMB33,653 million in 2004. The main reason for the decrease in net cash inflow from operating activities compared with 2004 was that, according to the relevant PRC regulations on domestic profits tax, provision for profits tax of the Company for 2004 was mainly utilized in 2005, resulting in a cash outflow for profits tax of RMB4,065 million for the year. Taking no account of the cash outflow from income tax and other factors the net cash inflow from generated from operations of the Company would have been RMB40,732 million, which represented an increase of RMB3,298 million, or 8.8%, from RMB37,434 million in 2004.

Set out below is a breakdown of our net cash inflow from operating activities for the periods indicated:

	Years Ended 31 December	
	2004	2005
	(RMB in millions)	
Net cash inflows generated from operations	37,434	40,732
Interest received	86	157
Dividends received	17	29
Interest paid	(3,877)	(3,296)
profits tax paid	(7)	(4,065)
Net cash inflow from operating activities	<u>33,653</u>	<u>33,557</u>



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Net cash outflow from investing activities

Our net cash outflow from investing activities in 2005 was RMB24,608 million, representing a decrease of RMB4,094 million, or 14.3%, from RMB28,702 million in 2004. The relatively substantial decrease in net cash outflow from investing activities in 2005 was primarily attributable to our further efforts to trim capital expenditures and the cash inflow from our disposal of short-term securities investment acquired in 2004.

Net cash outflow from financing activities

Our net cash outflow from financing activities in 2005 was RMB14,656 million, representing an increase of RMB12,913 million, or 740.8%, from RMB1,743 million in 2004. The relatively significant rise in net cash outflow from financing activities in 2005 compared with 2004 was primarily attributable to the reduction in loan amount and the cash inflow from global offering in 2004.

Working capital

As at 31 December 2005, our working capital was a shortage of RMB83,900 million, representing an increase of RMB2,311 million, or 2.8%, from the shortage of RMB81,589 million as at 31 December 2004. The increase in working capital shortage was primarily attributable to the reductions in cash on hand and in bank under our strict control over capital risks.

Indebtedness

The following table sets forth our liabilities as at the dates indicated:

	As at 31 December	
	2004	2005
	(RMB in millions)	
Short-term loans	44,882	47,341
Long-term bank loans and other loans, current portion	11,727	6,846
Long-term bank loans and other loans excluding current portion	26,052	18,143
Deferred consideration, current portion	—	1,960
Deferred consideration, excluding current portion	—	7,840
	82,661	82,130
Total liabilities	82,661	82,130

As at 31 December 2005, our total liabilities were RMB82,130 million, which included a deferred consideration of RMB9,800 million with respect to our acquisition of telecom businesses and assets in the four northern provinces including Shanxi etc. in 2005. Taking no account of the deferred consideration of RMB9,800 million, total liabilities of the Company as at 31 December 2005 would have been RMB72,330 million, representing a decrease of RMB10,331 million, or 12.5%, from RMB82,661 million in 2004. The Company repaid its liabilities with cash inflow from operating activities and cash and cash equivalents in hand.

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As at 31 December 2005, the Company's short-term loan represent 68.4% of total liabilities, which was about the same compared with 68.5% as at 31 December 2004.

As at 31 December 2005, the debt-to-capital ratio of the Company was 50.1%.⁽³⁾

⁽³⁾ Debt to capital ratio as at 31 December 2005 represented ratio of total liabilities to sum of total liabilities, owner's equity and balance of deferred revenue.

As at 31 December 2005, our aggregate unutilized credit facilities were RMB104,731 million.

Contractual obligations and commitments

The following table sets forth our aggregate payments as at 31 December 2005 in respect of contractual obligations and commercial commitments in future years:

	Payments Due (by stages as indicated)						
	Total	2006	2007	2008	2009	2010	Thereafter
	(RMB in millions)						
Short-term loans	47,341	47,341	—	—	—	—	—
Long-term loans	24,989	6,846	8,659	5,800	95	94	3,495
Operating leases committees	4,066	994	434	333	308	298	1,699
Capital commitments	1,854	1,678	170	6	—	—	—
Total liabilities	78,250	56,859	9,263	6,139	403	392	5,194

Market risks and risk management

Market risks are the risks of loss of financial instruments held or issued by us for non-trading purposes arising from adverse changes in market prices, including interest rates and foreign exchange rates. The Company is subject to various risks in the normal course of its business, including market risk associated with interest rate movements and exchange rate movements on Renminbi denominated assets and Liabilities.



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Foreign exchange risk

We conduct our business primarily in Renminbi, which is also our functional and reporting currency. Fluctuations in Renminbi exchange rates may adversely affect the value, translated or converted into United States dollars or Hong Kong dollars (which are pegged to the US dollar), of our net assets, earnings and any declared dividends.

We are exposed to foreign currency risk primarily as a result of our foreign currency borrowings for purchases of telecommunications equipment from overseas suppliers in the past. In addition, we receive some of our revenue from our international telecommunications services and pay related expenses in foreign currencies. As a result, our foreign currency exposure relates to our foreign currency-denominated operations and, to a limited extent, cash and cash equivalents denominated in foreign currencies.

As the reform of the PRC foreign exchange market gathered momentum, exchange rate of Renminbi began to rise since July 2005. As our borrowings denominated in foreign currencies significantly exceeded our cash and cash equivalents denominated in foreign currencies since July 2005, we recorded an exchange gain of RMB232 million. As the exchange rate of Renminbi is subject to various factors, its effect on our exchange gain and loss in future years remain uncertain.

We have entered into currency swap agreements and foreign exchange forward contracts designed to mitigate our exposure to foreign currency risks and may continue to do so in the future.

Interest rate risk

The People's Bank of China has the sole authority in the PRC to establish the official interest rates for Renminbi-denominated loans. Financial institutions in the PRC set their effective interest rates within the range established by the People's Bank of China. Interest rates and payment methods on loans denominated in foreign currencies are set by the financial institutions based on interest rate changes in the international financial market, cost of funds, risk levels and other factors.

We are subject to risks arising from fluctuations in interest rates on our debts. The majority of our liabilities are loans from banks in the PRC. Rise in interest rates will increase the cost of new borrowings and interest expenses of outstanding floating rate liabilities. Accordingly, fluctuations in interest rates can lead to significant fluctuations in the fair value of these debt instruments.