

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

### Overview

On June 2, 2006, the Group entered into an agreement with a third party to dispose 100% interests in Asia Netcom Corporation Limited (Asia Netcom) at a consideration of US\$168.84 million and the disposal was completed on August 22, 2006. The results and cash flows of the operations of the Asia Netcom and its subsidiaries (ANC Group) have been presented as discontinued operations pursuant to the Hong Kong Financial Reporting Standard No. 5 "Non-current assets held for sale and discontinued operations" issued by the Hong Kong Institute of Certified Public Accountants. Accordingly, the comparative figures for 2005 in the consolidated income statement and cash flow statement have been re-stated. Unless otherwise specified, the following analysis is made on the basis of continuing operations.

Our revenue for 2006 amounted to RMB86,921 million. Operating expenses amounted to RMB67,562 million. Operating profit amounted to RMB19,980 million, and profit for the year from continuing operations amounted to RMB11,141 million. If

including profit for the year from discontinued operations of RMB1,819 million, our net profit would amount to RMB12,960 million, and our basic earnings per share would amount to RMB1.95. Capital expenditure, which is effectively controlled, amounted to RMB26,474 million, and our free cash flow<sup>(1)</sup> amounted to RMB7,476 million.

If excluding upfront connection fees of RMB2,406 million, our revenue for 2006 would amount to RMB84,515 million, representing an increase of 2.5% from 2005. EBITDA amounted to RMB43,182 million. Operating profit amounted to RMB17,574 million, and profit for the year from continuing operations amounted to RMB8,735 million. If profit for the year from discontinued operations of RMB1,819 million is included, our net profit would amount to RMB10,554 million.

(1) Free Cash flow refers to Cash-flow from operating activities of continuing operations net of our capital expenditure.

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

	Year ended December 31			
	2005		2006	
	Amount	Percentage of revenues	Amount	Percentage of revenues
	(RMB in millions, except percentage data)			
Revenue	85,861	100%	<b>86,921</b>	<b>100%</b>
Including: upfront connection fees	3,405	4%	<b>2,406</b>	<b>3%</b>
Operating expenses	65,130	76%	<b>67,562</b>	<b>78%</b>
Other income	—	—	<b>621</b>	<b>1%</b>
Operating profit	20,731	24%	<b>19,980</b>	<b>23%</b>
Deficit on revaluation of fixed assets	—	—	<b>1,524</b>	<b>2%</b>
Profit for the year from continuing operations	14,114	16%	<b>11,141</b>	<b>13%</b>
Profit/(loss) for the year from discontinued operations	(226)	—	<b>1,819</b>	—
Profit for the year	<u>13,888</u>	—	<u><b>12,960</b></u>	—



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### Revenue

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

Our revenue for 2006 amounted to RMB86,921 million, of which upfront connection fees amounted to RMB2,406 million. Excluding upfront connection fees, our revenue for 2006 would amount to

RMB84,515 million, representing a growth of RMB2,059 million or 2.5% from RMB82,456 million in 2005. The growth primarily reflected increase in broadband services, value-added services, information and communication technology services and income from interconnection and leased line services.

The following table illustrates a breakdown of our revenue and their percentages of total revenue in 2005 and 2006.

	Year ended December 31			
	2005		2006	
	Amount	Percentage of revenue	Amount	Percentage of revenue
	(RMB in millions, except percentage data)			
Fixed-line telephone services				
Local:				
Local usage fees	24,582	28.6%	<b>22,274</b>	<b>25.6%</b>
Monthly fees	18,261	21.3%	<b>16,689</b>	<b>19.2%</b>
Upfront installation fees	1,442	1.7%	<b>1,369</b>	<b>1.6%</b>
Subtotal	44,285	51.6%	<b>40,332</b>	<b>46.4%</b>
Domestic long-distance	10,260	11.9%	<b>10,185</b>	<b>11.7%</b>
International long-distance	1,180	1.4%	<b>1,160</b>	<b>1.3%</b>
Value-added services	4,000	4.7%	<b>5,421</b>	<b>6.2%</b>
Interconnection fees	7,783	9.0%	<b>8,400</b>	<b>9.7%</b>
Upfront connection fees	3,405	4.0%	<b>2,406</b>	<b>2.8%</b>
Subtotal	70,913	82.6%	<b>67,904</b>	<b>78.1%</b>
Broadband services	7,824	9.1%	<b>10,556</b>	<b>12.1%</b>
Other Internet-related services	591	0.7%	<b>692</b>	<b>0.8%</b>
Subtotal	8,415	9.8%	<b>11,248</b>	<b>12.9%</b>

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### Year ended 31 December

	2005		2006	
	Amount	Percentage of revenue (RMB in millions, except percentage data)	Amount	Percentage of revenue
Business and data communication services				
Managed data	1,656	1.9%	1,505	1.8%
Leased line	2,596	3.0%	2,974	3.4%
Subtotal	4,252	4.9%	4,479	5.2%
Information and communication technology services	—	—	788	0.9%
Other services	2,281	2.7%	2,502	2.9%
Total	85,861	100.0%	86,921	100.0%

### 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 amounted to RMB40,332 million in 2006, representing a decrease of RMB3,953 million, or 8.9%, from RMB44,285 million in 2005. Revenue from local telephone accounted for 46.4% of our total revenue in 2006, representing a decrease of 5.2 percentage points from 2005. In 2006, competition in the telecommunications market was even more intense with an increasing trend of mobile substitution, leading to a decrease in fixed-line service customer number and the volume of local usage. The decreasing number of fixed-line service customers, decreasing usage volume of local calls, the adjustments in inter-district tariff and the downward adjustments of our realized tariff were the main causes of the decrease in revenue from local telephone 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.

Revenue from local usage fees amounted to RMB22,274 million in 2006, representing a decrease of RMB2,308 million, or 9.4%, from RMB24,582 million in 2005. In 2006, the usage volume of local calls

amounted to 217.27 billion pulses, representing a decrease of 11.17 billion pulses, or 4.9%, from 228.44 billion pulses in 2005. The decline in revenue of local usage fees was mainly attributable to reduced usage volume of local calls and the decrease in our realized tariff as a result of the policy to adjust the interconnection tariff as well as market competition.

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

Revenue from our monthly fees amounted to RMB16,689 million in 2006, representing a decrease of RMB1,572 million, or 8.6%, from RMB18,261 million in 2005. The revenue decline was mainly attributable to the decrease in total number of customers in the service regions of the Company and the decrease in our realized tariff.

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

Revenue from our upfront installation fees amounted to RMB1,369 million in 2006, representing a decrease of RMB73 million, or 5.1%, from RMB1,442 million in 2005. This was principally attributable to upfront installation discount offered to new subscribers and the slow-down in the growth of our subscriber base in the recent year.



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Long-distance services – Our revenue from long-distance services consists of usage fees for domestic and international long-distance calls.

Our revenue from our domestic long-distance calls amounted to RMB10,185 million in 2006, which was at a similar level as RMB10,260 million in 2005. The usage volume of domestic long-distance calls was 33,670 million minutes, representing an increase of 2,695 million minutes, or 8.7%, from 30,975 million minutes in 2005, but our actual realized tariff experienced a decrease.

Revenue from our international long-distance calls amounted to RMB1,160 million in 2006, representing a decrease of RMB20 million, or 1.7%, from RMB1,180 million in 2005. The usage volume of international long-distance calls was 566 million minutes in 2006, representing a decrease of 25 million minutes, or 4.2%, from 591 million minutes in 2005. The decrease in revenue was mainly attributable to the decrease in usage volume.

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 in 2006 amounted to RMB5,421 million in 2006, representing an increase of RMB1,421 million, or 35.5%, from RMB4,000 million in 2005. Value-added services revenue generated from fixed-line telephone and wireless telephone has become one of our main sources of revenue growth for the Company. In 2006, the number of subscribers for caller identification services amounted to 78.78 million, and penetration rate amounted to 68.5% of the core services of the Company, while the number of PHS short message amounted to 7,815 million in 2006, representing a year-to-year increase of 15.3%, the number of ring tone customers amounted to 15,766 thousand, representing a year-to-year increase of 131.4%.

Interconnection services – Revenue from our interconnection services represents interconnection fees charged to other telecommunication carriers and associates for the interconnection of both local and long-distance calls.

Revenue from our interconnection services amounted to RMB8,400 million in 2006, representing an increase of RMB617 million, or 7.9%, from RMB7,783 million in 2005. The growth in revenue was mainly due to increase in the interconnection fees from other

domestic and international telecom carriers, and increase in revenue from settlement of interconnection fees with associates.

Upfront connection fees – Upfront connection fees represent the amortized amount of the upfront fees for the initial activation of fixed-line telephone services, which the Company amortizes over the expected customer relation period of 10 years. Starting from July 2001, the Company ceased to charge upfront connection fees so that the revenue will continue to decline in the coming years until they are amortized completely.

Revenue from our upfront connection fees amounted to RMB2,406 million in 2006, decreased by RMB999 million, or 29.3%, from RMB3,405 million in 2005.

### Broadband services

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

Revenue from our broadband services amounted to RMB10,556 million in 2006, representing an increase of RMB2,732 million, or 34.9%, from RMB7,824 million in 2005. The growth in revenue from broadband services was mainly attributable to the sustained expansion of our subscriber base and enriched broadband content services. At the end of 2006, the number of our broadband services subscribers was 15,081 thousand, representing an increase of 3.61 million, or 31.4%, from 11,475 thousand at the end of 2005.

### Other Internet-related services

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

Revenue from our other Internet-related services amounted to RMB692 million in 2006, representing an increase of RMB101 million, or 17.1%, from RMB591 million in 2005. The growth in revenue was mainly due to the significant increase of the internet private access revenue. However, the increase was offset by the decrease of the narrowband dial-up access revenue.

### Business and data communications services

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

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Revenue from our managed data services amounted to RMB1,505 million in 2006, representing a decrease of RMB151 million, or 9.1%, from 1,656 million in 2005, which was mainly due to the decrease in our actual realized tariff.

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 circuit, digital trunk lines and optic fibers.

The operating revenue from our leased line services amounted to RMB2,974 million in 2006, representing an increase of RMB378 million, or 14.6%, from RMB2,596 million in 2005. This was mainly due to the robust demand from government and corporate customers and group customers for their cross-regional networks, and the continued growth in leased digital circuit broadband.

### Revenue from Information and Communications Technology Services

Revenue from information and communications technology services – Information and communications technology services refer to the extended integrated services such as the development and integration of the group customer end system and software, maintenance and consulting as well as leasing, which rely on established customer relationship and communication services.

Our information and communications technology services help us prevent the revenue from our traditional businesses from declining and retain our existing customers. In 2006, revenue from information and communications technology services amounted to RMB788 million.

Other services – Revenue from other services includes revenue from service and maintenance fees, lease payments for non-telecommunication equipment and revenue from sales of products.

The revenue from other services amounted to RMB2,502 million in 2006, representing an increase of RMB221 million, or 9.7%, from RMB2,281 million in 2005. The increase in revenue was mainly due to the increase in businesses such as the maintenance of equipment for customers and project construction by leveraging off our technological strengths.

### Operating Expenses

The key components of our operating expenses are depreciation and amortization expenses, network, operations and support expenses, selling, general and administrative expenses, staff costs and other operating expenses. Our operating expenses amounted to RMB67,562 million in 2006, an increase of RMB2,432 million, or 3.7%, from RMB65,130 million in 2005.

#### For the year ended 31 December

	2005		2006	
	Amount	Percentage of revenue (RMB in millions, except percentage data)	Amount	Percentage of revenue
Depreciation and amortization expenses	24,919	29.0%	<b>25,608</b>	<b>29.5%</b>
Network, operations and support expenses	13,465	15.7%	<b>14,383</b>	<b>16.5%</b>
Selling, general and administrative expenses	13,322	15.5%	<b>13,366</b>	<b>15.4%</b>
Staff costs	12,034	14.0%	<b>12,151</b>	<b>14.0%</b>
Other operating expenses	1,390	1.6%	<b>2,054</b>	<b>2.4%</b>
<b>Total operating expenses</b>	<b>65,130</b>	<b>75.8%</b>	<b>67,562</b>	<b>77.7%</b>





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### Depreciation and amortization expenses

Our depreciation and amortization expenses amounted to RMB25,608 million in 2006, representing an increase of RMB689 million, or 2.8%, from RMB24,919 million in 2005. It was mainly due to the increase in the total of fixed assets and intangible assets for which the Company made provision for depreciation and amortization.

### 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. These expenses amounted to RMB14,383 million in 2006, representing an increase of RMB918 million, or 6.8%, from RMB13,465 million in 2005. The increase in network, operations and support expenses was mainly due to the gradual increase of interconnection fees as a result of the increase in the interconnection volume between the company and other carriers and associates. In addition, the costs of both the power and fuel consumed by our equipment also increased.

### Selling, general and administrative expenses

Our selling, general and administrative expenses amounted to RMB13,366 million in 2006, representing an increase of RMB44 million, or 0.3%, from RMB13,322 million in 2005. Selling expenses was mainly due to the decrease in the growth in the number of new PHS customers and the decrease in the cost of developing customers from our cost control. However, such decrease was offset by the cost of retaining customers and the increase in sales and marketing channels. Our general and administrative expenses was mainly due to the decrease in provision of bad debt by RMB135 million. However, it was offset by the increase in expenses like consulting fee, maintenance fee and utility expenses.

### Staff costs

Staff costs primarily consist of expenses for salary and benefits, contributions to pension plans and etc.

Our staff costs amounted to RMB12,151 million in 2006, representing an increase of RMB117 million, or 1.0%, from RMB12,034 million in 2005. In 2006, the Company took a step further to improve our system to allocate staff costs and their distribution, and increase the compensation to front-line staff, making the staff cost structure more reasonable.

### Other operating expenses

Other expenses amounted to RMB2,054 million in 2006, representing an increase of RMB664 million, or 47.8%, from RMB1,390 million in 2005. The increase was mainly due to our enhanced efforts in developing the information and communications technology services, which resulted in a significant increase in the related cost.

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

Our operating profit before interest income, dividend income and deficit on revaluation of fixed assets amounted to RMB19,980 million in 2006, representing a decrease of RMB751 million, or 3.6%, from RMB20,731 million in 2005. If the effect of amortized income of upfront connection fee is excluded, our operating profit before interest income, dividend income and deficit on revaluation of fixed assets would amount to RMB17,574 million in 2006, representing an increase of RMB248 million, or 1.4%, from 17,326 million in 2005.

### Deficit on revaluation of fixed assets

Individual classes of our fixed assets as at December 31, 2006 excluding pre-paid land lease fee and buildings were appraised by independent valuer in China, on a depreciated replacement cost basis. The value of such fixed assets was determined at RMB147,573 million. The net deficit arising on the revaluation was RMB453 million, the net deficit was split between a credit to the revaluation reserve amounting to RMB1,071 million and an expense to the profit and loss account of RMB1,524 million for the year.

### Finance costs

In 2006, our finance costs amounted to RMB3,888 million, representing an increase of RMB541 million, or 16.2%, from RMB3,347 million in 2005, of which interest payout increased by RMB320 million and net exchange gain decreased by 221 million.

The Company acquired the telecommunication assets and businesses of four provinces including Shanxi in October 2005, and the consideration of the acquisition included deferred payment of RMB9,800 million. Interest expenses attributable to deferred payment increased by RMB392 million from 2005, which was the main cause for the increase in interest expenses.



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In 2006, the Company also had loans in Japanese Yen of RMB276 million in nominal value and loans in Euro of RMB435 million in nominal value. In 2006, Euro appreciated against Renminbi, and the Japanese Yen depreciated less than it did in 2005, both of which represented the main reasons for the decrease in net exchange gain.

### Taxation

Our statutory taxation rate in the PRC is 33%, and our income tax for 2006 amounted to RMB3,559 million, representing an effective taxation rate of 24.2%, an increase of 4.6% from the effective taxation rate of 19.6% in 2005.

The increase in effective taxation rate as compared to 2005 was mainly due to the fact that the Company made up the accumulated losses before the reorganization with its profit in 2005, resulting in the reduction of income tax by RMB837 million. The effective taxation rate was lower than the statutory taxation rate, mainly because income such as upfront connection fees is exempt from income tax.

### Profit for the year from continuing operations

Our profit for the year from continuing operations amounted to RMB11,141 million in 2006, representing a decrease of RMB2,973 million, or 21.1%, from RMB14,114 million in 2005; excluding the effect of the income from upfront connection fees, our profit for 2006 amounted to RMB8,735 million, representing a decrease of RMB1,974 million, or 18.4% from RMB10,709 million in 2005. The main reason for the decrease was that the deficit on revaluation of fixed assets of RMB1,524 million mentioned above was recognized as an expense.

### Profit for the year from discontinued operations

Profit for the year from discontinued operation in 2006 amounted to RMB1,819 million as a result of our disposal of Asia Netcom.

Of that amount, the net loss of Asia Group prior to the completion date amounted to RMB59 million, and the net investment gain from the disposal of the net assets of Asia Netcom amounted to RMB1,878 million.

### Consolidated profit for the year

Our consolidated profit including discontinued operations for 2006 amounted to RMB12,960 million. Excluding the upfront connection fee, our profit for 2006 amounted to RMB10,554 million, representing an increase of RMB71 million, or 0.7%, from RMB10,483 million in 2005.

### Profit for the year reconciled to US GAAP

Our consolidated profit for 2006 determined under US GAAP was RMB10,886 million. Our profit for 2006 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, which resulted in lower depreciation charges recorded of RMB4,619 million under Hong Kong GAAP compared to under US GAAP. At the same time, a revaluation deficit of RMB1,524 million was taken to the carrying value of our assets under the Hong Kong GAAP, while there is no revaluation deficit under US GAAP.



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### Capital expenditure

The following table sets forth our total actual and planned capital expenditure\* for the periods indicated:

	(RMB millions)
2005	27,247
2006	26,474
2007 (planned)	21,000

\* Capital expenditure includes cash paid towards the purchase of fixed assets, construction in progress, prepayment for leased network capacity and prepayment for leased land.

Our capital expenditure in 2006 amounted to RMB26,474 million, representing a decrease of RMB773 million, or 2.8%, from RMB27,247 million in 2005, which was mainly due to our emphasis on enhancing the utilization rate of our existing network and our implementation of a policy which focuses on cost-effectiveness, which reasonably reduced capital expenditure. In 2006, we continued to increase our investment in broadband and Internet, and we also accordingly reduced our investment in PHS and fixed-line telephone.

We expect that we will further reduce our capital expenditure in 2007, which is estimated at RMB21,000 million. Many factors can affect the timing, amount and nature of our capital expenditure, including the overall economic environment, customer demand, technology development and other related factors. Our estimated capital expenditure has a definite degree of uncertainty, and the future actual capital expenditure may deviate from the estimated amount.

We anticipate that we will meet our capital expenditure requirements with cash generated from operating activities, short-term and long-term loans, debentures and other borrowings and equity financing. We consider that we shall have sufficient capital to meet our future capital expenditure requirements.

### Cash flow and capital resources

#### Cash flow

The following table sets out our cash flow for the periods indicated

	For the year ended December 31,	
	2005	2006
	(RMB in millions)	
Net cash inflow from operating activities	33,483	<b>33,950</b>
Net cash outflow from investment activities	(24,296)	<b>(25,973)</b>
Net cash outflow from financing activities	(14,764)	<b>(6,447)</b>
Net cash inflow/outflow from discontinued operations	(130)	<b>1,165</b>
Net cash inflow/(outflow)	(5,707)	<b>2,695</b>



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Our net cash inflow from operating activities in 2006 amounted to RMB33,950 million, representing an increase of RMB467 million, or 1.4%, from RMB33,483 million in 2005.

Our net cash outflow from investment activities in 2006 amounted to RMB25,973 million, representing an increase of RMB1,677 million, or 6.9%, from RMB24,296 million in 2005. The reason for which the net cash outflow from investment activities in 2006 was higher than that in 2005 was mainly that in 2005 we had more cash flow as we had sold certain short-term investments.

Our net cash outflow from financing activities in 2006 amounted to RMB6,447 million, representing a decrease of RMB8,317 million, or 56.3%, from RMB14,764 million in 2005, which was mainly due to the fact that repayment of loans to financial institutions in 2006 was less than in 2005.

### Indebtedness

Our indebtedness as at the dates indicated:

Our cash inflow from discontinued operations amounted to RMB1,165 million, representing an increase of RMB1,295 million in cash outflow from RMB130 million in 2005, the main reason for which is that we received RMB1,340 million as consideration for Asia Netcom.

For these reasons, our net cash inflow in 2006 amounted to RMB2,695 million, representing an increase of RMB8,402 million in cash outflow from RMB5,707 million in 2005.

### Working capital

As at December 31, 2006, the shortfall of our working capital amounted to RMB72,743 million, a decrease of RMB11,157 million or 13.3% in shortfall from RMB83,900 million in 2005. The decrease in shortfall of working capital was mainly due to the decrease in short-term loans of the Company.

	For the year ended 31 December	
	2005	2006
	(RMB in millions)	
Short term loans	47,341	30,980
Short term commercial papers	—	9,811
Current portion of long term bank loans and other loans	6,846	7,304
Long term bank and other loans net of current portion	18,143	23,219
Deferred consideration, current portion	1,960	1,960
Deferred consideration net of the current portion	7,840	5,880
Total indebtedness	82,130	79,154



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As at December 31, 2006, our total indebtedness amounted to RMB79,154 million, representing a decrease of RMB2,976 million or 3.6% from RMB82,130 million as at the end of 2005. The source of capital for the repayment was the cash inflow from operating activities. As at the end of 2006, loans in Renminbi, US Dollar, Euro and Japanese Yen accounted for 98.3%, 0.9%, 0.5% and 0.3% of the company total indebtedness respectively.

As at December 31, 2006, the proportion of our short-term indebtedness was 63.2%, representing a decrease of 5.2% from 68.4% at December 31, 2005. The decrease in the proportion of our short-term indebtedness because the Company reduced the size of short term loans for optimization of capital structure.

As at December 31, 2006, our debt to capital ratio \* was 47.4%, representing a decrease of 2.7 percentage points from 50.1% as at December 31, 2005. Our financial position was further improved.

\* *Debt to capital ratio refers to the ratio of our total indebtedness to the sum of our total indebtedness, shareholders' equity and balance of deferred revenue.*

As at December 31, 2006, our aggregate unutilized credit facilities amounted to RMB115,588 million in total.

### Contractual obligations and commitments

The following table sets forth our aggregate payments as at December 31, 2006 in respect of contractual obligations and commercial commitments in the years to come:

	Payments Due (by stages as indicated)						Thereafter
	Total	2007	2008	2009	2010	2011	
Short-term loans	30,980	30,980	—	—	—	—	—
Long-term loans	30,523	7,304	6,596	9,545	89	89	6,900
Operating leases commitments	2,353	734	313	283	261	245	517
Capital commitments	2,833	2,746	86	1	—	—	—
<b>Total contractual cash indebtedness</b>	<b>66,689</b>	<b>41,764</b>	<b>6,995</b>	<b>9,829</b>	<b>350</b>	<b>334</b>	<b>7,417</b>



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### 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 adverse change in interest rates and foreign exchange rates. The Company is subject to various risks in the normal course of its business, including market risks associated with interest rate movements and exchange rate movements on non-Renminbi denominated assets and liabilities.

### Foreign exchange risk

We conduct our business primarily in Renminbi, which is our booking 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 dollars), 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 the purchase of telecommunication 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 businesses and, to a limited extent, cash and cash equivalents denominated in foreign currencies.

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 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 in the PRC 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 instruments.