



Vast development potential
Strong growth momentum
Quality customer services
Leading market position

Despite the far more moderate pace of growth in the international telecommunications market as a whole during 2001, the Group maintained its strong growth owing to the adoption of appropriate business strategies and the huge momentum of the domestic market in Mainland China. In addition, the Group further consolidated and strengthened its position as the market leader in mobile telecommunications in Mainland China. During the past year, the Company enhanced the progress of its corporate governance, further improved its internal management mechanisms, increased operational efficiency and actively developed new businesses, while continuing to provide quality services. The Group also broadened its financing channels and, in its first ever bond offering in Mainland China, successfully issued RMB (Renminbi) 5 billion of corporate bonds, marking a successful entry into Mainland China's domestic capital markets.

Highly effective management and increased operational efficiency led the Group to further consolidate its market position and achieve good results. In 2001, the Group's subscriber base increased by 24.509 million, to a total of 69.643 million subscribers, representing a market share of approximately 72.4 per cent. Total usage volume reached 161.27 billion minutes. In 2001, total volume of SMS (Short Message Service) exceeded 6 billion messages. Operating revenue

reached RMB100.3 billion, representing an increase of 54 per cent. compared to the previous year. Net profit and EBITDA were RMB28.0 billion and RMB60.3 billion, representing an increase of 55 per cent. and 61 per cent. compared to the previous year, respectively. EBITDA margin was 60.1 per cent. and net profit margin reached 28 per cent. The Group's earnings per share was RMB1.51, representing an increase of 21 per cent. compared to the previous year.

Providing subscribers with superior mobile telecommunications services is a prerequisite for market leadership. In 2001, the Group developed and implemented a number of effective measures to further enhance customer satisfaction. In particular, the Company conducted a survey and analysis of customer satisfaction, in accordance with international standards, and implemented service enhancement programs to address the specific needs identified. As a result, the Group's customer satisfaction was significantly enhanced. At the same time, the Group also conducted research into market segmentation and customer relationship management in order to further enhance customer relationships, expand service offerings to high-value customers and improve its service and distribution network, thereby highlighting the Group's competitive advantages.

Although the ARPU (Average Revenue Per User Per Month) of the Group's subscribers for 2001 decreased due to the fact that the majority of new subscribers were low-usage customers and given a one-off tariff adjustment and reductions, the AEPU (Average Expenses Per User Per Month) also declined significantly, as the new subscribers were relatively low-usage customers, and because the Company had implemented effective cost controls. Therefore, from the perspective of assessing the Company's operational efficiency, the Company's profitability has been improving and the EBITDA margin has also maintained steady growth at a relatively high level.

The wireless data business will be one of the key areas for the Group's future business development. The Group was the first to offer wireless data services on its own Mobile Information Service Center (MISC) platform, which is capable of "single sign-on total network-wide access", and effectively improving customer information management. Since its introduction, the Group's unified mobile data services brand, "Monternet", has received an enthusiastic response from customers and service providers, and its market penetration rate has increased. At present, more than 300 service providers nationwide participate in the Monternet project. On the most recent Chinese New Year's Eve alone, the total SMS usage volume exceeded 100 million messages.

As the industry leader in Mainland China, the Group places heavy emphasis on its internal management mechanisms and enterprise operational efficiency. In 2001, through an examination of the advanced models of world-class companies in relation to the Company's needs, the Group enhanced the performance evaluation systems and management measures relating to the job positions, remuneration and performance of the employees of its thirteen operating subsidiaries. The individual job performance and remuneration of the Company's employees, in particular those of the senior management, are closely linked with the operating results of the Company and its subsidiaries, thereby ensuring more effective implementation of the Company's strategies. While on the one hand these measures maximise the enthusiasm and creativity of employees, on the other, they effectively control the Group's human resources costs, thereby allowing the Group to further capitalise on its human resource cost advantage. At the same time, in addressing the specific needs of the market, we have improved employee development and training, and have sought to optimise our planning and budget management.

Implementing sound corporate governance has always been important to the Group. Since 2001, the Company has taken steps to enhance the functioning of the Board

and augment the role of the independent non-executive directors and, following the establishment of the audit committee and remuneration committee, further established the nomination committee. The Company also strengthened its internal controls and internal audit function. All these measures were implemented with the aim of protecting the Company's assets and ensuring the accuracy and reliability of information regarding the Company's financial position. Furthermore, the Company has significantly enhanced transparency and, in particular, has introduced the practice of releasing certain key operating statistics on a quarterly basis and periodically updating the "Frequently Asked Questions" forum on its Internet web-site. The Company is at the forefront in this regard among "blue chip" companies in Hong Kong.

In June 2001, the Group issued RMB5 billion of corporate bonds in Mainland China. The bond offering not only marked the Company's successful entry into Mainland China's capital markets, but also broadened the Company's financing channels and investors base, thereby enhancing the Company's capital structure and lowering financing costs. The bond offering has also provided valuable experience, which will benefit the Company, should it conduct even larger capital markets transactions in Mainland China hereafter.

The outstanding performance of the Company won popular recognition and acclaim from various sectors. In 2001, the Company received the "Best Managed Company, China" award from *FinanceAsia*, ranked first in *Business Week*'s list of "Largest Emerging-Markets Companies", and for the second time ranked first in the professional financial journal, *CFO Asia*'s "The Performance 100 Awards", and received the "Top Value Creator in Asia" award from *CFO Asia*. In 2002, the Company ranked third in terms of revenue in *FORTUNE*'s list of "The China 100", was selected as "Best in Corporate Governance, China" by *The Asset*, and ranked first in the "Best Financial Management" in the China division by *FinanceAsia*.

The Company has always focused on investing in Mainland Chinese telecommunications market opportunities that offer high growth, such as the current acquisition of mobile telecommunications assets, in order to create shareholder value. As a result, although the Company has a substantial cash balance as well as strong and sustained cash flow, the Board does not recommend the payment of a dividend for the 2001 financial year. The Board will review its dividend policy upon the conclusion of the current acquisition project. The Board intends to commence paying appropriate dividends in subsequent financial years on the condition, however, that the Company's business

operations, financial and cash flow position, capital expenditures and other related considerations are appropriate. In particular, the Company must be assured that financial resources available at that time will be sufficient to achieve sustained and favourable long-term growth and complete investment or acquisition projects that will create shareholder value.

Looking over the past year, I am pleased with the results but, at the same time, I am compelled by a sense of mission and purpose. Looking ahead, our goal is to further extend our reach to generate even greater returns for our shareholders.

With the global economic slowdown, the development of the telecommunications markets worldwide has also moderated significantly over the past two years. However, Mainland China is still one of the most active countries in terms of global economic development. The relevant government authority has estimated that Mainland China's economy will maintain an annual growth rate of approximately 7 per cent. over the next few years, and that the telecommunications industry in Mainland China will also maintain a relatively rapid growth rate. When compared with more advanced nations and regions of the world, the mobile telecommunications penetration rate in Mainland China is still very low. This implies that the Group still has vast potential for development. In

addition, the introduction of CDMA and "Xiaolingtong" services has perceptibly influenced the competitive environment of the Mainland Chinese telecommunications market. In response to these changes, we intend to implement a number of measures, taking into account the current level of tariff charges, to respond to the needs of the market and to improve operational efficiency. Targeting the specific needs of customers, these measures, including further market segmentation, brand name re-positioning and the maintenance and consolidation of market share in the high-value customer segment, and the active cultivation of the latent potential high-value subscriber market, are aimed at bolstering the Company's sustained rapid growth. Utilising the Group's advanced mobile networks, its broad and solid customer base and its quality brand name, as well as through the Group's ever improving and expanding service offerings, we firmly believe that the Group will continue to maintain a relatively high growth rate and its position as the market leader.

Following Mainland China's entry into the World Trade Organisation (WTO), the telecommunications industry regulatory environment in Mainland China will become more orderly and transparent. The proposed division and reorganisation of China Telecom has also been confirmed. These changes will enable the Group to become more pro-active in its

business operations and to better realise operational flexibility, as well as improvements to its cost controls and operational efficiency. The Company will, on a consistent basis, persist in pursuing business development strategies that will combine organic and external growth. In relation to organic growth, the Company will continue to strengthen its internal management, realise operating synergies, continue research and development and develop new businesses. As for external growth, we will continue to focus on our long-standing strategies of actively identifying acquisition opportunities of quality mobile telecommunications assets in Mainland China. With the vast development potential of the Mainland China mobile telecommunications market, and with the support of our shareholders, I am confident and optimistic about the Company's prospects. On the premise of emphasising customer value, we will strive to maximise our enterprise value and generate greater returns for our shareholders.

I would like to take this opportunity to express my sincere thanks to all shareholders and members of various sectors who have expressed their care and support for the Company. To Mr. Antony Leung Kam Chung, who resigned from his post as a director of the Company last year, I wish to express my gratitude. I would also like to express my warmest welcome to Sir Chris Gent

and Dr. Lo Ka Shui as new members of the Board. Finally, on behalf of the Board, I would like to express my deep and sincere thanks to all employees for their hard work over the past year.



Wang Xiaochu
Chairman and Chief Executive Officer

Hong Kong, 18 March 2002