

Chairman's Statement



Dear Shareholders,

I am gratified to tell you that, during the first half of year 2002, the Company's businesses continued to grow steadily, achieving satisfactory operating results, while maintaining stable and strong cash flow. Concurrently, we successfully completed the acquisition of mobile telecommunications assets in Mainland China, which have immense development potential. While sharing this pleasing news with you, allow me to take this opportunity to thank you for your continued support of the Company.

The financial performance of the Group for the past six months was satisfactory. Excluding the eight recently acquired subsidiaries, the Group's operating revenue reached RMB55.1 billion, representing an increase of 13 per cent. over the same period in year 2001. EBITDA reached RMB33.4 billion, representing an increase of 15 per cent. over the same period last year. The Group's EBITDA margin was 60.6 per cent. Net profit reached RMB15.2 billion, representing an increase of 10 per cent. from the same period in year 2001. Earnings per share reached RMB0.82.

During the same period, the Company's businesses continued their steady and sustained growth. The number of mobile subscribers continued to grow rapidly. As at 30 June 2002, the Company's thirteen subsidiaries had 80.30 million subscribers, representing a net increase of 10.66 million subscribers from the subscriber base as at year-end 2001. Aggregate usage volume reached 92.7 billion minutes. Average minutes of usage per user per month (MOU) was 209 minutes. Owing to the Group's stable high-value customer segment and the significant increase in revenue from new businesses, as well as the relatively orderly market environment, the Group's average revenue per user per month (ARPU) was RMB124. Although this represents a small decline from RMB127 recorded in the fourth quarter of 2001, nonetheless, the rate of decline slowed. We are



Chairman's Statement (Continued)

delighted to note that the development of our new businesses achieved the results we had projected, and particularly that the trend of development of mobile data services is quite positive. The promotion of the "Monternet" brand has achieved initial success. The number of mobile data subscribers exceeded 40 million. Volume of SMS (Short Message Services) exceeded 12.6 billion messages. Revenue from new businesses increased by 152 per cent. over the same period in year 2001, and its proportion to total revenue increased by 2.4 percentage points to 5.4 per cent. compared to year 2001. At the same time, GPRS (General Packet Radio Service) was commercially launched in the first half of year 2002. This secured the foundation for the future development of data business applications such as MMS (Multimedia Messaging Services).

During the past six months, given the Group's favourable network coverage and in light of the actual traffic volume, the Group has optimised its network and continued to expand network construction in high-density voice traffic areas, such as major commercial districts, traffic arteries and tourist attractions. Voice quality and network efficiency were improved, thereby utilising the Group's high quality, efficient, and unified all-digital networks to their fullest advantage. We focused on the construction of support networks and actively promoted customer-oriented management systems, thereby enhancing customer resources and customer relationship management and effectively supporting and achieving personalised and customized services. We also made considerable efforts to advance the Group's internal management analysis systems to ensure that the Group maintains and improves its business management and policy making standards.

The steady development of the Company's business bore a close correlation to the Company's clear and concise strategies, strict internal controls and its comprehensively improved management capabilities. During the first half of 2002, in order to consolidate the Group's competitive advantages and leading market position and maintain the Group's sustained development, we unswervingly pursued our general development strategy of combining organic and external growth. We confirmed the continuing utility of our established business and competitive strategies, implemented additional controls to manage investments and advanced the pace of our human resources management in response to environmental and market changes. To ensure the effective realization of our business objectives, the Company undertook systematic training and development of mid to senior-level management within the subsidiaries, using budgeting and performance management tools to cascade its operational objectives through the different strata of management, even reaching individual employees. We further refined the Company's internal controls and internal audit process and enhanced the Company's financial management and risk controls, with continued emphasis on the management principles of credibility, regularity and transparency, as well as prudent and stable financial and accounting policies, with a view to ensuring the truthfulness, accuracy and timeliness of disclosure data.

On 1 July 2002, the Company completed the acquisition of Anhui Mobile and the rest of the eight mobile telecommunications companies. The eight acquired companies, all situated in areas with high rates of economic growth, have vast market potential. As at the end of June 2002, the overall mobile telephone penetration rate in these areas was only 8.6 per cent., which provides

Chairman's Statement (Continued)

enormous room for the Group's future growth. Following the completion of the acquisition, the Company attained contiguous coverage over twenty-one of the economically more advanced provinces, municipalities and autonomous region in China, with a total population in excess of one billion residing in its service area. This greatly enhanced the Company's overall business growth potential. Through the process of restructuring during the acquisition, the Company availed itself of the opportunity to advance enterprise reforms within the newly acquired companies. Various training programs were organized to speed the transformation of the subsidiaries' management structures and management philosophy. This proactive integration of the subsidiaries allowed the full benefits of economies of scale and synergies from the acquisition to be realized more quickly and completely. As at 30 June 2002, the eight newly acquired companies' subscriber base totalled 25.14 million, representing a net increase of 4.22 million subscribers over the end of year 2001. Operating revenue reached RMB15.2 billion, representing an increase of 19 per cent. over the same period in year 2001. EBITDA reached RMB8.0 billion, representing an increase of 27 per cent. over the same period last year. Net profit reached RMB2.8 billion, representing an increase of 71 per cent. from the same period in year 2001. Furthermore, EBITDA margin was 52.8 per cent. and the rate of decrease in ARPU slowed. Assuming that the acquisition of the eight companies had been completed on 1 January 2002, the pro-forma combined subscriber base of the Group's twenty-one subsidiaries would have been 105 million, and the pro-forma combined operating revenue, EBITDA and net profit would have been RMB70.4 billion, RMB41.5 billion and RMB16.6 billion, respectively. The Company will continue to endeavor to optimize the operating synergies of the Group and, hence, the overall enterprise value of the Company.

The Company has always focused on investing in opportunities in China's telecommunications market that offer high growth in order to create shareholder value. The Company has not distributed any dividends in the past. Having comprehensively considered all relevant factors, including the fact that the Company utilized US\$3.15 billion to satisfy the cash portion of the consideration for the Company's recently completed acquisition of Anhui Mobile and the rest of the eight mobile telecommunications companies, the Board does not recommend the payment of an interim dividend for year 2002. The Board believes that the Company's robust cash flow can support the realization of the Company's long-term development objectives, while at the same time also permitting the distribution of appropriate dividends to our shareholders. Therefore, barring unforeseen circumstances, the Company will pay a final dividend in respect of the financial year ending 31 December 2002. Depending on the Company's overall operational and cash flow positions at the relevant time, the specific amounts of such dividends will be recommended by the Board to our shareholders.

The performance of the Company won popular recognition from various sectors. In the last six months, the Company was awarded "Best in Corporate Governance, China" by *The Asset*; ranked first in the "Best Financial Management" in the China division by *FinanceAsia*; ranked first again in the China Division in the "Asia's Best Credits 2002" survey by *The Asset*; and ranked first in "The Top 200 Emerging-Market Companies" in 2002 by *BusinessWeek* (which ranks companies by market capitalisation), marking the third time in a row that the Company has received this latter



Chairman's Statement (Continued)

award. The Company also ranked third in terms of revenue in *FORTUNE*'s list of "The China 100", and for the first time was included as one of "The World's 400 A-List Companies 2002" in a listing compiled by *Forbes*. China Mobile was the only Chinese company to be so listed.

On 3 July 2002, Mr. Ding Donghua, former Director and Chief Financial Officer of the Company, retired. Further, Professor Arthur Li Kwok Cheung resigned as an independent non-executive director on 1 August 2002, as he assumed the key post of Secretary for Education and Manpower of the Government of the Hong Kong Special Administrative Region. On behalf of the Board, I take this opportunity to acknowledge Mr. Ding's and Professor Li's diligence and commitment throughout these years, and to extend the highest regard and deepest gratitude for their outstanding achievements and contributions to the Company. On 3 July 2002, Mr. Xue Taohai was appointed as Director, Vice Chairman and Chief Financial Officer of the Company. Mr. Xue has over 23 years of experience in the telecommunications industry and financial management. The Company believes that Mr. Xue's appointment will be of great benefit to the Company. I take this opportunity to welcome Mr. Xue Taohai as a member of the Board.

Looking to the future, despite the slowdown in the global economy, China's economy continues to develop at a pace faster than that of many other areas around the globe. The growth of China's economy will continue to actively promote the growth of the telecommunications business. With the substantial development potential of Mainland China's telecommunications market, the steady enhancement of the Company's management capabilities and the economies of scale achieved by the Company through the recent acquisition, I am confident about the Company's stable and sustained development. I am also confident about enhancing the management capabilities and operating results of the eight newly acquired companies. I believe the growth in voice mobile businesses will continue to represent the mainstream of the Group's business development, and that it provides a solid foundation. Other mobile value-added businesses, in particular, data services, will become the main areas for growth among our new businesses. Despite the changing competitive environment ahead, the Company will, as always, persevere in pursuing established development strategies; focus on developing its core businesses; and accelerating the integration of the newly acquired subsidiaries. The Company will also enhance internal management and enterprise reforms, control investments and economize on expenses, enhance efficiency and benefits, bolster core competitiveness, maintain sustainable enterprise development, provide quality services to our customers and generate greater returns to our shareholders.



Wang Xiaochu

Chairman and Chief Executive Officer

Hong Kong, 14 August 2002

