

the market **Leader**





Chairman's Statement



By unswervingly pursuing the complementary development strategies of organic and external growth in 2002 and focusing exclusively on mobile telecommunications in Mainland China, the Group maintained its established position as the market leader

Dear Shareholders,

By unswervingly pursuing the complementary development strategies of organic and external growth in 2002 and focusing exclusively on mobile telecommunications in Mainland China, the Group maintained its established position as the market leader, spearheading the top ranks in the global industry in such aspects as network quality, network scale and subscriber base, and maintaining the lead within the domestic industry in areas such as new business offerings, customer satisfaction and international and domestic roaming. Concurrently, the Company successfully completed the acquisition of Anhui Mobile and the other seven mobile telecommunications companies in Mainland China, integrating the newly acquired assets proactively with evident efficiency. Notwithstanding the continued sluggishness of the global telecommunications industry during the past year, the Group nonetheless maintained continued steady business growth and achieved satisfactory financial results.

Financial Results

Despite the intensified competition in Mainland China's telecommunications market during the past year, the Group continued to maintain strong revenue growth. Economies of scale and operational synergies were further enhanced through effective management and cost controls. In 2002, the Group's operating revenue reached RMB128.6 billion, representing an increase of 28 per cent. compared to 2001's figure. EBITDA reached RMB77.3 billion, representing an increase of 28 per cent. compared to that of 2001. Net profit reached RMB32.7 billion, representing an increase of 17 per cent. compared to that of 2001, and the Group's earnings per share was RMB1.71, representing an increase of 13 per cent. compared to the prior year period.

For ease of comparison, on the assumption that the acquisition of Anhui Mobile and the other seven mobile telecommunications companies in 2002 was completed on 1 January 2001, the Group's 2002 pro-forma combined operating revenue reached RMB143.8 billion, representing an increase of 14 per cent. compared to

that of 2001. Pro-forma combined EBITDA reached RMB85.3 billion, representing an increase of 17 per cent. compared to that of 2001. Pro-forma combined EBITDA margin was 59.4 per cent., and pro-forma combined net profit reached RMB34.1 billion, representing an increase of 20 per cent. compared to that of 2001.

Business Review

In 2002, the Group maintained its focus on its core mobile telecommunications business, emphasizing customer value and adopting rational and effective competitive strategies. Guided by user consumption patterns, the Group segmented its customer base into three categories: brand-conscious customers, "technophiles" and value-conscious customers. To address the different needs of these customers, the Group launched personalized products and premium quality services to establish and promote its brands, enhance customer loyalty, and to proactively retain and grow its base of high-value customers. In 2002, the Group maintained steady growth in its subscriber base and usage volume. As at 31 December 2002, the



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aggregate subscriber base of the subsidiaries of the Group in the 21 provinces, municipalities and autonomous region in Mainland China reached 117.7 million. For 2002, the pro-forma combined usage volume reached 260.1 billion minutes and the pro-forma combined net increase of subscribers reached 27.11 million. The Group enjoyed a market share of approximately 67 per cent. within its service areas, and further consolidated its position as the market leader in Mainland China.

As our new businesses, principally the Short Message Service ("SMS"), experienced momentous growth and "Monternet" became increasingly sophisticated, the Group has leveraged its competitive edge in technologies and networks to the fullest extent, captured the first-mover advantage, continued to be innovative, and led the introduction of Multimedia Messaging Service ("MMS"), "e-Freedom" and a whole series of new mobile data businesses, thereby promoting the rapid and robust development of mobile data businesses and vigorously driving revenue growth. In 2002, users of the Group's mobile data services reached 57.73 million. Pro-forma combined revenue from new businesses reached RMB8.74 billion, representing an increase of 143 per cent. over the 2001 pro-forma combined figure, and the pro-forma combined revenue from new businesses as a percentage of pro-forma combined operating revenue also increased to 6.1 per cent.

In 2002, the Group pursued prudent and effective investment strategies and proceeded with the implementation of rational and effective controls on capital expenditures. With a view to its long-term development, the Group focused on enhancing its support systems, such as the Business Operation Support System (BOSS), the Management Information System (MIS) and the Network Management System (NMS). Additionally, the Group energetically promoted

network optimization. The Group also closely monitored developments in global mobile telecommunications technologies and business applications, and actively explored new technologies and businesses suitable to the needs of China's mobile telecommunications market, in order to maintain the Group's competitive advantage and impetus for future development.

Acquisition and Synergies

On 1 July 2002, the Company completed the acquisition of Anhui Mobile and the other seven mobile telecommunications companies, each having strong growth potential in Mainland China. The Company won acclaim from various sources for its well-structured, "win-win" financing package, which was only adopted after having fully considered the interests of the shareholders and conducted detailed studies. To fund part of the acquisition, the Company successfully issued and listed through a Mainland Chinese subsidiary RMB8 billion of corporate bonds, the largest ever corporate bond offering in Mainland China, which received an enthusiastic response from the market. Following the completion of the acquisition, we implemented resources integration and management reforms for the newly acquired subsidiaries, greatly enhancing managerial standards and operational efficiency and achieving inspiring results, as a variety of indicators have all surpassed forecasts.

Management of the Group

It has always been the Company's view that having the right development strategies and continuously improving management standards are critical and fundamental for achieving favorable results and enhancing corporate value. In 2002, the Group closely adhered to its development strategies and pursued in-depth reforms, active innovations and management-by-objective. The Group further implemented the



comprehensive budget management system which effectively links budget management with performance and remuneration management, in a closed loop. Meanwhile, the Group continued its reforms in human resources management, bolstered employee training, and increased operational efficiency to ensure the thorough implementation of the Company's strategies. Moreover, the Company further refined its internal controls and internal audit systems, thereby strengthening its financial controls and risk management.

The Company's outstanding performance in 2002 won popular recognition and acclaim from various sectors, chief among them: the only Chinese company selected as one of "The World's 400 A-List Companies 2002" by the internationally renowned business magazine *Forbes*; ranked first in "The Top 200 Emerging-Market Companies" in 2002 by *BusinessWeek* for the third consecutive year; ranked number one among the best managed companies in China by *Euromoney* in its "Seventh Annual Poll of Asia's Best Companies"; and ranked first in Asia's telecommunications sector in the first ever "In-depth Best Corporate Governance" poll compiled by *Asiamoney*.

Corporate Social Responsibility

As the industry leader, the Group has always emphasized corporate social responsibility, paid its taxes in good faith, respected the environment and supported the community. In 2002, the Group launched its "Mobile Caring Card" business, specifically designed to meet the needs of the hearing and speech-impaired, and the "8858" SMS channel for the China Children and Teenagers' Fund's "Spare Change Donation Program". The Group also enthusiastically participated in other community benefit activities, among them, sponsoring certain United Nations Children's Fund health programs for children living in remote areas of Mainland China.

Dividends

The Company holds in the highest regard the interests of its shareholders and the returns achieved for its shareholders, especially minority shareholders. Taking into account such factors as the Company's business growth, financial position and cash flow, the Board is of the view that the Company has sufficient cash flow and financial strength to support its long-term development targets and to make a cash payout to shareholders. Having also considered the need to maintain sufficient financial resources and the capability to complete future acquisitions and investments in quality assets, as well as a possible share buy-back under appropriate circumstances, with a view to generating the best possible return for shareholders, the Board recommends the first ever payment of a final dividend of HK\$0.32 per share for the financial year ended 31 December 2002, representing a dividend payout ratio of 20 per cent. The Company will endeavor to achieve a sustainable, steadily increasing dividend, with a view to generating the best possible return for shareholders.

Future and Strategies

Mainland China's economy has maintained a more prominent growth profile than that of many other regions of the world, and the demand for telecommunications services remains strong. As regards mobile telecommunications, China has already made the leap to become the world's largest mobile telecommunications market. As China's mobile telecommunications penetration rate remains relatively low, the market has enormous potential for development. The Company takes the view that, with the gradual opening of the telecommunications market in Mainland China, the market will become increasingly competitive. Looking ahead, this will present both opportunities and challenges.



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As a pioneer and the market leader in the world's largest mobile telecommunications market, with the world's largest network, premium network quality, and the largest subscriber base, we will grasp opportunities and fully utilize the Group's combined advantages to maintain our established position as the only telecommunications operator in Mainland China exclusively specialized in the business of mobile telecommunications. We will strive for perfection and bold innovation, actively explore new technologies, develop new businesses, accelerate brand-building, enhance brand value, increase customer satisfaction and nurture new contributors to revenue, in order to generate value for customers and shareholders.

The Company believes that, following Mainland China's entry into the World Trade Organization (WTO), governmental regulation of our industry will become more regular and transparent, and that the Company will face a market environment that is incrementally more rational and orderly. Resolutely adhering to the principles of maintaining the Company's long-term and sustained profitability and maximizing corporate value, the Company will consolidate its sound fundamentals, improve management, strengthen its capabilities in risk management and promote its competitive advantages and vigorous development.

Looking ahead, the Company will, on a consistent basis, focus exclusively on the business of mobile telecommunications, enlarge our subscriber base, maintain our solid financial position, further enhance corporate governance and management efficiency, and consolidate our position as the market leader in the current competitive environment, in order to provide high quality services to our customers and generate greater value for our shareholders. I am fully confident that the Company will have a sustained and stable future development.

Acknowledgement

In 2002, Mr. Ding Donghua retired and resigned from his posts as Director and Chief Financial Officer of the Company. Professor Arthur Li Kwok Cheung resigned from his post as an Independent Non-Executive Director of the Company to assume a key post in the Government of the Hong Kong Special Administrative Region. Mr. Xue Taohai and Mr. Frank Wong Kwong Shing joined the Board of Directors of the Company. Mr. Xue was appointed as Director and Chief Financial Officer of the Company. Mr. Wong was appointed as an Independent Non-Executive Director of the Company. On behalf of the Board, I would like to take this opportunity to express my deep and sincere gratitude to Mr. Ding and Professor Li, and express my warmest welcome to Mr. Xue and Mr. Wong. I would also like to extend my heart-felt thanks to all members of the Board and the employees of the Group for their diligent work, and to our shareholders for their interest and support, in the past year.



Wang Xiaochu

Chairman and Chief Executive Officer

Hong Kong, 18 March 2003

