



Sustainable



Unswervingly pursuing our established development strategies, fully leveraging our competitive advantages, refining our management methods and improving efficiency, thereby ensuring the Company's sound fundamentals and balanced and sustainable development



CHAIRMAN'S STATEMENT



Mr. WANG Xiaochu

Dear Shareholders,

With intensified competition in Mainland China's telecommunications market and the outbreak of Severe Acute Respiratory Syndrome, or SARS, in certain regions of China during the first half, 2003 was a challenging year for the Group. It is, thus, gratifying to note that, notwithstanding the intensely competitive market environment, by unswervingly pursuing its established development strategies and focusing on its core mobile telecommunications businesses, proactively integrating its brands and developing new businesses, while concurrently leveraging its competitive advantages, enhancing management techniques and improving efficiency, thereby preserving its sound fundamentals, the Group nonetheless sustained steady business growth and its solid financial profile, while further consolidating its position as the industry and market leader.

Financial Results

By leveraging the economies of scale that result from being the market leader in Mainland China's mobile telecommunications industry and ceaselessly pursuing refined management methods, despite the intensified competition in the telecommunications market and the impact of SARS, the Group's operating revenue in 2003 reached RMB158,604 million, representing an increase of 23.4 per cent. from 2002. EBITDA reached RMB92,278 million, representing an increase of 19.4 per cent. from 2002. EBITDA margin was maintained at a relatively high level of 58.2 per cent. Net profit reached RMB35,556 million, representing an increase of 9.1 per cent. from 2002. The Group's earnings per share was RMB1.81, representing an increase of 6.5 per cent. from 2002. In 2003, the Company maintained its sound capital structure and robust free cash flow, thereby providing a solid foundation and safeguard for the Company's future development.

Business Review

Throughout the past year, competition within Mainland China's telecommunications market intensified by the day, and the lower-end market was particularly impacted. To meet this competition, the Group fully leveraged its network advantages, integrated its brands and enhanced its customer service, rolled out marketing plans, such as service packages and point reward programs to meet the needs and consumption characteristics of different customer segments, and aggressively promoted voice usage volume, to increase business revenue. Focusing on the unique characteristics of the Chinese telecommunications market, by actively developing corporate and institutional customers, the Group stabilized its base of high-value subscribers while concurrently introducing and developing new and innovative businesses. Through the adoption of a series of

effective competitive strategies, the Group experienced steady business growth. As at 31 December 2003, the Group's subscriber base reached 141.6 million and the total usage volume reached 373.2 billion minutes. The Group's average revenue per user per month (ARPU) in 2003 was RMB102, reflecting a moderating rate of decline. As a result, the Group's position as the market leader in Mainland China's mobile telecommunications industry was further secured.

In 2003, to address market needs and implement the Company's strategies, further brand integration programs were launched and brand value has assumed increasing prominence, including the successful full-scale launch of the new "M-Zone" services targeting the youth market. In less than one year, through a series of rich and vibrant marketing campaigns that have elicited a vigorous response and acclaim from its target market, the "M-Zone" services have rapidly achieved a subscriber base of over 10 million. This robust brand positioning has shown promise. The marketing initiatives for "M-Zone" resulted in the Group winning various awards, such as "The Best Show" from The Regional DM Asia Awards 2003.

In conjunction with brand promotion, the Group further refined its operation support systems to fully implement its "single point access to all network services" model. In 2003, the Group also completed a subscriber information management platform. By providing both standardized basic service offerings plus personalised services, the Group was able to fulfil the needs of various market segments. Furthermore, leveraging these new systems and capabilities, the Group launched new initiatives such as "Any Billing Error, Double Refund" and International Roaming Chinese Greeting Messages, that are unique to the Chinese market, thereby further enhancing customer satisfaction and loyalty.

In 2003, the Group's new businesses continued to drive rapid growth. The proportion of the Group's operating revenue derived from new businesses increased by 4.1 percentage points when compared to that of 2002, reaching a double-digit figure of 10.2 per cent. for the first time ever. In particular, the Short Message Service, or SMS, grew rapidly, doubling in both usage volume and revenue when compared with 2002. SMS continued to be the main source of revenue growth for new businesses. Concurrently, in accordance with principles of "fairness, openness and 'win-win' co-operation", the Group's "Monternet" entered into broad co-operation arrangements with third-party mobile service providers, with outstanding results. With more than 880 SMS service providers offering more than 70,000 types of services, and with a subscriber base exceeding 62.42 million, the widely-recognised "Monternet" brand is now beginning to assert its truly massive market influence.

In 2003, the Group stepped up its efforts to promote voice usage volume, especially by stimulating off-peak hour usage and increasing network utilization during off-peak hours and in low-traffic areas. In addition, under the principle of optimizing its investment structures and pursuing economically efficient investments, the Group implemented network construction and optimization initiatives to meet the needs of the Group's growing subscriber base and business operations, thereby laying a solid foundation for the Group's long-term development. The Group is actively monitoring and studying the development of 3G mobile telecommunications technology and will conduct 3G technology trials in certain cities, to prepare for the future adoption of, and smooth migration into, next-generation mobile technology.

Active Implementation of External Growth – Continuing our Acquisition Strategies

By unswervingly pursuing the complementary development strategies of organic and external growth, the Company has actively sought opportunities to invest in quality telecommunications assets in Mainland China. At present, the Company is proceeding with the acquisition of mobile telecommunications companies in 10 provinces and autonomous regions in Mainland China, thereby continuing to create value for its shareholders.

Management of the Group

In 2003, the Group's development strategy employed refined management methods. By implementing thorough budget management and truly comprehensive performance appraisal systems, the Group ensured the high-level integration of all aspects of management and realized the benefits of its incentive and control mechanisms, to enhance internal controls and reduce risk. The Company's outstanding performance in 2003 won popular recognition and acclaim from various sectors, chief among them: once again being selected as one of "The World's 400 A-List Companies" by the renowned business magazine *Forbes*, and being the only company in Mainland China to receive this honor two years in a row; being ranked first in "The Top 200 Emerging-Market Companies" by *BusinessWeek* for the fourth consecutive year; being named "Best Managed Telecommunications Company in China 2003" by the renowned financial magazine *Euromoney*; and being named "Best Financial Management" in China in the "Asia's Best Companies 2003" survey by the renowned financial magazine *FinanceAsia*.

Corporate Social Responsibility

As the industry leader, the Group has always stressed corporate social responsibility and contributing to the community. In 2003, the Group continued to engage in community service, such as making charitable donations to combat the SARS outbreak, supporting environmental protection and helping the disadvantaged. The Group also effectively employed its own network resources to disseminate timely and helpful SARS-related news, as authorised by the News Center of the Ministry of Health of China, to all its customers free of charge via its SMS platform. This initiative not only provided the public with access to the latest information, but also enhanced the Group's corporate profile and received wide acclaim from the community. The "8858" SMS-based charitable donation service established by the Company in 2002 to support the China Children and Teenagers' Fund has significantly benefited the community. More than RMB20 million in private donations has been collected through this channel.

Dividend

The Company holds in the highest regard the interests of its shareholders and the returns achieved for its shareholders, especially minority shareholders. Having taken into account such factors as the Company's financial position, cash flow position and requirements to ensure the sustainable future growth of the Company's business, particularly the proposed acquisition of the mobile telecommunications companies in 10 provinces and autonomous regions in Mainland China, the Board recommends payment of a final dividend of HK\$0.20 per share for the financial year ended 31 December 2003. This, together with the interim dividend of HK\$0.16 per share already paid during 2003, amounts to an aggregate dividend payment of HK\$0.36 per share for the full financial year, representing an increase of 12.5 per cent. over the annual dividend of HK\$0.32 per share for the financial

year 2002 and a dividend payout ratio of 21 per cent.

The Board is of the view that the Company's strong free cash flow will be capable of supporting the investments required to sustain steady growth and generate a good cash return to shareholders. The Company will endeavour to achieve a long-term sustainable, steadily increasing dividend, with a view to generating the best possible return for shareholders.

Looking to the Future

From a macro market environment perspective, along with the continuous rapid rate of China's overall economic growth, the continual increase in consumer spending, improvements in mobile telecommunications technologies and rich mobile telecommunications services offerings, will all help promote the increasing acceptance and usage of mobile telecommunications in China, as such services become more and more an integral part of daily life. The number of mobile subscribers in China has already surpassed the number of fixed-line subscribers. This phenomenon demonstrates the tremendous growth potential for the mobile telecommunications market in China and the growth opportunities portending for the Group. At the same time, the increasingly intensified competition in Mainland China's mobile telecommunications market also presents demanding challenges for the Group.

In the face of these opportunities and challenges, particularly the ever-competitive market conditions, the Group will seize opportunities, leverage its advantages and adopt effective measures to respond proactively. In 2004, the Group will continue to further integrate its brands, continuously improve customer service and satisfaction, proactively experiment with terminal customization, strive for bold innovation, and develop new businesses, with a view to nurturing new revenue contributors, while concurrently closely monitoring the development of new mobile telecommunications technologies. The Company also intends to

complete the current acquisition of the mobile telecommunications assets in Mainland China from its parent company. The speedy integration of these businesses and thorough reform of their management will further enhance the Group's overall capabilities.

Looking ahead, the Group will continue to uphold the philosophy that Company management must always be candid, open, innovative and resolute, to maintain sound business fundamentals and pursue balanced and sustainable development. I am resolute in my belief that, by leveraging the advantages of the Group in a wide range of areas and pursuing an appropriate development strategy, relying on the unwavering perseverance of the Group's management and its employees, we can provide even better quality services to our customers and generate greater value for our shareholders.

Finally, on behalf of the Board, I would like to take this opportunity to express my heart-felt thanks to our shareholders and investors for their continued support, and to all members of the Board and the employees of the Group for their diligent work in the past year.



Wang Xiaochu

Chairman and Chief Executive Officer

Hong Kong, 18 March 2004