我很想念你

我現在不方便接電話，
請留言

I love you

Focused

Focusing on our core mobile telecommunications business, proactively integrating our brands, developing new businesses, and further consolidating our position as Mainland China's mobile telecommunications market leader

BUSINESS REVIEW

In 2003, despite intensified competition in Mainland China's telecommunications market and the outbreak of SARS, the Group adopted effective competitive strategies, further refined its management methods, enhanced brand integration, stepped up promotions of voice usage volume, pioneered new sales and business models and ceaselessly promoted new businesses, thereby preserving its sound fundamentals. By unswervingly pursuing its established development strategies and focusing on its core mobile telecommunications businesses, the Group sustained steady business growth and consolidated its position as Mainland China's mobile telecommunications market leader.

As at the end of 2003, the Group's subscriber base reached 141.616 million, representing an increase of 20.3 per cent. from 2002. The aggregate subscriber usage volume reached 373.22 billion minutes, representing an increase of 43.5 per cent. from 2002. The number of mobile data services users reached 100.640 million, representing an increase of 74.3 per cent. from 2002. The SMS penetration rate reached 71.1 per cent., representing an increase of 22.0 percentage points from 2002. SMS usage volume reached 93.51 billion messages, representing an increase of 131.4 per cent. from 2002. Revenue from new businesses reached RMB16.205 billion, representing an increase of 85.5 per cent. from 2002. Revenue from new businesses accounted for 10.2 per cent. of the Group's operating revenue, representing an increase of 4.1 percentage points from 2002.

The table below summarizes the key operating data of the Group for the period from 2001 to 2003. Except for the 2003 data, which are the Group's consolidated results, operating figures shown in this table and in the "Business Review" section are, unless otherwise specified, pro-forma combined figures, which means that it is assumed that the Group's existing structure (including twenty-one mobile telecommunications companies) was in place during the two-year period from 1 January 2001 to 31 December 2002.

Key Operating Data of the Group for 2001 through 2003

	2003	2002	2001
Mobile Subscribers (Millions)	141.6	117.7	90.6
Net Additional Subscribers (Millions)	23.9	27.1	32.6
Total Usage (Billion Minutes)	373.2	260.1	208.8
Average Usage per User per Month (MOU) (Minutes/User/Month)	240	207	234
Average Revenue per User per Month (ARPU) (RMB/User/Month)[1]	102	115	141
SMS Usage Volume (Billion Messages)	93.5	40.4	7.3

	2003	2002	2001
Contract Subscribers[2]			
Mobile Subscribers (Millions)	51.1	49.0	46.9
Average Usage per User per Month (MOU) (Minutes/User/Month)	417	334	324
Average Revenue per User per Month (ARPU) (RMB/User/Month)	171	176	189

	2003	2002	2001
Prepaid Subscribers[2]			
Mobile Subscribers (Millions)	90.5	68.7	43.7
Average Usage per User per Month (MOU) (Minutes/User/Month)	129	99	103
Average Revenue per User per Month (ARPU) (RMB/User/Month)	58	63	72

Notes: (1) Except as otherwise noted, all monetary figures shown in this Business Review section are expressed in Renminbi.

(2) For management reference purposes, contract subscribers are classified to include "GoTone" subscribers and subscribers who have signed service contracts with the Group, while prepaid subscribers are classified to include subscribers of "Shenzhouxing" and "M-Zone" and local brands or packages targeting low usage volume users.

Subscriber Development

In 2003, the Group adopted effective competitive strategies, enhanced brand integration, stepped up promotions to stimulate increased voice usage volume, pioneered new sales and business models and ceaselessly developed and promoted new businesses. In addition, the Group strived to enhance customer value, increase the appeal of its services and provide differentiated and personalized services targeting the needs of different customer segments.

The Group's subscriber base continued its steady growth. As at 31 December 2003, the Group's mobile subscriber base reached 141.616 million, of which 51.138 million were contract subscribers and 90.478 million were prepaid subscribers. In 2003, the total net increase in the Group's subscriber base was 23.940 million.

As at the end of 2003, the Group had maintained its position as the market leader in Mainland China, with a market share within its service areas of approximately 64.8 per cent. The mobile telephone penetration rate within areas serviced by the Group was approximately 21.0 per cent.
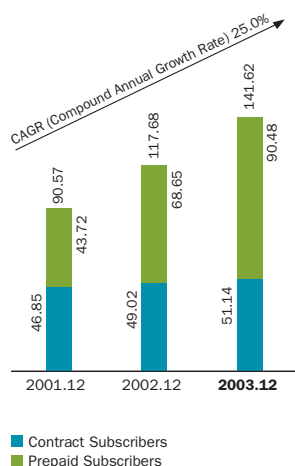
The Chinese government continues to adopt proactive policies to nurture domestic demand and raise urban and rural incomes. At the same time, the accelerated "Informationalization" of Mainland China's domestic economy and society have also stimulated significant demand from public sector and business customers. These factors, together with the continued excellence of the Group's mobile telecommunications networks and increasingly rich mobile telecommunications services offerings, and the gradual lowering of usage barriers, present attractive growth potential for the mobile telecommunications market.

Total Usage

In 2003, the Group fully utilized its network's capabilities and promoted increased voice usage volume by segmenting network utilization on both a temporal and a geographical basis, targeting different customer segments through effective branding. Despite a reduction in revenue per minute, the Group benefited as a result of flexible pricing by stimulating usage volume growth, in particular, during off-peak hours, in low-traffic areas and within the Group's network, thereby increasing network utilization. The
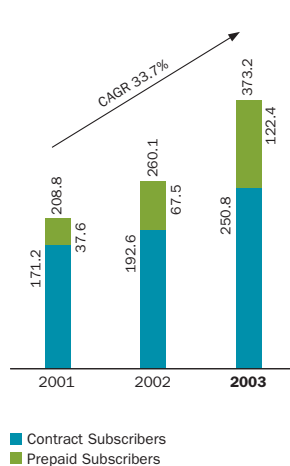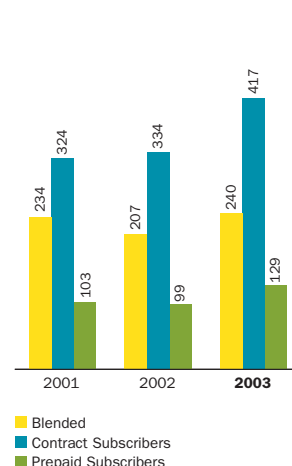
Subscriber Base
(Millions)

CAGR (Compound Annual Growth Rate) 25.0%

	2001.12	2002.12	2003.12
Prepaid Subscribers	43.72	68.65	90.48
Contract Subscribers	46.85	49.02	51.14
Total	90.57	117.68	141.62

- ■ Contract Subscribers
- ■ Prepaid Subscribers

Total Usage
(Billion Minutes)

CAGR 33.7%

	2001	2002	2003
Prepaid Subscribers	37.6	67.5	122.4
Contract Subscribers	171.2	192.6	250.8
Total	208.8	260.1	373.2

- ■ Contract Subscribers
- ■ Prepaid Subscribers

MOU
(Minutes)

	2001	2002	2003
Blended	234	207	240
Contract Subscribers	324	334	417
Prepaid Subscribers	103	99	129

- ■ Blended
- ■ Contract Subscribers
- ■ Prepaid Subscribers

rate of decline in the Group's average revenue per user per month (ARPU) moderated significantly, and the Group recorded stable growth in operating revenue, laying a solid foundation for future development.

In 2003, the Group's aggregate mobile subscriber usage volume reached 373.22 billion minutes, representing an increase of 43.5 per cent. from 2002. The Group's average minutes of usage per user per month (MOU) in 2003 was 240 minutes, representing an increase of 16.0 per cent. from that of 207 minutes in 2002. The MOU of contract subscribers and prepaid subscribers in 2003 were 417 minutes and 129 minutes, respectively.
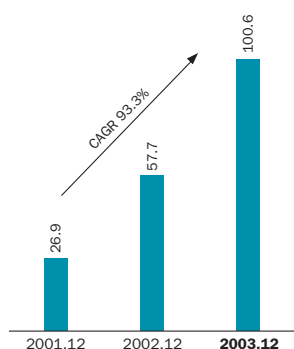
New Businesses

The Group established a market-guided product development process and reinforced the research, development and promotion of new businesses, emphasized improving the penetration rates of new businesses, their optimal utilization and customer appeal. While maintaining speedy growth in new businesses such as SMS, the Group continued to nurture new contributors to revenue.

In 2003, the Group's new businesses continued their rapid growth trend and became a key driver of operating revenue growth. Revenue from new businesses for 2003 reached 16.205 billion, representing an increase of 85.5 per cent. from 2002. The proportion of the Group's operating revenue that derives from new businesses reached 10.2 per cent., representing an increase of 4.1 percentage points from 2002.

SMS continued to be the main source of revenue growth for new businesses. In 2003, revenue from SMS reached 9.909 billion, the number of mobile data services users reached 100.640 million, the SMS penetration rate (SMS subscribers as a percentage of total subscriber base) reached 71.1 per cent. and SMS usage volume reached 93.51 billion messages. The number of "Monternet" SMS subscribers reached 62.422 million, "Monternet" SMS usage volume reached 17.63 billion messages, and the "Monternet" penetration rate ("Monternet" SMS subscribers as a percentage of total subscriber base) exceeded 40 per cent.
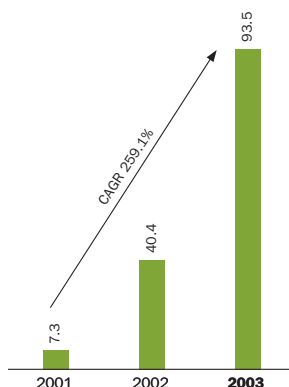
Number of Mobile Data Services Users
(Millions)

2001.12	2002.12	2003.12
26.9	57.7	100.6

CAGR 93.3%

SMS Usage
(Billions)

| 2001	2002	2003
7.3	40.4	93.5

CAGR 259.1%

The Group upheld the principles of "fairness, openness and 'win-win' co-operation" in the operation of "Monternet" and further standardised and enhanced the administration of co-operation arrangements with service providers (SP). Through the adoption of co-operative management measures, content evaluations, assessments by third parties, the leveraging of customer service support systems and the restructuring of sales and marketing activities, the Group encouraged the healthy and positive development of "Monternet". As at the end of 2003, the Group's SP partners included more than 880 SMS SPs offering more than 70,000 types of services in 28 categories, ranging from information and entertainment to business services. Also included were more than 80 Multimedia Messaging Services, or MMS, SPs offering nearly 1,600 types of services.

Brand Integration

In 2003, the Group launched the re-branding and integration of its three nation-wide customer brands. By means of thorough brand planning, associating brand awareness with the Group's marketing strategies and identifying distinct competitive advantages, the Group launched the staged promotion of "M-Zone", the re-branding of "GoTone", and the restructuring of "Shenzhouxing". Having identified the brand values and having clarified the brand structures, a clearer picture of the Group's customer branding gradually emerged, and the Group began to realize the potential of its brands, achieving increased brand recognition and appreciation.

Following the successful re-branding of "GoTone", the Group launched the "'GoTone' Customer Services Improvement Program", to enhance brand differentiation and increase the appeal of its services to mid-to-high-end customers. Focusing on the special

Accelerating corporate "Informationalization"
Pioneering a new era for business
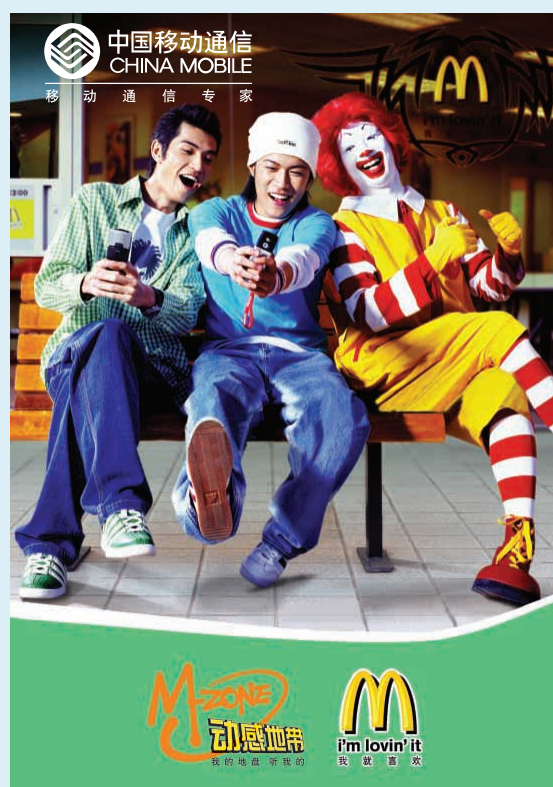
characteristics of the targeted customer groups of the "GoTone" services, the Group launched tailored services packages for new businesses, such as MMS, "e-Freedom", "Mobile Brokerage" and "12580 Business Travel Companion". Since quality is the central focus of the "GoTone" services, the Group's marketing to "GoTone" subscribers emphasized the plan's grade-A services, such as "1860 Operator-assisted Services and Roaming Services", cross-region services, account manager services and airport VIP lounge services.

The full-scale launch of the new "M-Zone" customer brand specifically targeting the youth market was one of the focal points of the Group efforts in 2003. Through the introduction of bundled value-packages that include SMS, personalized ring-tones and picture downloads, "Mobile QQ", "Treasure Box (Java)", "12586 mobile chat" services and "12590 voice-SMS information" services, "M-Zone" is the brand consistently recognized as providing "The 'Autonomous Region' for Youthful Communication". As at the end of December 2003, the total number of "M-Zone" subscribers reached 10.557 million, the "M-Zone" SMS penetration rate reached 97.8 per cent., and ARPU for new businesses

reached RMB30. Through these efforts, the value of the brand was further realized.

Through the progressive integration of local brands and service packages into the "Shenzhouxing" brand, improved cost control over the marketing of "Shenzhouxing" and the offering of qualified discounts and benefits, the "Shenzhouxing" service became more competitive in the low-end market and stimulated the promotion and penetration of the Group's mobile telecommunications services.

Development of Corporate and Institutional Customers

The Group optimally utilized its network resources and its competitive advantages to develop corporate and institutional customers. The Group offered targeted bundling of basic services such as VPMN, corporate SMS, mobile office products, access solutions, IP phone and "CMNet" services, developed personalized corporate and business applications, and integrated the "Informationalization" of government and corporate entities with the personal communications needs of their individual members, to provide comprehensive mobile "Informationalization" solutions to major

corporate and institutional customers. Corporate "Informationalization" has promoted growth in the Group's base of individual subscribers, whose consumption pattern has, in turn, promoted corporate "Informationalization". This phenomenon has not only led to improvements in the quality of the Group's corporate and institutional customers and expansion of the Group's customer base and market share, but has had the added effect of promoting the usage of the Group's services and, ultimately, of enhancing customer loyalty and increasing the Group's revenue.

In 2003, the Group's mobile "Informationalization" solutions were widely applied in governmental departments and ministries, such as the police, customs and tax authorities, industry and commerce, as well as in such areas as banking and finance, electric power supply, automobile manufacturing and medical facilities. These solutions assisted corporate and institutional customers in increasing their efficiency, lowering costs and improving revenue and service quality, thus establishing a "win-win" partnership between the Group and its corporate and institutional customers.

Customer Services

In 2003, the Group further optimized its customer service processes and, to ensure that customers would always be left with a positive impression, pioneered new services, effectively restructured and enhanced its brands, and improved overall competitiveness. Targeting its entire subscriber base, the Group launched the credibility initiative of "Any Billing Error, Double Refund", the International Roaming Chinese Greeting Messages and the International Roaming Caller Display services. In addition, the Group also provided its customers with

comprehensive form-filling assistance at customer service counters and bill-delivery services, integrated its website services, and gradually established an Internet-based marketing and service system. Through these management initiatives, the services support and management of corporate customers, SPs and new businesses was considerably improved.

Through targeted upgrading of the "GoTone" service platform and its integration into the "GoTone" brand, including "1860", "Personal Account Executive", "Corporate Account Executive", and various offerings at the Group's sales and services outlets, the Group further differentiated the "GoTone" customer branding from other brands and ensured that "GoTone" subscribers would enjoy preferred service. Furthermore, the Group noted improvements in cross-region services. "GoTone" VIP members can now enjoy various cross-region services, such as changing or re-issuing SIM cards in roaming locations, terminating or re-activating services in roaming locations, handsets repair in roaming locations, and special airport services in home network and in roaming locations. Other privileges are also available to "GoTone" VIP members in roaming locations.

By optimizing basic customer service and service management functions, the Group increased overall service quality. Further, by anticipating our customers needs and more proactively communicating with them via outgoing calls from the customer service centers, as a means of direct marketing, the Group's customer service facilities were utilized as a marketing channel. Through personalized services targeting the needs of specific market segments, the Group secured the loyalty of its high-end and corporate customers and further heightened customer satisfaction.

Our *bountiful* services connect people

6 October 2002 - Salvage of shipwreck off the coast of Vietnam

6 October 2002 - Rescue efforts in the Jinggang Mountains

24 February 2003 - Earthquake in Xinjiang

Reliable at Critical Moments

Communications Network

In 2003, the Group continued to improve network management, conducted quality evaluations of its networks on the basis of subscriber perceptions, and thereafter adjusted and optimized the physical network based on such evaluations, thereby enhancing network security. In addition, the Group further expanded its network coverage, achieving full coverage in specific key areas, such as urban commercial buildings and luxury residential communities. The Group also achieved seamless coverage along major trunk transportation lines and around tourist spots. The Group improved its management of global roaming quality, established an international call signal monitoring and measuring system, implemented the testing and measuring of outgoing and incoming call signals, optimized the organisation of network routers, rationalized procedures for handling complaints and significantly improved global roaming quality.

In 2003, the wireless connection rate of the Group's networks reached 99.5 per cent., the voice call drop rate was less than 0.8 per cent., and the SMS delivery rate reached 98.2 per cent. As at 31 December 2003, the Group utilized 1,148 mobile switching centers and approximately 103,700 base stations. Network capacity reached 172 million subscribers and the network utilization rate reached 82.3 per cent. The quality and scale of the Group's networks continued to lead the industry.

In 2003, the Group further expanded its global roaming services coverage. As at the end of 2003, GSM global roaming services covered 155 countries and regions, while GPRS global roaming services coverage extended to 34 countries and regions. The subscribers of the Group may send or receive short messages to or from the subscribers of 201 mobile communication operators in 100 countries and regions of the world.

Support Systems

The Group upgraded and centralized its Network Management System (NMS), its New Business Support System (NBSS), its Business Operation Support System (BOSS), its Customer Relationship Management (CRM) System and its Management Information System (MIS) in 2003, to refine our management processes, adapt to ever-changing market developments and intensified competition, improve the Group's management of operations, services and customers, improve our responsiveness and ability to support and meet the needs of new businesses, and to anticipate the ever-changing and expanding needs of our customers. Through these measures, the Group achieved more effective resource sharing and allocation, progressively establishing a scientific decision-making regime, and producing an overall improvement in the Group's network management, corporate information, billing settlement and business management, which satisfied the Group's requirements in relation to its business development, customer service, and the management of sales and marketing channels and content-based billing, thereby ensuring the smooth execution of the Group's sales and service policies.
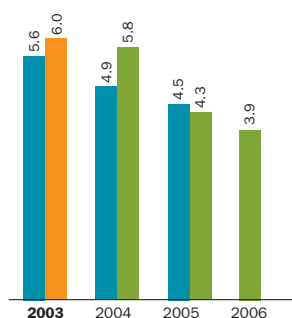
Capital Expenditure

The Group's capital expenditure in 2003 was approximately US$6.0 billion, which represents an increase of approximately US$400 million from the original plan. In the face of intensified market competition, the Group promoted voice usage volume in a flexible manner, which increased total network usage. Although the Group endeavoured to promote voice usage volume during off-peak hours, while concurrently continuing to optimize the allocation of network resources so as to ensure the effective utilization of its networks, pressures for network capacity expansion continued. In order to meet market needs, and after taking into account the Group's future development and investment efficiency, the Group increased its investment in GSM networks in 2003.

The Group's newly budgeted capital expenditure from 2004 to 2006 is US$14.0 billion. The budgeted capital expenditure for each of the three years is US$5.8 billion, US$4.3 billion and US$3.9 billion, respectively. The new capital expenditure budget for 2004 is higher than the amounts previously budgeted, primarily as a

Capital Expenditure
(US$ Billions)

Year	2003	2004	2005	2006
Originally Budgeted Capital Expenditure for 2003 – 2005	5.6	4.9	4.5	
Capital Expenditure for 2003	6.0			
Newly Budgeted Capital Expenditure for 2004 – 2006		5.8	4.3	3.9

■ Originally Budgeted Capital Expenditure for 2003 – 2005
■ Capital Expenditure for 2003
■ Newly Budgeted Capital Expenditure for 2004 – 2006

result of the increased traffic volume and the need to enhance the Group's foundation for its future development. The capital expenditure for the next three years will be used mainly for the construction of GSM networks, support systems and other, and for the development of new technologies and new businesses. The required funding will be sourced largely from cash generated from the Group's operating activities.

The Group is actively monitoring the development of 3G technologies and adopts a prudent approach to the full-scale investment and construction of 3G networks. Only minimal capital expenditure has been currently budgeted annually for 3G monitoring and performance trials.

Future Business Strategies

The Group will continue to focus exclusively on its core mobile telecommunications businesses, further refine our management methods, retain and develop current and potential high-value customers, enhance customer branding and emphasize differentiated services. The Group will also develop reputable and dependable products and services, strengthen business operation analysis, improve management and control over marketing and sales channels, improve bundling to address customer needs and sales techniques, continue service innovation, incorporate service requirements into the mobile value chain, pursue sustainable development, and further consolidate the Group's position as the market leader in Mainland China and strive to become a state-of-the-art, fully integrated mobile services provider.

"Mobile is all we do, so we do it best!"