

# Chairman's Statement



## **Dear Shareholders,**

Pursuing its complementary development strategies of organic and external growth, in 2004 the Company successfully completed its acquisition of the mobile telecommunications companies in Inner Mongolia and nine other provinces and other telecommunications assets in Mainland China, thereby becoming the first overseas-listed PRC telecommunications company operating in all thirty-one provinces, autonomous regions and municipalities in Mainland China. By leveraging its premium and efficient network and significant brand advantages, refining its management methods, adopting effective marketing strategies, and delivering personalised services that maintained a high level of customer satisfaction, the Group made encouraging progress developing its business, recorded robust subscriber growth, and sustained the relatively rapid rate of growth of operating revenue and further consolidated its financial position. The Group thereby further secured its position as the industry leader in Mainland China's mobile telecommunications industry.

The Group recorded sound financial results in the first half of 2004. In the first six months of 2004, excluding the ten mobile telecommunications companies and other telecommunications assets recently acquired, the Group's operating revenue reached RMB86,420 million, representing an increase of 12.7 per cent. over the same period in the 2003 financial year. EBITDA reached RMB49,339 million, representing an increase of 9.2 per cent. over the same period last year. EBITDA margin was maintained at a relatively high 57.1 per cent. Net profit reached RMB18,828 million, representing an increase of 7.8 per cent. from the same period in 2003, and the Group's earnings per share was RMB0.96, representing an increase of 7.8 per cent. compared with the same period in the prior year. During the first half of 2004, Moody's revised the Company's corporate credit rating upward to "A3/Positive Outlook". Standard and Poor's also revised the Company's corporate credit rating upward to "BBB+/Positive Outlook". These upward ratings revisions may be seen as the capital markets' tacit recognition of the Group's solid financial fundamentals.

On 1 July 2004, the Company successfully completed its acquisition of the mobile telecommunications companies in Inner Mongolia and nine other provinces and other telecommunications assets in Mainland China. The completion of this strategic acquisition extended the Group's network coverage to all provinces, autonomous regions and municipalities across the whole of Mainland China. After the acquisition, the Group's management structure was further rationalized and refined, thereby enhancing management and operational efficiency. The acquisition involved the restructuring and management reform of the target companies, which included the implementation of measures to standardize their operations, refine their comprehensive budget control systems, supplement their performance appraisal

systems and reform their human resources management and procedures, to accelerate the integration of these newly-acquired companies into the Group and improve the Group's overall profitability. As at the end of June 2004, the subscriber base of the newly acquired companies reached 26.831 million, representing a net increase of 2.334 million subscribers from the end of 2003. The operating revenue of the newly acquired companies reached RMB11,729 million, representing an increase of 14.5 per cent. over the same period in the 2003 financial year. EBITDA reached RMB5,829 million, representing an increase of 22.9 per cent. over the same period last year. EBITDA margin reached 49.7 per cent., representing an increase over the same period last year of 3.4 percentage points. Net profit reached RMB1,587 million, representing an increase of 50.9 per cent. from the same period in 2003. These financial results reflect a confluence of strategic synergies.

During the first half of 2004, the Group adopted rational strategies to respond to intensifying competition in the Chinese telecommunications market, which led to sustained favourable subscriber growth and effectively boosted voice usage through the leveraging of price elasticity and the proactive development of new businesses, thereby achieving relatively stable average revenue per user per month (ARPU) and favourable operational performance. As at 30 June 2004, the Group's mobile subscriber base reached 158.637 million, representing a net increase of 17.021 million subscribers when compared to that as at the end of 2003. Taking into account the mobile subscribers of its 10 newly acquired mobile telecommunications companies, the Group's total mobile subscriber base reached 185.468 million, representing a net increase of 19.355 million subscribers when compared to that as at the end of 2003. The Group's new businesses have been popular and their

growth momentum has continued. Total revenue from new businesses reached RMB11,105 million, representing 12.9 per cent. of the total operating revenue of the Group for the first half of 2004, and has significantly contributed to total revenue.

During the first half of 2004, the Group continued its brand enhancement and clarification initiatives, targeting identified customer segments with differentiated brand offerings to boost sales. The Group further consolidated its customer services and sales channels, while expanding its offerings of personalised services, thereby maintaining a high level of customer satisfaction. The Group's new businesses have shown an encouraging growth trend, with the popular "Short Message Service", or "SMS", maintaining stable growth, and other new businesses, such as "Color Ring" and WAP, recording impressive growth. Additionally, the Group continued to cooperate with industry participants, including terminal manufacturers, terminal sales channels and service providers, to foster an innovative collaborative business model, promoting custom made terminals with factory configured settings specific to the Group's services. The "Xinji" ("handsets that make your heart contented") marketing campaign's favourable sales results have reaffirmed the Group's leading position in the value chain of new businesses for mobile telecommunications.

Moreover, as at the end of June 2004, the Group's global roaming services covered 176 countries and regions and the Group established GPRS and Multimedia Messaging Services connections with a large number of overseas operators. The strength of these wide-ranging global affiliations gives the Group an advantage over its peers.

The Group boasts a premium, efficient and contiguous all-digital GSM network, with a footprint covering the whole of Mainland China, which is the Group's important

advantage over its industry peers. In the first half of 2004, the Group's various network performance indicators continued to show excellent results. Its advanced and efficient network operations and maintenance support systems have brought about the realisation of a centralised monitoring and network capacity early notification system, which facilitates the real-time monitoring and control of the entire network while ensuring optimal network quality, thereby helping to keep the Group ahead of its competitors. To better accommodate rapid business growth and increased voice usage volume, the Group emphasised network construction and optimization and the use of promotions and marketing initiatives to channel voice usage volume to alleviate pressure on its network resources during peak hours. The Group concurrently rationalized its existing network resources, implementing proactive measures to improve network utilization. Given the continued expansion of its businesses, the demands on the Group's network resources continue to increase. Appraising the growing market demand for telecommunications services, the Group will increase timely its capital expenditures, as management deems appropriate, to sustain optimal network performance and ensure that quality of service is kept to the Group's high standard, to provide a solid foundation for future development.

The Group recognizes the importance of employing effective management and performance incentive mechanisms. During the first half of 2004, the Group further refined its comprehensive budget control and performance appraisal systems. Concurrently, the Group implemented measures to more fully cultivate its human resources and improve overall competitiveness. As a publicly listed company, the Company has always focused on effective corporate governance, emphasizing orderly operations and thorough internal audits. In the first six

months of 2004, the Company continued to upgrade and refine the internal audit controls of its provincial operators and implement timely, appropriate and rigorous information disclosure procedures for the newly acquired companies, to ensure the Company's truthful, accurate and timely disclosure of information.

Since its establishment, the Group has always recognized its responsibility to the community and has participated in various social services. The Group continued to participate in several charities, including the "every donation shows a caring heart" 8858 charitable donation program, and provided and maintained a technical platform for its SMS-based donation channel. From the end of July 2004, the Group additionally participated in the "Lifeline Express" SMS-based charitable donation service, a mobile hospital established by Hong Kong parties to provide ophthalmologic services to patients residing in the poorest areas of Mainland China. By providing this platform, the donation channels available to "Lifeline Express" were substantially broadened.

The Company's outstanding performance has been widely recognized. In the first half of 2004, as in past periods, the Company received a number of prestigious and important acknowledgements, including being selected by the Financial Times as one of the "Global 500 Largest Companies", ranking number 67 therein; being selected, for the first time, by Business Week as one of its "Global 1000 Most Valuable Companies", ranking the highest among the Chinese companies appearing in that list; and being once again selected by Business Week as one of its "Info Tech 100" companies.

The Company holds in highest regard the interests of its shareholders and the returns achieved for them, especially the minority shareholders. Having taken into

account various relevant factors, including the Company's sustained sound corporate fundamentals, the Board has resolved to pay an interim dividend, in the amount of HK\$0.20 per share, for the year 2004, representing an increase of 25 per cent. over the interim dividend for the year 2003. The full year's dividends for the 2004 financial year will be determined by the Board following a review of the Company's full-year annual results and will take into account such factors as future business development and the financial and cash flow position of the Company. The Board considers that the Company's strong free cash flow is capable of supporting the investments required to maintain the stable growth of the Company, while also providing shareholders with a favourable cash return. The Company will continue its efforts to achieve a sustainable and steadily increasing dividend over the longer term, with a view to generating the best possible return for shareholders.

The strong and enduring growth of China's domestic economy and ever-increasing consumer purchasing power provides tremendous development opportunities for the Group. Furthermore, the Management believes that the further implementation of domestic reforms in Mainland China will, over time, result in a more fair and open telecommunications market and a more transparent regulatory environment. In such a market, the Company will continue to adhere to the principle of "win-win" competition, promoting orderly and rational competition and striving to foster a healthy environment for further industry development. This will better serve the long-term interests of consumers, companies and investors.

Following the completion of its recent acquisition, the coverage of the Group's telecommunications network extended to all the provinces in Mainland China and its footprint covered a population of some 1.3 billion. This

provides the Group with tremendous market potential. In July of this year, the Group was made an official mobile telecommunications services partner for the Beijing 2008 Olympics. Looking ahead, the Company's portfolio is filled with opportunities, but at the same time, we face competitive challenges. The Company will unswervingly pursue its developmental strategies and adhere to the philosophy that the Company's Management must always be candid, receptive, innovative and resolute. The Company will also proactively leverage its tremendous advantages of scale, implement refined management methods, optimize resource allocation and realize synergies through the integration of its 31 operating subsidiaries. The Group will consistently focus on its core mobile telecommunications business, consolidate its brand advantages, pioneer new businesses, actively monitor developments in 3G mobile telecommunications technologies, and continue to enhance its competitiveness. The Group will strive to develop in a comprehensive, balanced and sustainable manner, so as to provide an even better return for its shareholders and investors.



**Wang Xiaochu**

*Chairman and Chief Executive Officer*

Hong Kong, 18 August 2004