

## Chairman's Statement



Dear Shareholders,

In the first half of 2005, whilst facing intense competition, the Group leveraged its premium and efficient network and economies of scale and brand advantages, implemented comprehensive refined management methods over its operating companies in Mainland China, strengthened its core competitiveness and adopted effective marketing strategies, thereby steadily enhancing customer satisfaction. The Group achieved commendable operating results. The continued growth of new subscriber base was maintained and the Group recorded robust development of new businesses. The Group's operating revenue sustained a relatively rapid growth. The Company preserved sound fundamentals, further consolidated its financial strengths and reaffirmed its market leading position.

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The Group achieved remarkable financial results in the first half of 2005. In the six months ended 30 June 2005, the Group's operating revenue recorded a rapid growth and reached RMB114,547 million, representing an increase of 32.5 per cent. over the same period in the 2004 financial year. EBITDA reached RMB62,675 million, representing an increase of 27.2 per cent. over the same period last year. EBITDA margin was maintained at a high level of 54.7 per cent. Profit attributable to shareholders reached RMB24,043 million, representing an increase of 27.7 per cent. from the same period in 2004, and the Company's earnings per share was RMB1.22, representing an increase of 27.1 per cent. compared with the same period in the prior year. The Group's capital structure is solid and the Group has sustained robust free cash flow. Following the acquisition of ten mobile telecommunications companies and other telecommunications assets in Mainland China a year ago, the Group actively promoted effective post-acquisition integration and the enhancement of management efficiency, whereby the solid business growth achieved by the newly-acquired companies made positive contributions to the Group's overall business growth. The Group's leading position in the mobile telecommunications market in Mainland China has been consolidated.

For ease of comparison, on the assumption that the Group's current structure of holding 31 operating subsidiaries had been in place since 1 January 2004, the Group's operating revenue, EBITDA and profit attributable to shareholders achieved in the

first half of 2005 enjoyed an increase of 16.8 per cent., 13.8 per cent., and 19.8 per cent., respectively over the combined operating revenue, EBITDA and profit attributable to shareholders in respect of the 31 provinces, autonomous regions and municipalities during the same period of last year. It is pleasing to note that the Group's revenue attributable to its new businesses continued to grow rapidly, and it amounted to RMB22,557 million. Such revenue accounted for 19.7 per cent. of the Group's operating revenue, representing 4.2 percentage points higher from 15.5 per cent. for the full year of 2004 on a combined basis, and the revenue contribution of new businesses is increasingly notable.

During the first six months of 2005, the Group persisted in its strategic priority of "business and service leadership", focused on brand promotion, improved differentiated sales and services capability, increased its market share and raised customer satisfaction. The Group also fostered and consolidated the long-term competitive advantages in brand, service, sales channel and terminal integration, honing itself for competition. In the first half of 2005, the Group demonstrated impressive market performance and secured its leading position in the market. While the Group's mobile telecommunications subscriber base maintained a rapid growth momentum, the development of new businesses was remarkable, with the "Short Message Service" or "SMS" maintaining stable growth, "Color Ring" and WAP businesses developing rapidly, and application businesses such

as music and games maturing quickly. As at 30 June 2005, the Group's subscriber net increase reached 19.489 million, and its total subscriber base reached 224 million. Minutes of usage per user per month (MOU) enjoyed a stable increase and average revenue per user per month (ARPU) recorded only a moderate trend of decrease as a result of the revenue contributions from new businesses.

In the first half of 2005, the Group maintained its focus on brand development, and formulated individual promotion strategies for each of the GoTone, M-Zone and Shenzhouxing brands. The marketing focus for GoTone, M-Zone and Shenzhouxing is A+ business and service, business upgrade and brand image integration, respectively. The Group further consolidated and enhanced its brand advantages so that the three major brands were developed in a balanced and coordinated manner. At the same time, the consolidation and development of the Group's sales channels was satisfactorily enhanced and the management of sales channels was further improved. In respect of customer services, the Group has launched the "Across Business Process" programme, whereby the Company reorganised and standardised its service process, on the basis of the customer habitual behaviour. The consolidation of its customer services and sales channels and leverage of brand power resulted in the Group maintaining its high-value and corporate customers' loyalty level and raising customer satisfaction.

The Group boasted remarkable advantages in terms of network coverage and quality. In the first half of 2005, the Group's various network performance indicators continued to show excellent results, with the wireless connection rate of 99.1%. To better accommodate rapid business growth and increased voice usage volume, the Group actively rationalised its existing network resources, emphasised network optimisation with particular focus on areas of high usage volume and effectively channelled traffic to improve peak hour network quality and network efficiency, so as to enhance the overall network capacity. The coverage of the Group's global roaming services was further extended. As of the end of June 2005, the Group's GSM global roaming services covered 191 countries and regions and GPRS roaming services covered 79 countries and regions, thereby maintaining the Group's leading business offering position.

In the first half of 2005, the Company emphasised its integrated management over its operating subsidiaries. The Company implemented comprehensive refined management methods in the aspects of, among others, resource allocation, costs control, human resources and network management. The Company further strengthened and refined its performance appraisal systems. At the same time, the Company refined its supervisory mechanism, which facilitated its risk control. By comprehensively implementing a series of management reforms, the Group further enhanced its management efficiency and the overall execution capabilities. In the first half of 2005, the Company's

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management participated in various large global investors conferences and summit to introduce the Company's latest developments and strengthen its communications with investors. The Company also carried out a road show in Japan to the capital market and arranged for a reverse road show for analysts and fund managers at the operating subsidiaries in Mainland China, which allowed investors to gain a better and deeper understanding of the Company's management and operations. Furthermore, the Company organised a seminar on Wireless Data Business, which was attended by equipment platform vendors, service providers (SP), content providers (CP) and handset suppliers. At the seminar, there was a detailed and thorough introduction to the operation process of the value chain of wireless data business and its business development. The series of actions taken reflected the Company's consistent practice of candid communications, truthful, accurate and timely disclosure of information.

The Company's outstanding performance has won popular recognition and acclaim. In the first half of 2005, the Company was again selected by *Financial Times* as one of the "FT Global 500", ranking number 64 therein as compared to number 67 last year. The Company was selected and ranked number 128 in the "The World's 2000 Biggest Public Companies" by *Forbes* magazine. Taking into account the Company's sustained robust financial strength and stable capital structure, in July 2005, whilst revising upward China's sovereignty rating, Standard & Poor's also revised the Company's

credit rating upward from BBB+/Positive Outlook to A-/Positive Outlook, as a result of which, the Company has become the only Chinese company with a credit rating equivalent to the sovereignty rating, enjoying the highest corporate credit rating ever granted by Standard & Poor's to Chinese enterprises to date.

The Company holds in the 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 and robust free cash flow position, the Board has resolved to pay an interim dividend in the amount of HK\$0.45 per share for the year 2005. At the same time, the Company proposes to set the dividend payout ratio at 39 per cent. for the full year of 2005. The Company considers that its 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 returns for shareholders.

The continued rapid growth of Mainland China's domestic economy, the rise of urban and rural residents' disposable income and purchasing power as well as the increasing popularity and penetration of mobile telecommunications, provide the Group

with tremendous development opportunities. The coverage of the Group's mobile telecommunications network extends to all the provinces, autonomous regions and municipalities in Mainland China. This brings about enormous market potential to the Group. The deepening of China's domestic reforms in various aspects will result in a more fair, open and transparent regulatory environment and more orderly and rational competition. This will foster a more healthy market environment for the Group. Meanwhile, the competition of telecommunications market in Mainland China is still intense, and the issuance of 3G licences may bring about changes in the industry.

Looking to the future, the Group sees opportunities as well as challenges. The Group will pursue its defined development strategies, enhance its core competitiveness and expand its corporate influence, proactively leverage its economies of scale, implement refined management methods, optimise resource allocation and realise 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, and actively prepare for the commercial application of 3G mobile telecommunications technologies. As the only mobile telecommunications services partner for the 2008 Beijing Olympics, the Group will give its solid overall strength into full play, and provide premium mobile telecommunications businesses and services to help make this grand event a

greater success. At the same time, the Group will promote rational and orderly competition to foster a healthy and favourable environment for the industry and will strive to develop in a comprehensive, balanced and sustainable manner, so as to provide a better return for its shareholders and investors.



**Wang Jianzhou**

*Chairman and Chief Executive Officer*

Hong Kong, 10 August 2005