

Chairman's Statement



The Group's rapid growth continued in 2000, with total number of subscribers exceeding 45 million and the commencement of a wireless data business is encouraging. In addition, the Company successfully financed and completed the acquisition of interests in seven mobile telecommunications companies in Mainland China, making the Group the second largest mobile telecommunications operator in the world in terms of subscriber base.

Mr. Wang Xiaochu
Chairman and Chief Executive Officer

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In 2000, the Group continued its strategy of enhancing organic and external growth whilst also exploring other business opportunities in the broader telecommunications sector. The Group has shown remarkable performance in all three aspects and achieved satisfactory results. In November 2000, the Company successfully financed and completed the acquisition of interests in seven mobile telecommunications companies in China, making the Group the second largest mobile telecommunications operator in the world in terms of number of subscribers. The Group has also actively sought co-operation opportunities in the international markets, which has resulted in a strategic alliance with Vodafone Group Plc. ("Vodafone").

As at 31 December 2000, the Group had 45.13 million subscribers, representing an increase of 189 per cent. over 1999. Operating revenue was RMB65 billion, representing an increase of 68 per cent. over last year. EBITDA reached RMB37.5 billion, representing an increase of 74 per cent. over last year. Net profit and earnings per share were RMB18 billion and RMB1.25 (HK\$1.18), representing an increase of 276 per cent. and 213 per cent. over last year, respectively.

Assuming that the Group's existing structure had been in place since 1 January 2000, the Group's pro-forma combined operating revenue and EBITDA were RMB92.2 billion and RMB52.6 billion, respectively. After deducting the write-down and write-off of analog network equipment of approximately RMB1.525 billion and the interest costs for the acquisition financing of approximately RMB750 million, and after making the associated tax adjustments, the Group's pro-forma combined net profit for 2000 was approximately RMB24.7 billion.

In order to ensure the organic growth of its business, the Group focused on strengthening internal management and improving operating results in 2000. As an overseas-listed company operating in Mainland China, the Company has the advantage of being governed in accordance with international standards while benefiting from the foresight of our management. The Group has continued to implement modern corporate management systems and to apply the experience of other successful international mobile telecommunications companies to all its operating subsidiaries. The Group has further improved its corporate governance and strengthened its cost controls. In 2000, the Group implemented an all-encompassing evaluation system to assess all major aspects of the operations of its subsidiaries, established a corresponding performance-based incentive program and organised personnel exchanges and management training. The Group has also made share options available to a wider range of employees. All these measures have been beneficial to realising operating synergies among the Group's subsidiaries, enhancing the Group's enterprise value and improving employee productivity, thereby fostering staff loyalty and job satisfaction within the Company.

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As part of the Group's external growth strategy, in November 2000, the Company successfully acquired from China Mobile Communications Corporation its interests in seven mobile communications companies in Beijing, Shanghai, Tianjin, Hebei, Liaoning, Shandong and Guangxi, for a total consideration of approximately US\$32.84 billion. To finance a portion of the acquisition price, the Company issued new shares and convertible notes in the international capital markets, raising a total of approximately US\$7.555 billion in November 2000. In addition, the Company raised RMB12.5 billion by way of syndicated loans, the first in the history of the Company, which, taken together, were the largest syndicated loans ever in Mainland China. The acquisition has significantly expanded the subscriber base and geographical coverage of the Group's business to a contiguous market covering all coastal provinces, municipalities and autonomous region of Mainland China. After the acquisition, the Group's network in these 13 provinces, municipalities and autonomous region covered almost half of the population in China and subscribers of the Group accounted for approximately 53 per cent. of all mobile subscribers in Mainland China.

As envisaged by the Company's management, in the new millennium, the mobile telecommunications business continues to evolve from traditional voice transmission services to diversified value-added services as a result of rapid technological development and continuous service innovation. In 2000, the Group started the construction of the CMNet Internet Protocol ("IP") backbone network in the 13 provinces, municipalities and autonomous region serviced by the Group, on which IP long distance calling services were launched to provide subscribers with more long distance telecommunications choices. The Group

has also introduced Wireless Applications Protocol ("WAP") services on a commercial basis and continued the testing of General Packet Radio Service ("GPRS") technology. The various Short Message Services ("SMS") offered by the Group on its short message platform have been popular with subscribers in China, reflecting promising prospects for wireless data business. To facilitate the development of the Group's wireless data business, the Company has established a joint venture Wireless Data Research and Development Centre, Aspire, with Hewlett Packard and other parties, which the Company's management believes will help the Group to assume a leading position in the wireless data telecommunications sector in Mainland China. The Group has also set up a unified wireless data platform and has used this platform for the introduction of the "Monternet" mobile Internet portal, making the Group the first mobile service provider in Mainland China to combine an Internet portal with mobile telecommunications services.

The Group has made significant efforts in exploring co-operation opportunities internationally. These efforts have led to our Strategic Alliance Agreement with Vodafone. We are also honoured to have Mr. Chris Gent, the Chief Executive of Vodafone, join the board of the Company as an independent non-executive director. This milestone strategic alliance represents a major step forward for the Group in becoming a world-class, global wireless multimedia services provider. The Group and Vodafone have started to implement various initiatives for technological and operational co-operation.

At a time when the Group's business is developing rapidly, it is necessary that the Group retains available capital to support capital investment, in the interest of realising better returns to our shareholders. Accordingly, the Board of Directors does not recommend the payment of a dividend this year.

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The outstanding performance and results of the Group in 2000 won popular recognition from the financial and investment communities and a number of awards such as "Overall Best Managed Company in China 2000" and "Best Asian Equity Issue" from leading financial publications *asiamoney*, *EuroWeek*, *FIA* and *FTA*.

From a global perspective, China is expected to continue to experience relatively high economic growth despite signs of a slow down in the international economy. The relevant Chinese government authority has estimated that China's economic growth will continue at an annual rate of 7 per cent. over the next few years. In the area of mobile telecommunications, although the relatively high penetration rate of current-generation (2G) mobile telecommunications services has resulted in saturated markets and low growth rates in many other regions around the world, and while the next-generation (3G) mobile telecommunications technologies have not yet become sufficiently mature, the Company's management believes that there is still substantial development potential for 2G mobile telecommunications technologies in China given the relatively low penetration rates. Looking forward, the Company's management is confident about the future development of the Group's business. The Group will continue to emphasize long term and stable development, seeking not only to further expand our subscriber base, but also continue to improve operating efficiency and enhance corporate value. The Group will endeavour to further develop and enhance a market-oriented management structure and internal management systems, especially in the area of human resources management. With respect to its business operations, the Group will further upgrade the quality of its product offerings,

providing improved and more personalised services, and explore new opportunities to expand the range of Value-Added Services ("VAS"). The Group also expects to strengthen its corporate image as a quality mobile telecommunications operator and market leader by adopting a flexible, market-oriented and customer-driven approach. In addition, the Group will continue to exercise prudence in financial management and pursue strategic investment opportunities.

Since the establishment of the Company, we have firmly focused on providing subscribers with excellent services and enhancing shareholder value. Though the Group has made great progress in recent years, and has become the world's second largest mobile telecommunications operator, its focus remains unchanged. While continuing to enhance the Group's services to its subscribers, we will, as always, maintain the Group's quality fundamentals and commitment to investor transparency, and continue to enhance corporate value in order to generate good returns to our shareholders.

I would like to take this opportunity to extend my deep and sincere thanks to the investors for their support, the members of the Board for their co-operation, and all employees for their hard work over the past year.



Wang Xiaochu

Chairman and Chief Executive Officer

Hong Kong, 9 April 2001