



During 2001, the Group continued to actively develop its market and enhance its network functionality. On the basis of thorough customer analysis and market segmentation, the Group proactively combined various operational and sales strategies to provide a wide range of differentiated and personalised services to subscribers. These enabled the Group to achieve good operating results in 2001, to capitalise on the increasing benefits of achieving economies of scale and to secure the Group's position as the market leader in Mainland China's mobile telecommunications industry.

The table below summarizes the key operating data of the Group for the period from 1999 to 2001. Operating figures shown in this table and the "Business Review" section for the year 2001 are consolidated results. Unless otherwise stated, all other figures are pro-forma combined figures, which means that it is assumed that the Group's existing structure (including thirteen mobile telecommunications companies) was in place during the three years from 1 January 1998 to 31 December 2000.



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### Key Operating Data of the Group for 1999 through 2001

	1999	2000	2001
Mobile Subscribers ('000)	25,742.6	45,133.9	69,642.7
Net Additional Subscribers ('000)	10,214.9	19,391.3	24,508.8
Total Usage (Million Minutes)	89,440.7	125,143.1	161,270.8
Average Usage per User per Month (MOU) (Minutes/User/Month)	366	299	233
Average Revenue per User per Month (ARPU) (RMB/User/Month)*	299	221	145
SMS Usage Volume (Million Messages)	N.A.	440.1	6,075.4

	1999	2000	2001
Contract Subscribers			
Mobile Subscribers ('000)	25,742.6	32,408.5	34,010.3
Average Usage per User per Month (MOU) (Minutes/User/Month)	366	326	329
Average Revenue per User per Month (ARPU) (RMB/User/Month)	299	241	199

	1999	2000	2001
Prepaid Subscribers			
Mobile Subscribers ('000)	N.A.	12,725.4	35,632.4
Average Usage per User per Month (MOU) (Minutes/User/Month)	N.A.	125	103
Average Revenue per User per Month (ARPU) (RMB/User/Month)	N.A.	87	72

\* Except as otherwise noted, all figures shown are expressed in Renminbi.

As at the end of 2001, the Group's subscriber base totalled 69.643 million subscribers, representing an increase of 54.3 per cent. compared to the previous year. The aggregate subscriber usage volume reached 161.27 billion minutes, representing an increase of 28.9 per cent. compared to the previous year. The number of mobile data services users reached 21.319 million, representing an increase of 74.9 per cent. compared to the previous year. SMS usage volume in 2001 reached 6.075 billion messages, representing an increase of 12.8 times compared to the previous year. At the same time, customer loyalty in 2001 also improved significantly.

### Sustained Rapid Growth of Voice-related Mobile Telecommunications Services

#### Rapid Growth of Subscriber Base Approaching 70 Million Subscribers

The Group's subscriber base continued its strong growth trend in 2001. As at 31 December 2001, the Group's subscriber base totalled 69.643 million subscribers, of which 34.01 million were contract and 35.632

million were pre-paid subscribers. When compared to the Group's subscriber base in 2000 of 45.134 million subscribers, the net increase in the Group's subscriber base in 2001 totalled 24.509 million subscribers.

As at the end of 2001, the Group's market share in its service areas was approximately 72.4 per cent. and the Group captured approximately 64.5 per cent. of the net additional subscribers in the market for the year 2001, thereby maintaining its position as the market leader in Mainland China.

As at 31 December 2001, the overall mobile telephone penetration rate in areas serviced by the Group was 15.2 per cent., with penetration rates in some provinces remaining at relatively low levels. For instance, the penetration rate in Shandong province is less than 9 per cent., while the penetration rate in Henan province is at a mere 5.4 per cent. Despite the slowdown in global economical growth, China's domestic economy has continued to maintain its high growth trend, demonstrating the enormous potential of the mobile telecommunications market in Mainland China.

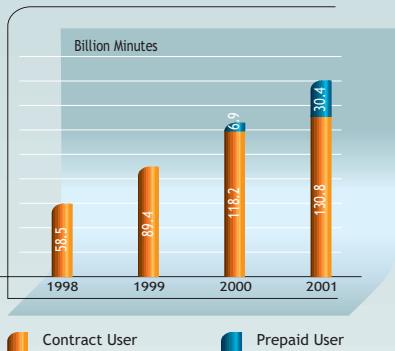
Rapid Growth in Subscriber Base



## Steady Growth in Usage Volume

The Group's aggregate subscriber usage volume in 2001 reached 161.27 billion minutes, representing an increase of 28.9 per cent. over 2000. This was mainly due to the rapid growth in subscriber base and the Group's targeted promotion of differentiated services, thereby prompting an increase in subscriber usage volume.

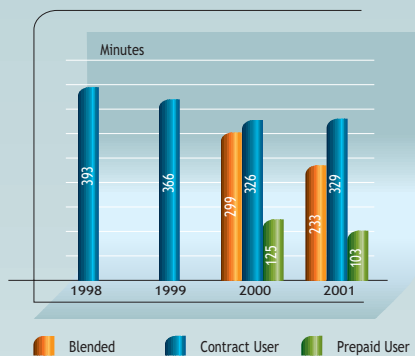
### Total Usage



The average minutes of usage per user per month (MOU) in 2001 was 233 minutes. The average revenue per user per month (ARPU) in 2001 was RMB145. The MOU and ARPU of contract subscribers in 2001 were 329 minutes and RMB199, respectively. The MOU and ARPU

of prepaid subscribers in 2001 were 103 minutes and RMB72, respectively.

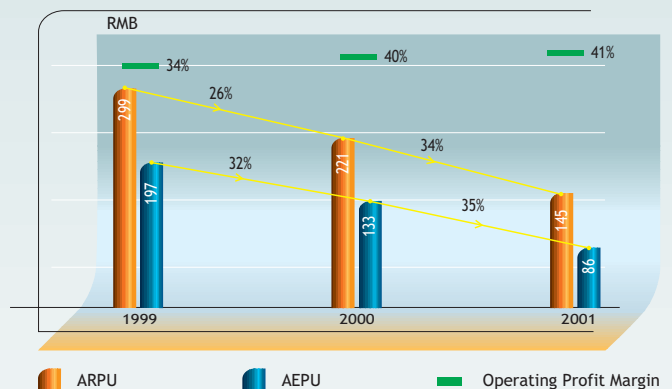
### MOU



The Group's MOU and ARPU in 2001 declined when compared to that of 2000, which was partly attributable to the fact that 93.5 per cent. of the Group's net increase in subscribers in 2001

were prepaid subscribers. The decline was also attributable to one-off tariff adjustments such as the cancellation of connection fees and surcharges and the adjustment of long distance call tariffs, the increasing popularity of IP-based long distance call services, which carry lower tariffs when compared to traditional long distance call services, and the various privileges that the Group offers to its high-value customers under the Group's loyalty programs. The Group also consolidated its market share of the high-value subscriber segment through increasing economies of scale and by adopting business strategies of services differentiation. In 2001, the churn rate of the Group's subscribers with ARPU exceeding RMB300 was maintained at a very low level of 0.5 per cent.

### ARPU, AEPU and Operational Efficiency



As a result of improving management standards and continuously raising operational efficiency, the Group's average expenses per user per month (AEPU) has been decreasing in recent years. The Group's AEPU in 2001 was RMB86, representing a decrease of 35.3 per cent. when compared to the figure in 2000. As a result, the Group's operating profit margin maintained its positive growth trend, notwithstanding the decline in ARPU due to factors such as one-off tariff adjustments.

## Rapid Development of New Businesses

### Convenient and Useful New Businesses

In 2001, the Group achieved remarkable progress in the development of new businesses

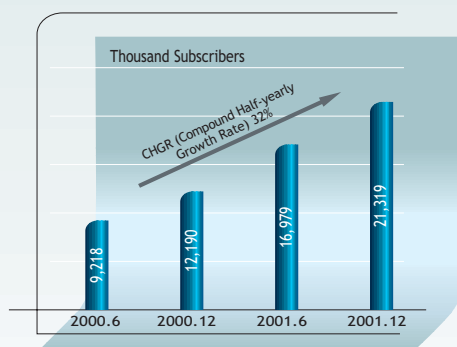
such as mobile data services and voice value-added services. The Group also strengthened its co-operation with key members throughout the wireless data value chain on joint product development. The "one key log on to Monternet home page" and "pre-configuration of our proprietary user interface" for numerous manufacturers' handsets have been completed. In conjunction with other leading market participants, the Group has cultivated a vibrant service provider (SP) community to develop rich and innovative content and applications. The Group has also been exploring and developing the mobile data services market with the introduction of combined voice-data services such as "M-Secretary" and "M-Magazine". These new services increase the Group's revenue from voice and

new services. In 2001, the Group's revenue from new businesses grew steadily to RMB3.03 billion, representing an annual growth rate of 57.0 per cent.

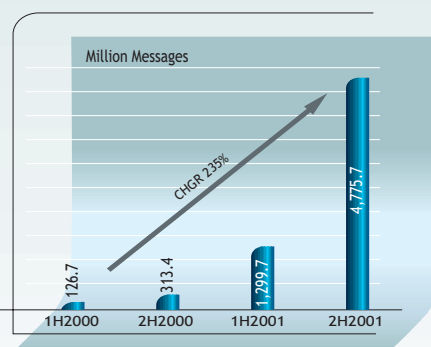
## Rapid Growth in Short Message Service (SMS)

The Group achieved encouraging progress in the expansion of its subscriber base for mobile data services. As at the end of 2001, the number of mobile data services subscribers reached 21.319 million, representing 30.6 per cent. of the Group's subscribers base and an increase of 74.9 per cent. over the Group's subscriber base for mobile data services of 12.19 million subscribers in 2000. At the same time, the Group's Short Message Service (SMS) maintained its rapid growth trend in 2001. SMS usage volume in 2001 reached 6.08

Number of Mobile Data Services Users



SMS Usage





*Monternet – My Travel Companion*

billion messages, representing an increase of 12.8 times over the total usage volume of 440 million messages in 2000. SMS has for the first time assumed the scale of a distinct line of business.

### Solid Progress in the Development of the "Monternet" Business

The Group commenced the implementation of the "Monternet" Project in the fourth quarter of 2000 with a view to developing a unified Mobile Information Service Center (MISC) platform to enhance the management of wireless data business and to position the wireless data business as one of the key areas for new business development. The Group's wireless data brand name "Monternet" has attained a high

level of brand recognition. At present, there are more than 300 service providers in China who participate in the "Monternet" Project.

With the "Monternet" business as its core, the Group has continued to develop new businesses targeting different market segments and customer groups. In 2001, the Group launched over 5,000 distinct "Monternet" applications and services, including "M-Zone" targeting the youth market and "M-Office" targeting the corporate subscriber and individual business subscriber markets. In the Group's view, the provision to the corporate subscribers of an integrated, unified mobile voice-data solution, utilising a combination of such technologies as Virtual Private Mobile Network (VPMN)

and group SMS, can foster the development of data businesses and assist the Group in making its services more appealing to customers and in retaining corporate subscribers. This has greatly increased the Group's profitability. The implementation of the "Monternet" Project represents a tremendous push in the development of wireless data businesses.

### Quality Services Enhance Customer Satisfaction

#### Quality Networks

The Group discontinued the use of its analogue networks at the end of 2001 and achieved the goal of operating unified, all-digital networks, thereby lowering the Group's operating costs, raising operational efficiency, and establishing the platform on which the Group can offer new services to all subscribers.

In 2001, through network optimisation and improvements to network coverage, the Group specifically improved network quality in high traffic areas, particularly in commercial buildings, busy streets, subways, major highways and at tourist attractions. The wireless connection rate of the Group's networks reached 99.78 per cent. while the voice call drop rate was only 0.46 per cent. As at the end



of 2001, the number of mobile switching centers and base stations in the Group's GSM network reached 599 and 43,223, respectively. Network capacity and network utilisation rate reached 83.618 million subscribers and 83.3 per cent., respectively. Each of these benchmarks represented an increase over last year. Both the quality and scale of our network have established a leading standard among international mobile telecommunications companies.

In 2001, the Group further expanded its roaming service reach to include international roaming services in the United States, Japan and Korea. As at the end of 2001, the Group's international roaming services covered 90 countries and regions, connecting 152 operators.

### Comprehensive Customer Satisfaction Surveys and Specifically Targeted Service Enhancement Programs

The Group considers the continuous improvement in "customer satisfaction" as the key indicator of high-quality customer service. As mobile telecommunications services gain ever-increasing acceptance, the demands placed on mobile service providers by subscribers are also increasing. Given this circumstance, the Company,

together with top-tier international market research companies, has conducted regular customer satisfaction surveys for the Group's 13 mobile telecommunications subsidiaries and has undertaken a comprehensive examination of the business promotion activities of these subsidiaries, as well as service processes that involve direct interaction with customers, including network quality, sales, payments and after-sales service.

At the same time, when evaluating the results of the Group's 13 mobile communications subsidiaries under these evaluation criteria, the Group has steadily raised the standards required in relation to "customer satisfaction" as an evaluation criterion, and has

tailored evaluation guidelines for each subsidiary to measure those performance indicators where the results obtained suggested a need for improvement. The Group will continue to guide each subsidiary to enhance its business processes and improve service standards, urge each relevant subsidiary to prepare and implement corresponding service improvements by prescribed deadlines.

According to two customer satisfaction surveys conducted in 2001, marked progress has been made to the Group's overall service quality. "Customers' perceived network quality" improved significantly in the second half of 2001 and "customer loyalty" increased from 58 per cent. in the



*Improved network quality in high traffic areas*

first half of 2001 to 61 per cent. in the second half of 2001, thus placing the Group within the range comparable with other leading international mobile telecommunications operators.

### Enhancing Our Sales Network

The Group organises its sales network in accordance with established grades and levels, and a combination of sales and service channels has gradually emerged, with the Group's proprietary sales outlets and the customer service hotline forming the core, franchised stores serving as the main sales and service entities, and retail outlets comprising the main sales force. Online sales outlets and mobile sales outlets comprise the latest and most contemporary sales and service model. The Group's proprietary sales outlets, while relatively few in number, provide excellent service and have evolved to become the Group's flagship sales and service vehicle. Franchised stores provide sales and a variety of other quality services to customers, whereas retail outlets focus mainly on providing sales services through their widespread networks. As of the end of 2001, the Group had a sales network consisting of approximately 35,000 outlets, representing an increase of 31.7 per cent. over 2000. Among these outlets, about 1,500 were the Group's proprietary sales outlets.

By enhancing the management, training and support of sales channels, further improving the incentive schemes and extending the evaluation criteria for the service quality of sales outlets, the Group has raised the loyalty and service standards of its sales network.

### Improved Business Operation Support System (BOSS) Enhances Service Capacity

The Group's BOSS is a unified, comprehensive business support system, which enables the sharing of information resources. It standardises and integrates the Group's sales, billing, settlement, customer service and network failure handling databases in a centralised and orderly manner. Through implementing BOSS, the Group has realised links with sales and service channels such as banks and post offices, gradually improving business processes and increasing the support and customer service capabilities of BOSS.

### Innovative Diversified Services

By promoting VPMN services and programs such as a reward point accumulation scheme for high-usage customers, the Group has increased customer retention, thereby consolidating the base of high-value subscribers and corporate customers.

VPMN was implemented in certain market segments, taking into consideration estimates of the internal usage of individual corporate customers and following a targeted approach premised on ensuring the Group's revenue growth. The Group provides comprehensive solutions to corporate customers through VPMN, which not only enhances the loyalty of corporate customers and stimulates usage, but also attracts potential customers to switch over to the Group's services. The Group does not advocate the strategy of relying on price cutting to increase its subscriber base. However, on the basis of maintaining long-term, sustained and favourable development and in accordance with the overall net profit and cash flow targets, the Group may offer short-term preferential pricing privileges in such locations and in response to market competition as may be considered appropriate to ensure the optimisation of the Group's competitive advantage.

Through dedicated account executives, the Group provides comprehensive VIP services to high-value customers and corporate customers, often including such personalised accommodations as on-site visits and analyses, so as to ensure better and timely understanding of the needs of such customers. Through co-operation with other

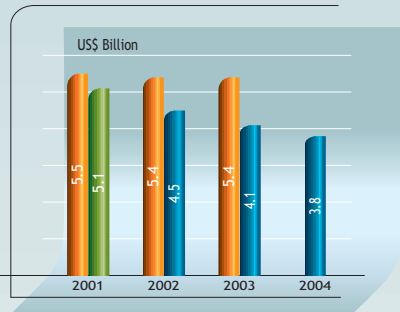


industries, the Group also issues VIP cards to its high-value subscribers so that they may enjoy privileges in other industries. The Group also provides training in the use of new services to its high-value subscribers on a timely basis, as well as preferential trial use of new services.

### Capital Expenditure

Capital expenditure of the Group in 2001 was approximately US\$5.1

Capital Expenditure



■ Originally Budgeted Capital Expenditure for 2001-2003  
■ Actual Capital Expenditure in 2001  
■ New Budgeted Capital Expenditure for 2002-2004

*Note: Minimal capital expenditure is currently budgeted annually for 3G monitoring and experimentation.*

billion. When compared to the original budgeted capital expenditure, the Group achieved a savings of approximately US\$400 million mainly as a result of the decline in the cost of telecommunications equipment. Capital expenditure in 2001 was devoted primarily to the construction of GSM networks, transmission facilities and infrastructure buildings. In addition to meeting the planned construction targets, the Group has acquired and constructed additional transmission networks in certain high-traffic areas after carrying out a cost-benefit analysis, in order to bolster the Group's cost competitiveness, operational flexibility and long-term profitability. Moreover, in accordance with its business development requirements, the Group also acquired and constructed additional infrastructure buildings to take advantage of the flat property market. To accommodate the restructuring and optimisation of business processes and improvements to operational efficiency, the Group also stepped up investments in the construction of the support systems that incorporate information systems.

The Group has budgeted US\$12.4 billion for capital expenditure for 2002 to 2004, after taking into consideration the projection that the Group's future business will continue to grow at a steady rate, the costs savings that can be achieved through focusing upon centralising large scale procurement of telecommunications equipment and the fact that the advantages of the economies of scale attained by the Group's networks are becoming increasingly apparent. The capital expenditure planned for 2002 to 2003 has been reduced by 20 per cent. or US\$2.2 billion from originally budgeted amounts. This will help strengthen the Group's free cash flow. The capital expenditure planned for 2002 through 2004 will be used mainly in the construction of GSM networks, support systems, transmission facilities and infrastructure buildings and the development of new technologies and new businesses. The required funds will be sourced largely from cash generated by the Group's operational activities.

In relation to the management of investment and construction projects and capital expenditure



planning, the Group will continue to optimise the business process for procurement and investment management, focus on centralising large scale procurement, emphasise market research and model analysis and fully realise operational synergies, so as to effectively manage capital expenditure and ensure investment returns.

The Group will continue its long-standing development strategies to pursue rapid growth while ensuring subscriber quality, to maintain its position as the market leader in Mainland China's mobile telecommunications market. These development strategies include relying upon market demand as a general guide as well as leveraging upon the goodwill of the Group's reputable brand name, the quality of the Group's network, the tremendous development potential of the Group's new businesses, the Group's increasingly sophisticated sales channels and continuously improving customer services.