



117,680,000

subscribers — the world's largest mobile operator



Business Review

In 2002, focusing exclusively on the business of mobile telecommunications, the Group endeavored to enhance its network utilization rate and build premium networks. By offering a wide variety of personalized services and products, the Group has raised the satisfaction level of its customers, retained existing high value customers, and enhanced its attractiveness to potential high value customers. These efforts have resulted in the Group's satisfactory operating performance. In 2002, the Group completed the acquisition of Anhui Mobile and the other seven mobile telecommunications companies (the "Acquisition") and created a subscriber base far larger than that of any other mobile telecommunications operator in the world, with a single network covering a contiguous region. The Group further realized economies of scale, increased competitiveness and maintained its position as the market leader in Mainland China's mobile telecommunications industry.

As at the end of 2002, the Group's subscriber base reached 117.676 million, representing an increase of 29.9 per cent. from 2001. The aggregate subscriber usage volume reached 260.09 billion minutes, representing an increase of 24.6 per cent. from 2001. The number of mobile data services users reached 57.733 million, representing an increase of 114.3 per cent. from 2001. SMS usage volume reached 40.41 billion messages, representing a 4.6 fold increase from 2001, and revenue from new businesses increased by 143.4 per cent. from 2001.



The table below summarizes the key operating data of the Group for the period from 2000 to 2002. Unless otherwise stated, operating figures shown in this table and in the "Business Review" section are 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 three-year period from 1 January 2000 to 31 December 2002.

Key Operating Data of the Group for 2000 through 2002

	2000	2001	2002
Mobile Subscribers (Millions)	58.0	90.6	117.7
Net Additional Subscribers (Millions)	25.0	32.6	27.1
Total Usage (Billion Minutes)	158.4	208.8	260.1
Average Usage per User per Month (MOU) (Minutes/User/Month)	296	234	207
Average Revenue per User per Month (ARPU) (RMB/User/Month)*	213	141	115
SMS Usage Volume (Billion Messages)	0.5	7.3	40.4

	2000	2001	2002
Contract Subscribers			
Mobile Subscribers (Millions)	42.0	46.9	49.0
Average Usage per User per Month (MOU) (Minutes/User/Month)	322	324	334
Average Revenue per User per Month (ARPU) (RMB/User/Month)	231	189	176

	2000	2001	2002
Prepaid Subscribers			
Mobile Subscribers (Millions)	16.0	43.7	68.7
Average Usage per User per Month (MOU) (Minutes/User/Month)	122	103	99
Average Revenue per User per Month (ARPU) (RMB/User/Month)	86	72	63

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



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Continued Strong Growth in Voice-related Mobile Telecommunications Services

The Group's subscriber base and usage volume continued to grow steadily in 2002, enabling the Group to achieve satisfactory financial results and maintain its position as the market leader in the mobile telecommunications industry in Mainland China.

Steadily Growing Our Subscriber Base and Maintaining Our Leading Market Position

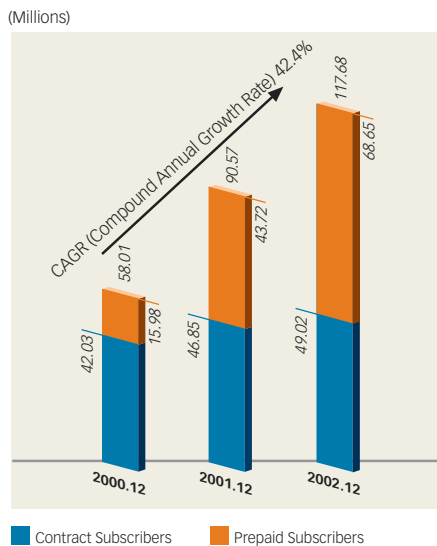
In 2002, as Mainland China's mobile telecommunications market became increasingly competitive, the Group adopted prudent, rational and scientific operational and sales measures, enhanced customer value, strengthened the business integration of voice-related mobile telecommunications services and mobile data services, launched a "Customer Point Reward Program" and provided differentiated and personalized services targeting the different needs of subscribers. In addition, the Group's subscriber base continued its steady growth. As at 31 December 2002,



the Group's subscriber base reached 117.676 million, of which 49.024 million were contract subscribers, and 68.652 million were prepaid subscribers. In 2002, the total net increase in the Group's subscriber base was 27.106 million.

As at the end of 2002, the Group maintained its position as the market leader in Mainland China, with a market share in its service areas of approximately 67 per cent. The mobile telephone penetration rate in areas serviced by the Group was approximately 16.7 per cent. The majority of the eight provinces (municipality) serviced by Anhui Mobile and the other seven mobile telecommunications companies acquired by the Company in 2002 had a mobile telephone penetration rate of less than 10 per cent.

Rapid Growth in Subscriber Base



The continued growth of China's domestic economy, the corresponding increasing demand for mobile telecommunications services and further development of "Informationization" reflect the enormous development potential of Mainland China's mobile telecommunications market.

Concurrent Growth in Usage Volume and Subscriber Base

In 2002, the Group achieved concurrent growth in both usage volume and subscriber base. The aggregate mobile subscriber usage volume reached 260.09 billion minutes, representing an increase of 24.6 per cent. from 2001. The concurrent growth in usage volume and subscriber base is fundamental to the Group's satisfactory financial results. The rapid growth in usage volume resulted not only from the continued growth in subscriber base, but was also closely related to the Group's diverse and differentiated service offerings, the launch of the "Customer Point Reward Program", as well as the promotion of corporate mobile applications.

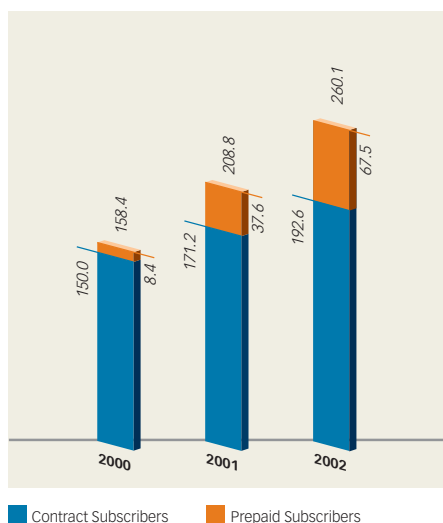
The Group's average minutes of usage per user per month (MOU) in 2002 was 207 minutes, representing a decrease of 11.3 per cent. from that of 234 minutes in 2001. The MOU of contract subscribers and prepaid subscribers in 2002 were 334 minutes and 99 minutes, respectively.

Increasing Economies of Scale

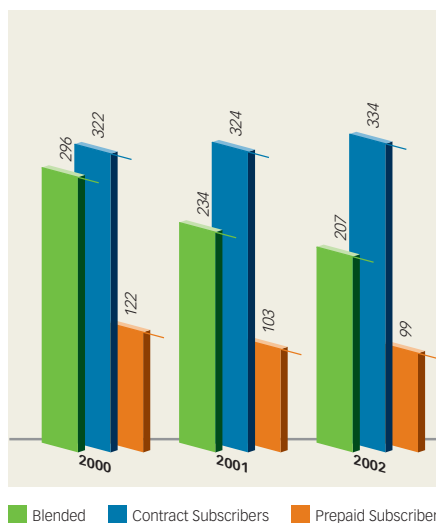
The Group's average revenue per user per month (ARPU) in 2002 was RMB115, of which the ARPU of contract subscribers and prepaid subscribers was RMB176 and RMB63, respectively. Although the subscriber base grew rapidly, the majority of these new subscribers were low-usage customers. This factor, together with the increasingly intensive competition for customer usage volume, led to a decline in the Group's ARPU. However, the decline has moderated noticeably, with the adoption of rational and effective business strategies and rapid growth in the Group's new businesses. During the same period, average expenses per user per month (AEP) was continuously maintained at a relatively low level, as a

Total Usage and MOU

Total Usage
(Billion Minutes)



MOU
(Minutes)



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result of advanced management strategies and effective controls on costs and benefits, thereby ensuring that profitability was maintained at an appropriate level. The Group's enormous subscriber base, following completion of the Acquisition, further ensured strong growth in revenue and profit, as the Group realized increasing economies of scale.

Rapid Development of New Businesses

The Group's new businesses, principally its Short Message Service (SMS), continued their rapid pace of development. New businesses accounted for an ever-larger proportion of the Group's operating revenue. The increasingly advanced "Monternet" and continuous introduction of content-rich and diversified new businesses further consolidated the Group's position as the leader in Mainland China's mobile data market.

SMS Based New Businesses Continued to Grow Rapidly

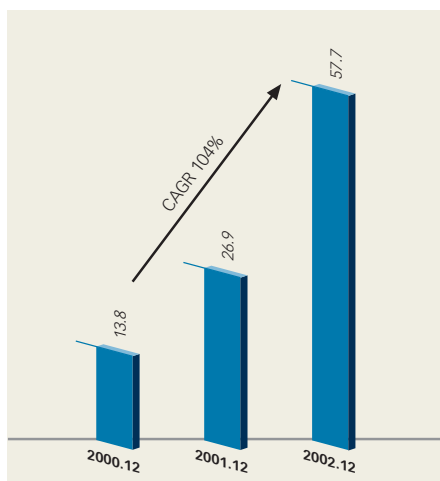
The Group's new businesses, driven largely by SMS, continued to grow rapidly in 2002. Mobile data services have become increasingly popular. As at 31 December 2002, the number of mobile data services users reached 57.733 million, representing 49.1 per cent. of the total number of users, and an increase of 19.3 percentage points from 2001. The number of mobile data services users increased by 114.3 per cent. from 2001, and SMS usage volume reached 40.41 billion messages, representing a 4.6 fold increase from 2001. The annual growth rate of new businesses revenue reached 143.4 per cent.

The Group's "win-win" "Monternet" business model has attracted a host of service provider (SP) allies. As at the end of 2002, we had more than 500 SP "partners". The rich and continuous stream of premium Monternet service offerings contributed to the revenue growth in SP mobile data businesses as well as that of the Group, and set the scene for a flourishing mobile data services market.

Rapid Growth in New Businesses

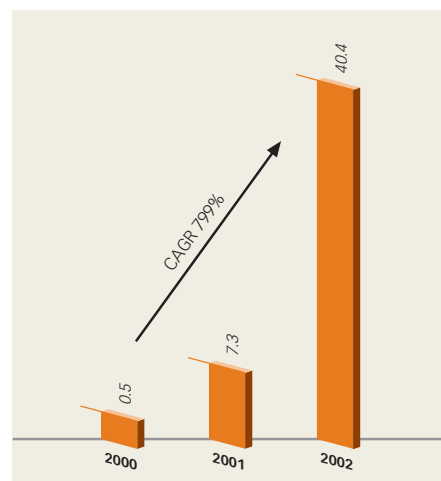
Number of Mobile Data Services Users

(Millions)



SMS Usage

(Billions)





A Pioneer in the Mobile Data Market

By fully leveraging its own networks, technologies and creativity, the Group was the first to launch a series of new businesses, such as “Monternet”, MMS, mobile Internet, M-commerce, GPRS applications-based and intelligent network-based value-added services and corporate applications. Through the provision of timely, diversified and personalized message services, mobile terminals have been transformed from a single-purpose communications tool into a multi-purpose information terminal. This not only increased the Group’s business revenue but also effectively enhanced its corporate image and consolidated the Group’s position as the market leader in Mainland China’s mobile data industry.

The Group launched the “M-Zone” services to the trendy youth market and provided integrated mobile solutions to corporate and business subscribers based on its analysis of market segments. “M-Zone” has been effective in cultivating the practice of regular use of mobile data services among youthful subscribers and in increasing ARPU. The integrated mobile communications solutions for corporate customers have not only enhanced the managerial and operational efficiency of our corporate subscribers, but have also assisted in strengthening the Group’s relationships with these key clients, and are central to the Group’s initiative to enhance customer satisfaction.



Business Review

Building Premium Networks and Upgrading Support Systems

The Group is exclusively focused on the business of mobile telecommunications. We are devoted to honing our networks to perfection and continuously increasing the capabilities of our supporting infrastructure to maintain the quality and scale of our networks at a leading position in the industry.

Building High Quality Mobile Telecommunications Networks

In 2002, the Group continued to improve network management, enhance network quality, optimize resource allocation and build premium mobile telecommunications networks, thereby improving our ability to introduce new businesses rapidly, to safeguard service quality and to maintain efficient operations. The Group conducted quality evaluations of its networks on the basis of subscriber perceptions, and then adjusted and optimized the physical network based on such evaluations, thereby increasing the utilization rate and network security, improving coverage efficiency in key regions and further increasing network capacity in high traffic areas. In 2002, the wireless connection rate of the Group's networks reached 99.7 per cent., while the voice call drop rate was a mere 0.8 per cent. As at 31 December 2002, the Group had 1,020 mobile switching centers and 84,824 base stations. Network capacity reached 141 million subscribers, and the network utilization rate reached 83.2 per cent. The quality and scale of the Group's networks continued to lead in the industry.



In 2002, the Group further expanded its global roaming services coverage. As at the end of 2002, the Group's mobile telecommunications global roaming services covered 116 countries and regions and connected 196



operators. In December 2002, the Group also rolled-out international SMS services, enabling the Group's subscribers to exchange short messages with the subscribers of the 134 operators, throughout 63 countries and regions worldwide.

Upgrading Support Systems

The Group upgraded and centralized its Network Management System (NMS), Management Information System (MIS) and Business Operation Support System (BOSS) in 2002 to adapt to ever-changing market developments and intensifying competition, improve the Group's management of operations, services and customers, bolster support and responsiveness for new businesses and meet the ever-changing and expanding needs of customers. These measures produced an overall improvement in the Group's network management, corporate information, billing, settlement and business management, and ensured the smooth execution of the Group's sales and service policies.

Striving for Customer Satisfaction

The Group is committed to ensuring customer satisfaction and increasing its core competitiveness, and established certain closed-loop management procedures through assessments of "customer satisfaction" based on customer perceptions. The Group's "customer loyalty" measure increased by 4 percentage points in 2002 compared to 2001, while the proportion of customers who "perceive that they receive superior services" increased substantially.

Improving Customer Service Standards

The Group introduced a Corporate Client Account Relationship Manager system, whereby account managers provide on-site, "one-on-one" personalized

service to high-value and corporate customers and set up designated service centers, complaint hotlines and service hotlines to improve service quality. The Group also further reorganized its sales distribution channels, with proprietary/co-operative sales outlets, franchise stores and designated specialty stores serving as the main sales and services entities, and general sales agency outlets as the main sales entities. Concurrently, the Group's service hotlines and on-line services were upgraded, to further raise service standards and enhance the capabilities of the overall distribution system, improving service quality and strengthening the administration of distribution channels. The Group also set up concept shops in key cities to showcase the function, philosophy and culture of its data businesses, to enhance the customers' experience and facilitate targeted sales and marketing activities.

By upgrading and centralizing the BOSS applications in 2002, service standards for customer management and call centers showed an overall improvement, as did the accuracy and timeliness of billing and settlement. This laid a solid foundation for differentiated service offerings. In July 2002, the Group changed its billing and settlement cycles to calendar months and implemented a "Pick-a-Day Payment Plan", allowing customers to make payments on any date within each calendar month. With these improvements to our service procedures, subscribers can obtain, through a variety of different channels, clear and accurate billing information, and make payments by various means, including by visiting a sales outlet or bank, by the use of top-off cards or by pre-payment. These improvements have made it more convenient for subscribers to enjoy our services and have raised customer service standards.



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Continuously Enriched Offerings of Differentiated Services

In 2002, the Group implemented a “Customer Point Reward Program”, which is a bonus point based scheme that rewards customers according to their service consumption, loyalty and payment history. Based on customers’ annual point accumulations, high-value customers are further classified into four categories: “GoTone Diamond”, “GoTone Gold”, “GoTone Silver” and “GoTone VIP” cardholders. Customers in these four classifications are eligible to receive targeted rewards, including some of the Group’s own products and services, as well as those of our business partners. The implementation of the “Customer Point Reward Program” and the close co-operation between the Group and Vodafone Group Plc. in customer relationship management and customer churn analysis, have reinforced the Group’s efforts to segment the market scientifically and provide customers with differentiated and personalized services, thereby stimulating consumption and promoting customer retention.

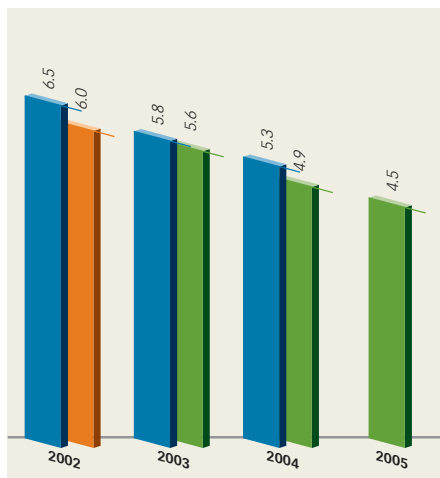


Capital Expenditure

With a view to ensuring its long-term development and continued market leadership, the Group is committed to optimizing capital expenditure and to ensuring that capital expenditure is held at a reasonable level.

The Group’s capital expenditure in 2002 was approximately US\$6 billion, which represents a savings of approximately US\$500 million from the original plan, mainly as a result of the Group’s meticulous management of investment projects. Capital expenditure in 2002 was devoted primarily to the construction of GSM networks, transmission facilities, infrastructure buildings and support systems. In addition to the construction of telecommunications infrastructure, the Group stepped up its investments, to an appropriate degree, in the construction of support systems that incorporate BOSS and MIS, to boost service and management standards, as well as operational efficiency.

Capital Expenditure
(US\$ Billions)



Legend:
■ Originally Budgeted Capital Expenditure for 2002-2004
■ Capital Expenditure in 2002
■ Newly Budgeted Capital Expenditure for 2003-2005

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



The Group's newly budgeted capital expenditure from 2003 to 2005 is US\$15 billion. The budgeted capital expenditure for each of the three years is US\$5.6 billion, US\$4.9 billion and US\$4.5 billion, respectively. New capital expenditure planned for 2003 and 2004 is less than the sums originally budgeted. The capital expenditure for the next three years will be used mainly for the construction of GSM networks, support systems, transmission facilities, infrastructure buildings, and for the development of new technologies and new businesses. The required funds will be sourced largely from cash generated from the Group's operations.

The Group will focus on optimizing and perfecting its GSM networks, while increasing network capacity as required to accommodate traffic growth. After conducting comprehensive assessments and comparisons, the Group's proposed construction of its own transmission facilities within certain regions was determined to be economical and reasonable. Expenditures for infrastructure buildings will ensure the Group's future development. The Group will also appropriately increase its investments in support systems. The development of new technologies and businesses will be considered in light of market needs and technological trends. The Group will continue to adopt prudent and effective investment strategies for the planning of investment projects and the implementation of investment plans.

Business Strategies

2002 was a year marked by ever intensifying competition in Mainland China's mobile telecommunications market. However, by adopting solid, rational and scientific operational and sales measures, the Group was able to attract and retain customers with its offerings of differentiated services and quality products. By providing quality mobile telecommunications services to customers by means of efficient, unified and all-digital premium networks, the Group secured its leading position in the market and delivered satisfactory financial results.

The Group will continue to focus exclusively on the business of mobile telecommunications, retain and develop current and potential high-value customers, develop reputable products and services, leverage our leading position, take advantages of our high-quality network, network scale and new businesses, improve sales strategies and product bundling to address customers needs, and build a "China Mobile" brand associated with "specialization, sophistication and strength". The Group's businesses, services and sales channels will be integrated with our brands to highlight China Mobile's core competitiveness and sustain the Group's position as the market leader in Mainland China.

