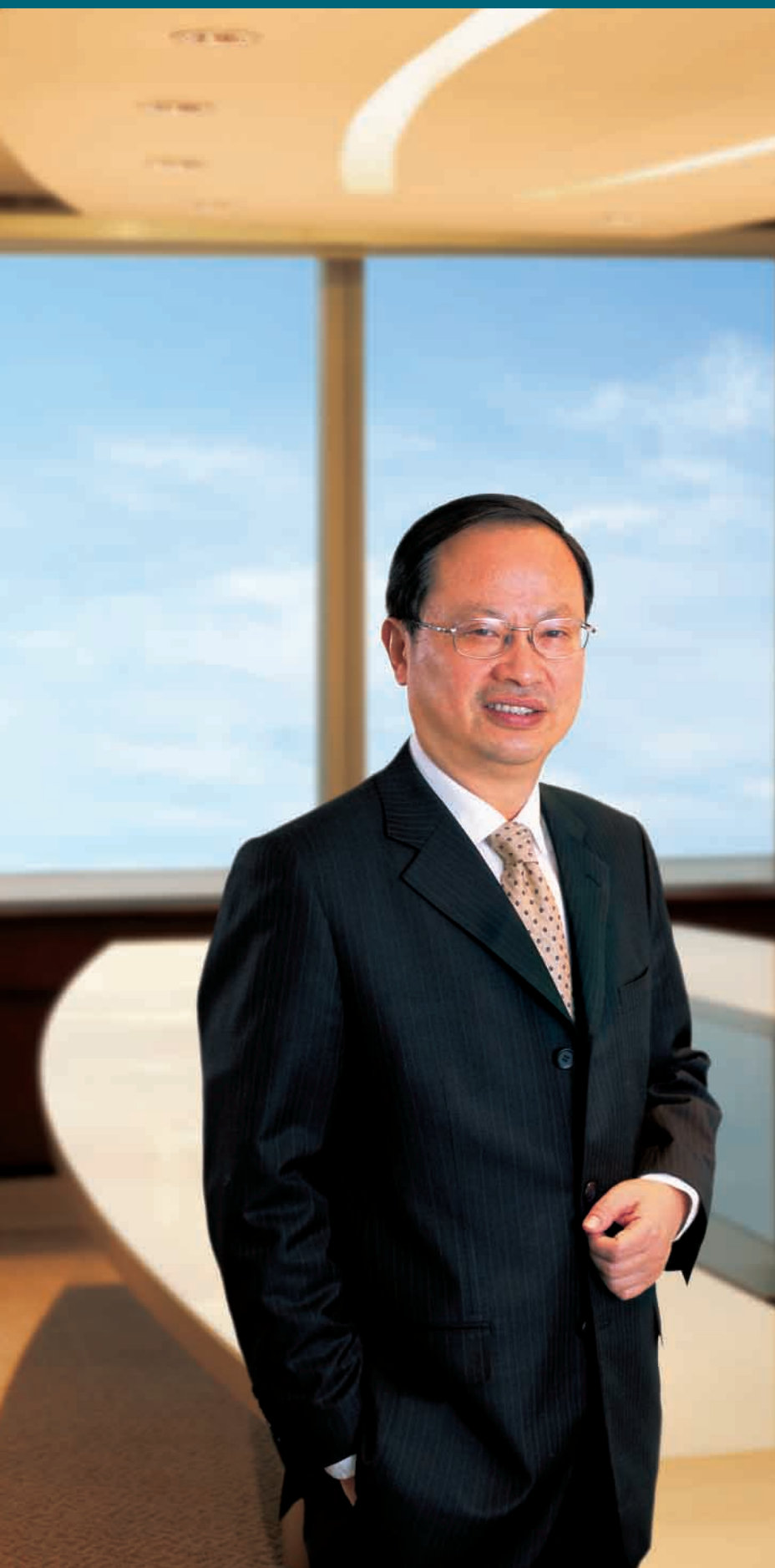


## Chairman's Statement



Dear Shareholders,

During 2004, the Company unwaveringly pursued the complementary development strategies of organic and external growth, fully leveraged the Group's competitive advantage in terms of scale, network, business and service, implemented refined management methods and enhanced execution capability. Even with relatively intensive market competition, the overall operational performance was outstanding and the Company continued to maintain its leading position in Mainland China's mobile telecommunications market. The Company completed the acquisition of the mobile telecommunications companies in ten provinces (autonomous regions) 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 directly-administered municipalities) in Mainland China.

## Financial Results

The Group achieved commendable financial results in 2004, during which operating revenue achieved notable growth with the benefit of solid business growth and impetus from the asset acquisition. The Group's operating revenue reached RMB192,381 million, representing an increase of 21.3 per cent. from 2003. EBITDA reached RMB107,221 million, representing an increase of 16.2 per cent. from 2003. Net profit reached RMB42,004 million, representing an increase of 18.1 per cent. from 2003. EBITDA margin and net profit margin were maintained at a high level. The Company's basic earnings per share reached RMB2.14, representing an increase of 18.2 per cent. from 2003. The Group maintained its sound capital structure and robust free cash flow, thereby providing a stable and solid foundation for the Group's future development.

For ease of comparison, on the assumption that the acquisition of ten mobile telecommunications companies and other telecommunications assets in 2004 was completed on 1 January 2003, the Group's 2004 pro-forma combined operating revenue reached RMB203,993 million, representing an increase of 13.9 per cent. compared to that of 2003. Pro-forma combined EBITDA reached RMB113,050 million, representing an increase of 11.2 per cent. compared to that of 2003. Pro-forma combined EBITDA margin was 55.4 per cent., and pro-forma combined net profit reached RMB43,207 million, representing an increase of 15.3 per cent. over the 2003 pro-forma combined net profit of RMB37,467 million (after adding back the deficit on revaluation of fixed assets of the newly acquired subsidiaries of RMB3,470 million).

## Business Review

The Group's businesses enjoyed solid growth in 2004, and its market leading position was further consolidated. Even with fairly intensive market competition, the Group's high-value customer base remained stable and the Group enjoyed relatively high growth in new markets. In addition, the decrease in the Group's average revenue per user per month (ARPU) moderated. As at 31 December 2004, the Group's mobile subscriber base reached 204 million and pro-forma combined ARPU reached RMB92. It is especially worth mentioning that the development of the Group's new businesses has achieved significant results. Compared to 2003, pro-forma combined revenue attributable to new businesses grew rapidly at a rate of 76.5 per cent. and the percentage of the Group's total pro-forma combined revenue represented by such revenue reached 15.5 per cent. Among such services, "Short Message Service", or "SMS", enjoyed rapid growth. "Wireless Application Protocol", or WAP, "Color Ring" and other businesses recorded impressive growth with WAP subscriber base exceeding 12.81 million and "Color Ring" subscriber base exceeding 27.21 million. Their growth brought impetus to the Group's business development.

During 2004, the Group maintained its focus on the core mobile telecommunications businesses, enhanced brand promotion, refined its customer services, offered personalized services to its customers, consolidated its customer services and sales channels, increased its overall sales capability, which, as a result, helped to maintain its high-value and corporate customers' loyalty level and further

enhanced customer satisfaction. The Group has firmly maintained its market leading position in Mainland China's mobile telecommunications industry, thereby providing a solid foundation for the entrenchment of the Company's long term competitive advantage.

The Group continued to optimize its network in 2004 to increase its network utilization rate, maintain a high level of network connection rate, further increase its network coverage and capability, so that our overall network quality is maintained at a high level. The coverage of the Group's global roaming services was further extended. As of the end of December 2004, the Group's GSM global roaming services covered 184 countries and regions and GPRS roaming services covered 73 countries and regions.

As a result of the Group's overall competitive strength and the high quality of its mobile telecommunications businesses and services, the Beijing Olympic Games Preparatory Committee formally announced in July 2004 that the Group was the designated mobile telecommunications services partner for the Beijing 2008 Olympics.

### Acquisition and Consolidation

On 1 July 2004, the Company completed its acquisition of ten mobile telecommunications companies and other telecommunications assets in Mainland China, and became the first overseas-listed PRC telecommunications company to operate telecommunications businesses in all 31 provinces (autonomous regions and directly-administered municipalities) in Mainland China. Following the completion of the acquisition, the Group's management structure has become more rationalized and refined, with a unified group development strategy, and the Group's management and

operational efficiency have been further enhanced. The acquisition and restructuring involved the vigorous implementation of management reform within, and the enhancement of management and operational efficiency of, the newly acquired subsidiaries. As at 31 December 2004, the subscriber base of the newly acquired subsidiaries reached 28.95 million. The operating revenue of the newly acquired subsidiaries for the whole year reached RMB24,615 million, representing an increase of 19.2 per cent. from that of 2003. EBITDA reached RMB12,051 million, representing an increase of 28.4 per cent. from that of 2003. Net profit reached RMB3,788 million, representing an increase of 79.4 per cent. from the 2003 net profit of RMB2,112 million (after adding back the deficit on revaluation of fixed assets of RMB3,470 million). The business growth of the newly acquired subsidiaries has been remarkable and their performance has surpassed their previous profit forecast. These financial results reflected a confluence of strategic synergies.

### Management of the Group

During 2004, the Company continued to improve its management, refine its management methods and enhance management efficiency, thereby effectively enhancing the overall execution capability of the Company. The Group refined its comprehensive budget management and control system, strengthened its management structure, refined its management procedures, and at the same time strengthened the dynamic management of its investment projects to control costs at a reasonable level. The Group further implemented its performance appraisal system, strengthened the link between the Group's overall performance and that of the subsidiaries, and fully realized the benefits of performance appraisals through the comprehensive

budget management system which effectively links budget management with performance and remuneration management, in a closed-loop, thereby creating greater value for its shareholders. The Company's outstanding performance has continued to be widely recognized. In 2004, 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"; 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 selected for a third time as one of "The World's 400 A-List Companies" by the renowned business magazine *Forbes*, thus becoming the only Chinese company to have been selected for three consecutive years.

### Corporate Social Responsibility

The Company has always put emphasis on its responsibility to the community and its participation in social services. The Company supported environmental protection, provided subsidies for the education of the poor, provided aid to disaster-afflicted areas and participated in other charitable activities as part of its contribution to the society. At the end of 2004, the Board passed a resolution to establish a charitable fund in Mainland China through one of our subsidiaries, thereby rendering the Company's charitable activities in a more organized and systematic manner. Following the tsunami disaster in the Indian Ocean, the Group took some emergency measures, through its global SMS roaming platform, to send messages of condolence and information messages containing emergency hotline service numbers of Chinese embassies and other organizations to its roaming customers in such

regions, thereby providing assistance to them during such difficult times. The Group also set up a SMS donation service to provide additional donation channels for the disaster relieving efforts.

### Dividends

The Board considers that the Company's strong free cash flow is capable of supporting the Company's development, while also providing shareholders with a favorable cash return. Having taken into account such factors as the Company's financial position, cash flow position and requirements to ensure the sustainable future growth of the Company's business, the Board recommends payment of a final dividend of HK\$0.46 per share for the financial year ended 31 December 2004. This, together with the interim dividend of HK\$0.20 per share paid during 2004, amounts to an aggregate dividend payment of HK\$0.66 per share for the full financial year, representing an increase of 83.3 per cent. over the annual dividend of HK\$0.36 per share for the financial year 2003, and a dividend payout ratio of 32.7 per cent.

The Company will endeavor to achieve a sustainable and steadily increasing dividend over the longer term, with a view to generating the best possible return for shareholders.

### Looking to the Future

From a macro economic perspective, current trends indicate that the Chinese economy will continue to maintain relatively strong growth in the future. The continued steady growth in per capita disposable income will provide a solid economic foundation for the healthy development of the telecommunications industry. Great potential for development still exists in

the mobile telecommunications market in Mainland China. As market competition continues to intensify and market regulation increases, competition will become more rational, and industry players will focus more on strengthening their respective competitive advantages and on sustainable enterprise development. With the mainstream Third Generation Mobile Communication Technology (3G) and products becoming more mature, many major mobile telecommunications companies of the world are actively undertaking their own 3G network planning and commercial implementation. The issuance of 3G licences in Mainland China may result in changes in the industry's environment. Looking to the future, the Company faces great opportunities and challenges at the same time.

In the face of opportunities and challenges, the Group will endeavor to enhance its core competitiveness and leverage its competitive advantages in terms of its large scale of operation, to implement on a continued basis a differentiated sales strategy, to promote rational competition and to entrench its market leading position. Whilst maintaining a stable growth in its core business revenue, the Company will emphasize innovation and business promotion to procure greater development in new businesses, thereby bringing new impetus to revenue growth. The Group will continue to enhance its network management to establish a world class telecommunications and IT supporting network. At the same time, the Group will fully utilize its existing competitive advantages in terms of its network, technology and resources, market experience and market leading position to actively prepare for 3G's construction and development. At the same time, we will continue to refine our management methods to enhance the operational management of the

Company. We will preserve our sound fundamentals, enhance our sustainable development capability, accurately seize investment opportunities, and achieve the maximization of enterprise value whilst providing premium services.

On the basis of the recommendation and arrangement of the Company's controlling shareholder, Mr. Wang Xiaochu resigned from his positions as executive director, Chairman and Chief Executive Officer of the Company in November 2004. At the same time, I was appointed as executive director, Chairman and Chief Executive Officer of China Mobile (Hong Kong) Limited. On behalf of the Board, I would like to express our highest regard and deepest thanks to Mr. Wang Xiaochu's contribution to the Company. I also hope that my many years' management experience and professional knowledge in the telecommunications industry will assist in the Company's development. I will of course work hard to maintain the sustained and stable development of the Company and create better return to the investors.

Finally, I would like to take this opportunity to express my heart-felt thanks to all shareholders and friends who have cared for and supported the Company, as well as to the Company's employees who have worked hard during the past year.



**Wang Jianzhou**

Chairman and Chief Executive Officer  
Hong Kong, 11 March 2005