

## Business Review

**In 2004, the Group continued to pursue effective competitive strategies, rationally promoted voice usage volume, developed corporate customers in earnest, ceaselessly pioneered and promoted new businesses, further enhanced brand integration, refined marketing and sales channels, maintained high quality customer services, optimized its telecommunications networks and successfully integrated the business of the newly acquired companies, thereby bringing about phenomenal development in the Group's overall business.**

As at the end of 2004, the Group's subscriber base reached 204.292 million, representing an annual growth rate of 23.0 per cent. The aggregate subscriber usage volume reached 660.90 billion minutes, representing an annual growth rate of 49.4 per cent. The number of mobile data services users reached 156.834 million, representing an annual growth rate of 36.2 per cent. The SMS penetration rate reached 76.8 per cent., representing an increase

of 7.5 percentage points from 2003. SMS usage volume reached 172.57 billion messages, representing an annual growth rate of 67.1 per cent. Revenue from new businesses reached RMB31.651 billion, representing an annual growth rate of 76.5 per cent. Revenue from new businesses accounted for 15.5 per cent. of the Group's operating revenue, representing an increase of 5.5 percentage points from 2003.

The table below summarizes the key operating data of the Group for the period from 2003 to 2004. Operating figures shown in this table and in the "Business Review" section are, unless otherwise specified, unaudited pro-forma combined figures, which means it has been assumed that the existing corporate structure of the Group with 31 operating subsidiaries was in place since 1 January 2003. Detailed unaudited pro-forma combined financial information, its basis of preparation and the report issued by KPMG, Certified Public Accountants, Hong Kong, are set out in pages 153 to 158 of this annual report.

### Key Operating Data of the Group for 2003 through 2004

	2004	2003
Mobile Subscribers (Millions)	204.3	166.1
Net Additional Subscribers (Millions)	38.2	29.5
Total Usage (Billion Minutes)	660.9	442.4
Average Usage per User per Month (MOU) (Minutes/User/Month)	297	244
Average Revenue per User per Month (ARPU) (RMB/User/Month) <sup>(1)</sup>	92	99
SMS Usage Volume (Billion Messages)	172.6	103.3

	2004	2003
Contract Subscribers <sup>(2)</sup>		
Mobile Subscribers (Millions)	59.9	58.1
Average Usage per User per Month (MOU) (Minutes/User/Month)	517	418
Average Revenue per User per Month (ARPU) (RMB/User/Month)	167	168

	2004	2003
Prepaid Subscribers <sup>(2)</sup>		
Mobile Subscribers (Millions)	144.4	108.0
Average Usage per User per Month (MOU) (Minutes/User/Month)	194	138
Average Revenue per User per Month (ARPU) (RMB/User/Month)	56	57

Notes:

<sup>(1)</sup> Except as otherwise noted, all monetary figures shown in this Business Review section are expressed in Renminbi.

<sup>(2)</sup> For management reference purposes, contract subscribers are classified to include "GoTone" subscribers and subscribers who have signed service contracts with the Group, while prepaid subscribers are classified to include subscribers of "Shenzhouxing" and "M-Zone" and local brands or packages targeting low usage volume users.

### Customer Development

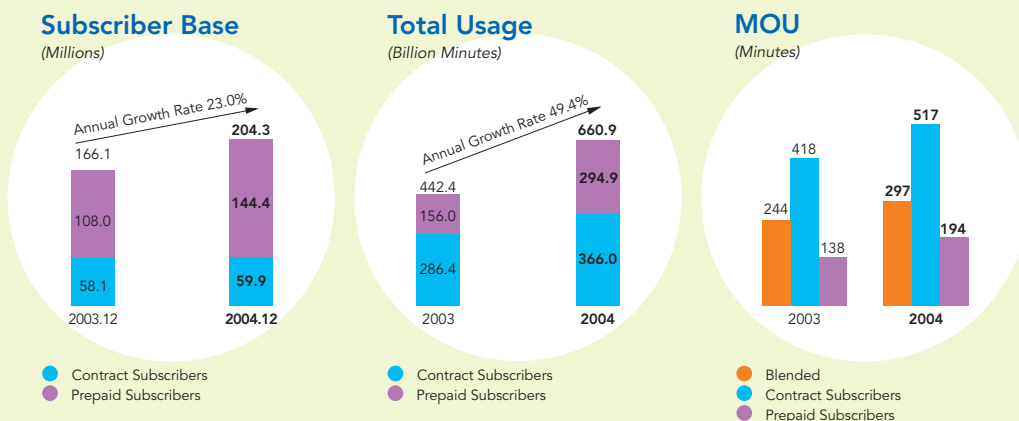
During 2004, by adopting voice usage volume promotional schemes and other measures, the Group maintained a steady growth in its subscriber base. As at 31 December 2004, the Group's mobile subscriber base reached 204.292 million, of which 59.887 million were contract subscribers and 144.405 million were prepaid subscribers. In 2004, the total net increase in the Group's subscriber base was 38.179 million.

As at the end of 2004, the Group had maintained its position as the market leader within its service areas, with a market share of approximately 64.3 per cent. The mobile telephone penetration rate within areas serviced by the Group was approximately 25.9 per cent. The urbanization of the eastern regions and the fact that the penetration rate in the central and western regions, as well as in small and medium-sized cities and rural areas, remained relatively low, indicate that there is good growth potential for the mobile telecommunications market.

The Group developed corporate customers in earnest. In order to enhance customer loyalty and increase the Group's revenue, the Group developed its portfolio of products, increased service and industry penetration, optimized management systems and procedures, thereby making development of corporate customers more standardized, systematic and professional. As at the end of 2004, corporate customers with specific service agreements with the Group reached 1.11 million. The Group has provided basic "informationalisation" solutions to 0.38 million corporate customers.

### Business Growth

In 2004, the Group fully utilized its network capabilities and appropriately promoted voice usage volume by segmenting network utilization on both a temporal and geographical basis, targeting different customer segments through effective branding, thereby ensuring the continuous growth of the voice business. In 2004, the Group's aggregate mobile



subscriber usage volume reached 660.90 billion minutes, representing an annual growth rate of 49.4 per cent. The Group's average minutes of usage per user per month (MOU) in 2004 was 297 minutes, representing an increase of 21.6 per cent. from that of 244 minutes in 2003. The MOU of contract subscribers and prepaid subscribers in 2004 were 517 minutes and 194 minutes, respectively. The Group's average revenue per user per month (ARPU) was RMB92, representing a decline of 7.3 per cent. from that of RMB99 in 2003. The ARPU of contract subscribers and prepaid subscribers in 2004 were RMB167 and RMB56, respectively. The rate of decline in ARPU was slowing down and the ARPU of contract subscribers remained generally stable.

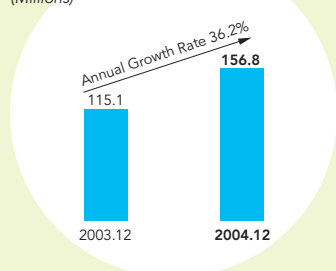
The guiding principles for the development of new businesses are first, to procure growth in the Group's revenue, and secondly, to enhance corporate image and market leadership. In 2004 the Group continuously made innovations and promoted its new businesses, improved its internal management, enhanced the quality of its end-to-end services, enhanced co-operation with third parties, improved its sales networks, and increased marketing efficiency.

Development strategies were pursued for various types of business taking into account the characteristics of their development phase and the value they would bring to the Group.

New businesses have become a strong driver for the Group's development and a key stimulus to the growth in operating revenue. In 2004, revenue from new businesses reached RMB31.651 billion, representing an increase of 76.5 per cent. from 2003. The proportion of the Group's operating revenue that derived from new businesses reached 15.5 per cent., representing an increase of 5.5 percentage points from 2003.

SMS maintained its rapid growth rate. In 2004, the SMS penetration rate (SMS subscribers as a percentage of total subscriber base) increased to 76.8 per cent., revenue from SMS reached RMB16.380 billion and SMS usage volume reached 172.57 billion messages. Other data businesses, in particular WAP and "Color Ring", grew robustly. WAP users reached 12.81 million and "Color Ring" users reached 27.21 million.

**Number of Mobile Data Services Users**  
(Millions)



**SMS Usage**  
(Billions)





Through the further standardization and enhancement of the administration of co-operation arrangements with service providers (SP), the Group achieved healthy and positive development of "Monternet". As at the end of 2004, the Group has over 1,000 SP partners. More applications were supported by "Monternet", including over 100,000 SMS applications, over 10,000 MMS applications, over 10,000 WAP applications and over 2,000 JAVA applications.

## Brand, Marketing and Sales Channels and Services

The Group continued to enhance the positioning and promotion of its brands by highlighting the functional benefits they represent, thereby was able to enhance its brand management. In 2004, the Group put emphasis on further differentiating the "GoTone" service, so as to make the distinct competitive advantages of the "GoTone" service more apparent. Through the targeted allocation of marketing resources and increased efforts in developing and retaining "GoTone" subscribers, the Group was able to further enhance customer loyalty. In developing the "M-Zone" brand, the Group emphasized on increasing the subscriber base and the ratio of new businesses, and gaining recognition as being representative of youth culture. The brand image was greatly enhanced and the number of target customers was increased as a result of increased advertising efforts and new businesses serving as a key stimulus. The Group continued to tighten the cost control of the "Shenzhouxing" service while maintaining a



reasonable growth in subscriber base, and strengthened the management of tariff control to achieve reasonable growth in voice usage volume and revenue.

The Group continued to expand its marketing and sales channels, strike a reasonable balance between the functions and scales of the various channels and improve their overall synergies. The Group established differentiated marketing and sales channels that cater to different brands, different types of cities and different businesses. The Group focused on improving the service functions, new businesses marketing functions and terminal resources bundling functions of the marketing and sales channels. The Group brought together commercial resources, thus establishing a "win-win" co-operation environment.



In 2004, the Group continued to uphold the business principle of "Striving for Customer Satisfaction", and endeavored to provide quality service to its customers. As the number of customers continued to increase, the Group separated customers of different services into different classes and differentiated its services accordingly. The Group launched a series of services and activities to ensure that its high-value customers would receive more service resources. Customer satisfaction increased steadily and a good corporate image was established.



## Networks and Investments

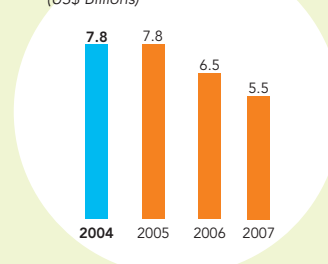
In 2004, the Group continued to improve network optimization and management and expand its network coverage, so that the Group would continue to lead in terms of the quality and scale of its mobile telecommunications networks. The wireless connection rate reached 99.2 per cent., the voice call drop rate was less than 0.8 per cent., and the SMS delivery rate reached 98.1 per cent. As at the end of 2004, network capacity reached 244 million subscribers and the network utilization rate reached 83.6 per cent.

In 2004, the Group further expanded its global roaming services coverage. As at the end of 2004, GSM global roaming services covered 184 countries and regions, while GPRS global roaming services coverage was extended to 73 countries and regions. The Group's subscribers were able to send or receive short messages to or from the subscribers of 214 mobile telecommunications operators in 106 countries and regions around the world.

The Group's capital expenditure in 2004 was approximately US\$7.8 billion, which represents an increase of approximately US\$100 million from the original plan, and was mainly used to increase investment in GSM networks in order to meet strong market demand. To satisfy development needs, the capital expenditure budget set for each of the three years from 2005 to 2007 is US\$7.8 billion, US\$6.5 billion and US\$5.5 billion, respectively. The capital expenditure for the next three years will be used mainly for the construction of GSM networks, support systems and transmission facilities, and for the development of new technologies and new businesses. Such capital expenditure budget does not include investment of 3G construction. The required funding will be sourced largely from cash generated from the Group's operating activities.

### Capital Expenditure

(US\$ Billions)



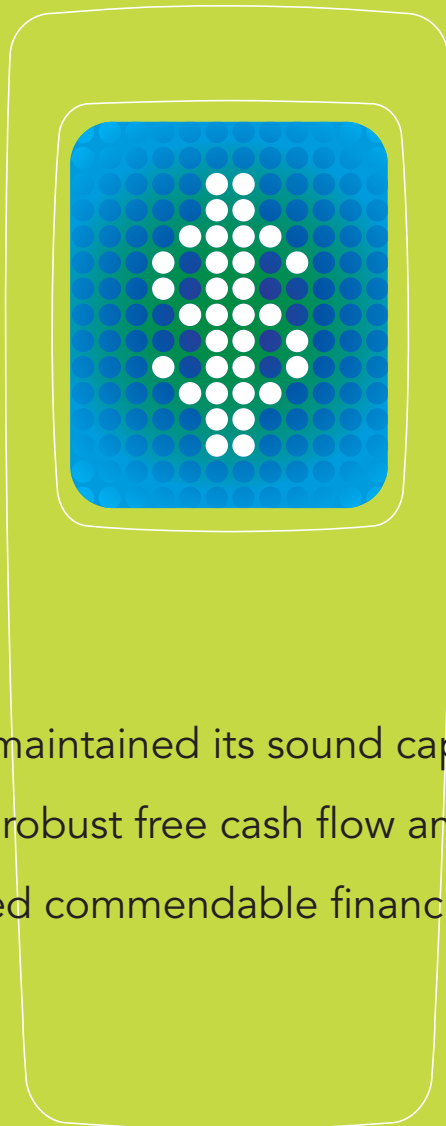
- Capital Expenditure for 2004
- Capital Expenditure Budget for 2005-2007

Note: The above capital expenditure excludes investment of 3G construction.

### Future Business Strategies

The Group will undertake further market segmentation, refine its branding strategies, emphasize differentiated services, consolidate and develop mid to high-value customers, provide quality services, implement refined management methods, endeavour to reduce operating costs, enhance the overall operating efficiency, improve management and control over terminals and marketing and sales channels, fully realize the potential of Mainland China's mobile telecommunications market, actively prepare for the launching of 3G, and with new businesses and 3G as opportunities, maintain the Company's long-term growth.





The Group maintained its sound capital structure,  
robust free cash flow and  
achieved commendable financial results



**Solid** financial profile providing a secure  
foundation for future development

