

China Telecom (Hong Kong) Limited achieved significant progress in 1998. The Company successfully acquired Jiangsu Mobile, extending the Group's business coverage to an additional province. During 1998 the Group sustained steady growth in its cellular telecommunications business in Guangdong, Zhejiang and Jiangsu provinces.

In 1998, the Group's subscriber base and network usage volume grew rapidly and the Group maintained its leading market position in the three provinces. As of 31 December 1998, the Group's aggregate subscriber base reached 6.531 million, representing an increase of 2.246 million subscribers and a growth rate of 52.42 per cent from the Group's pro forma combined\* aggregate subscriber base of 4.285 million at the end of 1997. The pro forma total cumulative minutes of usage of the Group's subscribers in 1998 was 25.0 billion minutes, representing a growth rate of 42.05 per cent from the pro forma combined 17.6 billion aggregate minutes of usage volume in 1997. According to the Group's estimates, the Group's aggregate market share was 94.5 per cent in the three provinces and 26.1 per cent of the mainland China cellular telecommunications market as a whole at the end of 1998.

I am pleased to report that the Group also achieved satisfactory financial results in 1998. In 1998, the Group recorded consolidated turnover of RMB26.345 billion (HK\$24.672 billion) and profit attributable to shareholders of RMB6.9 billion (HK\$6.462 billion). Basic earnings per share was RMB59 cents (HK\$55 cents). In 1998, the Group's pro forma combined turnover was RMB28.528 billion (HK\$26.717 billion), representing an increase of RMB9.406 billion (HK\$8.809 billion) and a growth rate of 49.19 per cent from the pro forma combined turnover of RMB19.122 billion (HK\$17.908 billion) in 1997. The pro forma combined profit before exceptional item and income tax for 1998 was RMB8.267 billion (HK\$7.742 billion), representing an increase of RMB1.728 billion (HK\$1.618 billion) and a growth rate of 26.42 per cent from RMB6.539 billion (HK\$6.124 billion) in 1997.

The Board of Directors does not intend to recommend the payment of a dividend for the year ended 31 December 1998. As the Group is experiencing a period of rapid growth, the Board deems it desirable that capital be retained for additional investments, network expansion and optimization, as well as potential acquisitions of quality assets, in order to obtain a better return for the shareholders.

In August 1998, Mr. Zhang Bingyin and Mr. He Ning were invited to contribute their considerable business acumen as new members of the Company's Board of Directors.

\* The Group's current structure was established in June 1998 following the completion of the acquisition of Jiangsu Mobile. For ease of comparison, unless otherwise specified, the pro forma combined results of operations described herein assume that the current Group structure existed during all periods discussed.

In March 1999, Mr. Shi Cuiming and Mr. Chen Zhaobin resigned from the posts of Chairman, and of Vice Chairman and President, respectively. It was my great pleasure to be appointed by the Board of Directors as Chairman and President of the Company. I thank the Board of Directors for their trust, and will endeavor to prove worthy of that trust. In addition, on behalf of the Board, I am very pleased to welcome Mr. Zhang Bingyin and Mr. He Ning. I would also like to express my high regards and sincere thanks to Mr. Shi Cuiming and Mr. Chen Zhaobin for their hard work and contributions to the Company's incorporation and initial development.

The Year 2000 is near at hand, and the Company has devoted close attention to the Year 2000 issue. Both during and at the end of 1998, the Company announced a compliance programme and the budget for its implementation. All subsidiaries of the Company are implementing the compliance programme as proposed and the progress is satisfactory. We expect that the project will be completed on schedule.

Looking ahead, we are confident about the Group's prospects for further strong growth. Moving into the new millennium, we view the information industry as one of the key industries in the information-based global economy, and the telecommunications industry as its very heart. As a core information industry, there can be no doubt about the telecommunications industry's vast growth potential.

We believe that the ongoing restructuring of mainland China's telecommunications industry will create an environment conducive to orderly, transparent, healthy and fair competition among cellular telecommunications providers, which will further enhance the Group's opportunities for growth and development.

According to the draft plan for the restructuring of the telecommunications industry, China Telecom will be reorganized based on business lines, and it is anticipated that the Group may come under the control of the China mobile telecommunications company to be established.

In line with its rapid economic development during the last three years, mainland China's cellular telecommunications market grew at an average compound annual growth rate of 84 per cent over the same period. However, the overall cellular penetration rate in mainland China is only about 2 per cent and is low compared to other international markets, which suggests that the mainland China cellular telecommunications market has significant potential for further growth.

With its robust financial profile, advanced network infrastructure, leading market position and sound management expertise, we believe that the Group enjoys considerable competitive advantages within China's expansive telecommunications sector.

The Group has adopted a customer-orientated management philosophy centered on providing high quality telecommunications services tailored to subscriber needs, with the primary goal of maximizing shareholder value. The Group will endeavor to apply management and operating standards in line with international best practice in the telecommunications industry and run the Group's business in a professional manner.

We appreciate that the talents of our employees are an invaluable asset. We aim to establish a diversified corporate culture by building on this most important asset, fostering respect for ability and talent, promoting specialization and internationalization and encouraging individual initiative.

The Group continues to focus on expanding and optimizing its integrated network, which utilizes GSM 900 MHz and compatible DCS 1800 MHz digital technologies. Concurrently, the Group will continue to closely follow commercial applications of "third generation" mobile telecommunications technology.

In keeping with our resolve to build a world-class telecommunications company, we will continue to enhance our competitive edge and competency. We will do so by emphasizing organic growth through the adoption of aggressive marketing strategies and specialized operations management based on international best practice, and by promoting external growth and exploring opportunities to acquire high-quality cellular and other telecommunications businesses in China.

Finally, I would like to thank our shareholders and investors for their unwavering support, the Board of Directors for their valuable leadership, and staff members for their hard work.

**Wang Xiaochu**

*Chairman and President*

28 April 1999