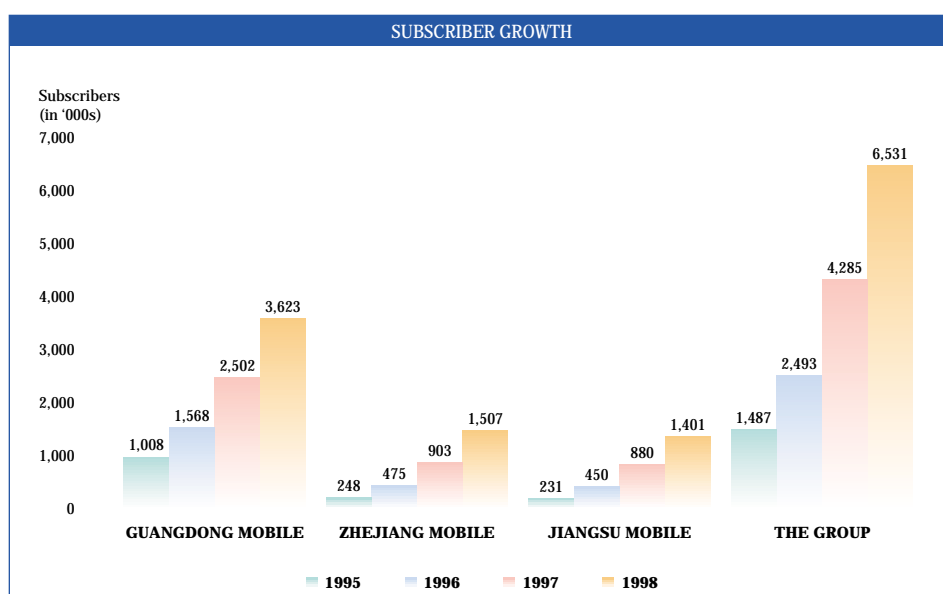


In 1998, the Group achieved favorable operational performance and expanded its business coverage. Through the acquisition of Jiangsu Mobile in June 1998, the Group extended its business coverage to an additional province. There was significant growth in the Group's aggregate cellular subscriber base and usage volume in 1998, and the Group maintained its leading market position as a provider of cellular telecommunications services in Guangdong, Zhejiang and Jiangsu provinces.

Subscribers, Market and Sales

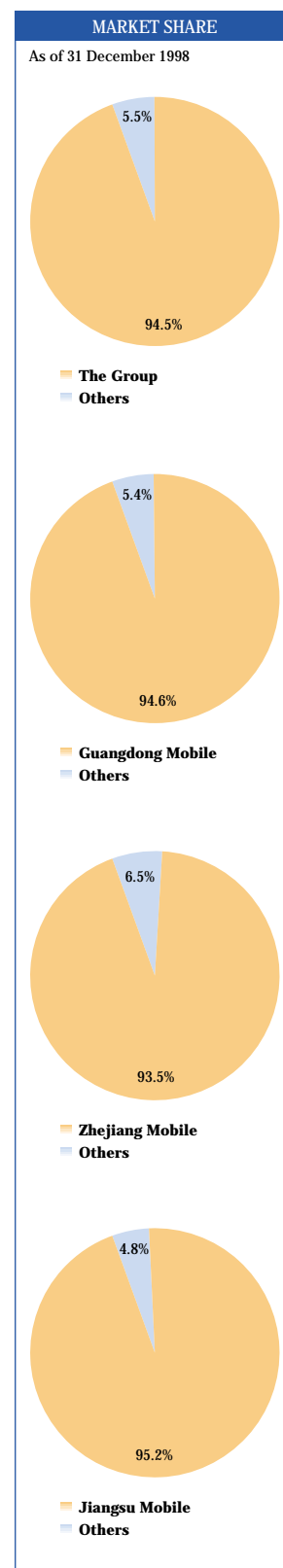
As of 31 December 1998, the Group's aggregate subscriber base reached 6.531 million in Guangdong, Zhejiang and Jiangsu provinces, representing an increase of 2.246 million subscribers and a growth rate of 52.42 per cent over the pro forma combined* aggregate subscriber base of 4.285 million at the end of 1997.

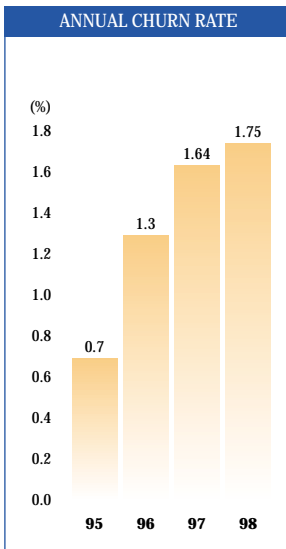


As of 31 December 1998, of the Group's total subscribers, Guangdong Mobile accounted for 3.623 million subscribers, representing an increase of 1.121 million subscribers and a growth rate of 44.80 per cent; Zhejiang Mobile accounted for 1.507 million subscribers, representing an increase of 604,000 subscribers and a growth rate of 66.89 per cent; and Jiangsu Mobile accounted for 1.401 million subscribers, representing an increase of 521,000 subscribers and a growth rate of 59.20 per cent, from the end of 1997.

During the three years ended 31 December 1998, the Group's pro forma combined aggregate subscriber base grew at a compound annual growth rate of 63.77 per cent. However, the cellular penetration rate in the Group's three provinces of operation was only 3.7 per cent at the end of 1998, which suggests significant potential for further growth. The Group believes that the anticipated strong demand for cellular telecommunications services will be one of the major drivers of future subscriber growth.

* 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.



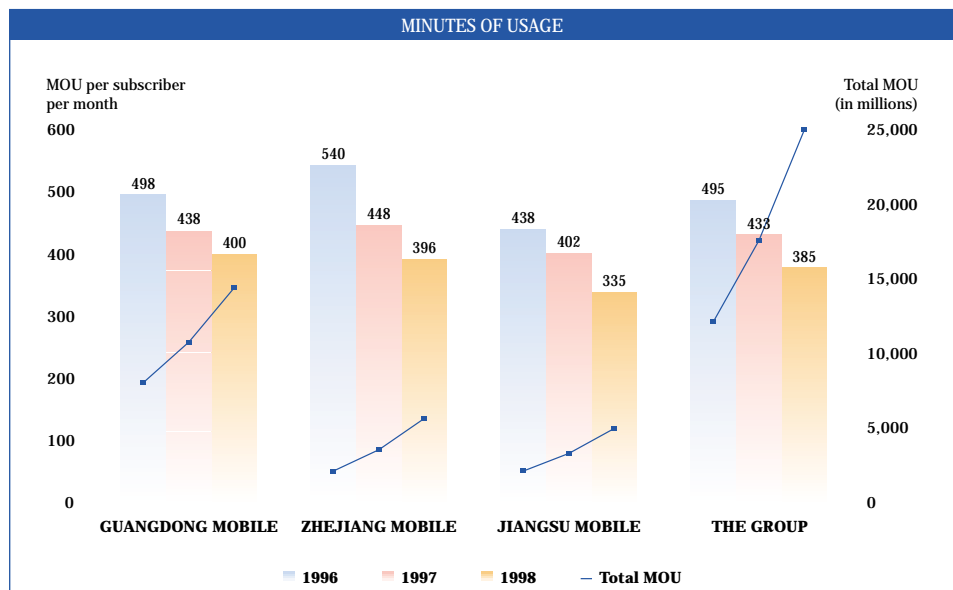


In 1998, the Group adopted aggressive sales and marketing strategies and improved its distribution channels. The Group had a distribution network of 3,489 sales outlets by the end of 1998. The Group's churn rate was only 1.75 per cent in 1998, reflecting greater customer loyalty. Connection fees have been reduced, and the Group has made efforts to offer telecommunications services targeted at customer needs and enhance marketing and after-sales customer services.

The Group maintained its leading market position in its provinces of operation in 1998. According to the Group's estimates, the Group enjoyed market shares of approximately 94.6 per cent, 93.5 per cent and 95.2 per cent, in Guangdong, Zhejiang and Jiangsu provinces, respectively, at the end of 1998. The Group's subscribers represented 94.5 per cent of total cellular subscribers in the three provinces and 26.1 per cent of the mainland China cellular telecommunications market as a whole at the end of 1998.

Usage Volume

The Group's pro forma combined aggregate subscriber usage volume in 1998 reached 25.0 billion minutes, representing an increase of 42.05 per cent from the pro forma combined aggregate subscriber usage volume of 17.6 billion minutes in 1997, with subscribers in Guangdong, Zhejiang and Jiangsu provinces accounting for 14.69 billion, 5.73 billion and 4.58 billion minutes of usage, respectively.



The pro forma combined average minutes of usage volume per subscriber per month (“MOU”) decreased from 433 minutes in 1997 to 385 minutes in 1998. The average MOU in Guangdong, Zhejiang and Jiangsu provinces was 400 minutes, 396 minutes and 335 minutes, respectively, in 1998.

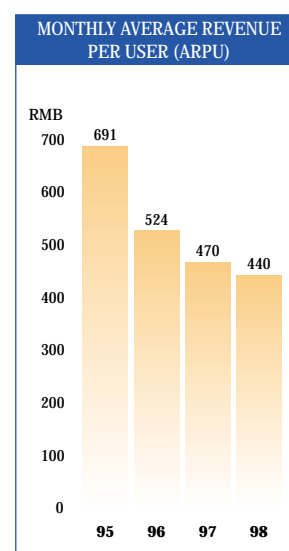
The Group’s management believes that the decline in MOU, resulting primarily from the rapid expansion of its subscriber base and the inclusion of more lower usage subscribers, is normal and typical of the experiences of its peer group cellular telecommunications companies operating in other countries. Moreover, the Group’s total subscriber usage volume increased as a result of the expansion of the Group’s subscriber base.

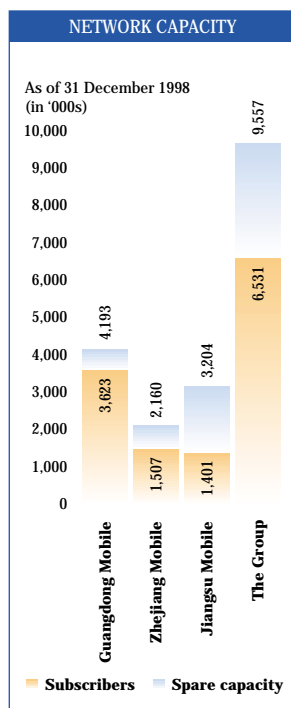
Products, Pricing and Customer Care

The Group’s basic product is cellular telephone services, including local, domestic and international long distance services, as well as domestic and international roaming services. In addition, the Group offers value added services, including caller ID display, call forwarding, call waiting and voicemail, short message services, prepaid SIM cards and mobile data. During 1998, the Group’s “Global Access Network” digital cellular service was extended to offer roaming services in 16 additional countries and regions, including Russia, the Czech Republic, Slovakia, Lithuania, Slovenia, Romania, Azerbaijan, Portugal, South Africa, Gibraltar, Kyrgyzstan, Cyprus, Qatar, Luxembourg, Thailand and Norway. Roaming is now available in a total of 38 countries and regions.

The Group’s tariffs for cellular telecommunications services were disclosed in the prospectus for the Company’s initial public offering and all subsequent material changes have been disclosed by public announcements in newspapers.

In 1998, the Group offered tailored service packages, such as “1+1” and “Provincial Access”, and adopted flexible tariff plans distinguishing between day and night and peak and non-peak hours, based upon customer requirements as well as the functions and features of the Group’s network resources. The Group also established customer care centres to improve the quality of information available to customers and after-sales services. In addition, the Group took steps to improve its billing and collection systems to shorten payment collection cycles and improve billing services.





Network, Technology and Capital Expenditures

In 1998, the Group expanded and optimized its digital GSM network and further refined its analog TACS network based on coverage requirements and market demands. At 31 December 1998, the standard capacity of the Group's network reached 9.557 million subscribers, with the Group's GSM network at 7.376 million and the TACS network at 2.181 million subscribers, and a digital to analog ratio of 77.18 per cent to 22.82 per cent. In 1998, the Group's network, with 478,000 radio channels and 10,199 base stations, covered all cities, counties and more than 95 per cent of the major highways within the Group's service areas. The average network utilization rate was 68 per cent.

The Group continues to expand and optimize its network, to match the capacity of its network and throughput with usage volume and maintain its leadership position in network function, quality and coverage. In addition, the Group is closely following commercial applications of "third generation" cellular telecommunications technology in relation to the possible transition of its network from "second generation" technology to "third generation" technology in the future.

In 1998, the Group incurred pro forma combined aggregate capital expenditures of RMB16.397 billion, of which Guangdong Mobile, Zhejiang Mobile and Jiangsu Mobile accounted for RMB6.405 billion, RMB4.814 billion and RMB5.168 billion, respectively.

Actual capital expenditures and network construction in 1998 exceeded the estimates made at the time of the Company's initial public offering as a result of an acceleration in the deployment of the Group's network infrastructure due to the swifter than expected growth of the Group's cellular subscriber base in recent years.

Year 2000 Issue

The Year 2000 issue has always been of particular concern to the management of the Group. The Group disclosed certain important features relating to its Year 2000 compliance programme in its 1998 interim report.

On 31 December 1998, the Group announced a budget of approximately US\$30 million (equivalent to approximately HK\$232 million) to address Year 2000 compliance. Approximately 20 per cent of this amount was recognized as an expense in the year ended 31 December 1998. By 31 December 1998, contracts executed by the Group relating to the Year 2000 compliance programme had a total value of US\$17.965 million.

The Group's Year 2000 Task Force is leading and coordinating compliance efforts under and in accordance with the Year 2000 compliance programme. The Group estimates that approximately 75 per cent of the scheduled work has been completed to date, and that the modification and upgrading of relevant equipment and software will be completed and Non-Year 2000 compliant equipment will be removed by the end of June 1999. Testing and verification of equipment is expected to commence in July 1999 in order to allow sufficient time to monitor the equipment's operating performance, detect and resolve any potential problems, and ensure the smooth transition of the Group's network into the year 2000.

Community Service

In 1998, the Group donated RMB7.7 million to public welfare activities in Hong Kong and towards the reconstruction and recovery of areas affected by the Yangtze River floods in mainland China, and provided cellular telephones and related services free of charge during the natural disaster.

LOOKING AHEAD

Looking to the future, we are confident about the Group's prospects for further strong growth. As we move towards the new millennium, we believe that the information industry will become one of the key industries in the information-based global economy, with the telecommunications industry as its core.

We believe that the reorganization currently taking place within the mainland China 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 mainland China's rapid economic growth during the last three years, its cellular telecommunications market grew at an average compound annual 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.

We believe that, with its robust financial profile, advanced network infrastructure, leading market position and sound management practices, 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.

Efforts are ongoing to more fully integrate the three operating subsidiaries into the Group to enhance existing synergies and maximize shareholder value. The Group's internal information technology ("IT") infrastructure will be further improved to support core business processes and enhance workflow. Moreover, in keeping with the philosophy of "change management", we will respond to changes and challenges by continually reassessing and reshaping our organizational imperatives, introducing motivational and incentive mechanisms as appropriate, to bring out the fullest talents and abilities of our human resources.

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 devote close attention to 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 by emphasizing organic growth through the adoption of aggressive marketing and sales strategies, and to promote external growth by exploring opportunities to acquire high-quality cellular and other telecommunications businesses in China.