


1999 was an extraordinary year for China Telecom (Hong Kong) Limited. The Company successfully concluded a follow-on equity and global bond offering in November, and thereafter acquired 100% ownership of Fujian Mobile, Henan Mobile, and Hainan Mobile, extending the Group's business coverage to six provinces in China and reaching a total combined population of 320 million. During the past year, the Group's business grew rapidly in terms of both subscriber base and network usage volume, achieving strong growth and maintaining its leading market position in the six provinces. As of 31 December 1999, the Group's aggregate subscriber base reached 15.621 million, representing a growth rate of 139.2 per cent from the Group's subscriber base of 6.531 million at the end of 1998, and 72.5 per cent from the Group's pro forma combined* subscriber base of 9.056 million at the end of 1998. The pro forma total accrued minutes of usage volume of the Group's subscribers in 1999 was 56.158 billion minutes, representing a growth rate of 60.9 per cent from the pro forma combined 34.895 billion aggregate minutes of usage volume in 1998. According to the Group's estimates, the Group's weighted average aggregate market share was 87.4 per cent in the six provinces, accounting for 36.1 per cent of the mainland China cellular telecommunications market as a whole at the end of 1999.

The Group's financial results were equally impressive. In 1999, the Group recorded audited consolidated turnover of RMB38,623 million (HK\$36,266 million), representing an increase of 46.6 per cent over the previous year. EBITDA was RMB21,603 million (HK\$20,285 million), representing an increase of 67.9 per cent over the previous year. To accommodate the development of new technologies and businesses, the Group has written-down and written-off its analog mobile telecommunications assets. Profit attributable to shareholders after the write-down and write-off of the analog assets totaled RMB4,797 million (HK\$4,504 million), representing a decline of 30.5 per cent over the previous year, and basic earnings per share was RMB0.40 (HK\$0.38). Profit attributable to shareholders for 1999 before the write-down and write-off of the Group's analog mobile telecommunications assets totaled RMB10,320 million (HK\$9,690 million), representing an increase of 45.6 per cent over the previous year, and basic earnings per share before such write-down and write-off was RMB0.86 (HK\$0.81).

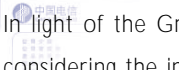
* The Group's current structure was established in November 1999 following the completion of its acquisition of Fujian Mobile, Henan Mobile, and Hainan Mobile. For ease of comparison, unless otherwise specified, the pro forma combined results of operations described herein assume that the current Group structure existed during all periods discussed.



By the end of 1999, according to our understanding, the reform and restructuring of mainland China's telecommunications industry that has been under way for two years was substantially completed and the separation of regulatory responsibilities and enterprise was more clearly apparent. The Group acted on this opportunity to rationalize and clarify its relations with regulatory and other governmental authorities. In 1999, the Group also continued to implement its overall development strategy of organic and external growth. With respect to organic growth, through enhanced operations management the Group has improved its revenue and cost structure and operating efficiency, maintaining EBITDA margin above 50 per cent. Concurrently, the Group achieved increased network utilization rates and productivity, decreased leased line expense and reduced cost per new added network capacity. While continuing to reduce its bad debt ratio, the Group also maintained a reasonably low churn rate. In 1999, the Company applied for credit ratings from Standard & Poor's and Moody's. With its solid credit fundamentals, the Company obtained a ranking of BBB (equal to China's sovereign rating) from Standard & Poor's and Baa2 from Moody's.

The Group is aggressively pursuing external growth. In November, the Company launched a follow-on US\$2 billion equity offering and a US\$600 million 5-year global bond offering. The share offering was 2.23 times over subscribed and the global bond offering was 4.00 times over subscribed. The Company successfully raised approximately US\$2.6 billion in new financing and, with the approval of its independent shareholders, issued an additional US\$3.95 billion in new shares to its parent company at the public equity offering price and, along with the proceeds from the follow-on equity and global bond offerings, the Company concluded its acquisition of Fujian Mobile, Henan Mobile, and Hainan Mobile, for a total consideration of HK\$49.715 billion (US\$6.4 billion). The highly successful follow-on equity and global bond offerings were recognized as the best equity and debt deals of 1999 by five renowned financial journals, *IFR Asia*, *Euromoney*, *Asia Money*, *Finance Asia* and *Financial Intelligence Asia*.

In 1999, Messrs. Li Gang, Xu Long, Liu Ping, Yuan Jianguo and Wei Yiping joined the Company's Board of Directors, bringing renewed vigor to the Board. They are the Company's Executive Directors and the Presidents of the Company's mainland China operating subsidiaries, respectively. Their addition to the Board of the Company further rationalizes the Group's corporate structure. On behalf of the entire Board of Directors, I warmly welcome these five gentlemen and express sincere thanks to Messrs. Shi Cuiming, Chen Zhaobin, Lu Errui, Zhu Jianhua, Hu Wangshan and Zhang Bingyin, our departing Directors, for their past contributions to the Group.

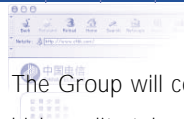


In light of the Group's acquisition of Fujian Mobile, Henan Mobile, and Hainan Mobile, and considering the increased number of subsidiaries and enlarged scale of operations, the Board considers it necessary and desirable that the Group retain sufficient available funds to support network development and integration and sustain a rapid pace of growth. In addition, at a time when mobile telecommunications technologies are developing apace, the Board considers it necessary and desirable that the Group retain available capital to supplement investments and develop new wireless applications and businesses, in the interest of realizing even better returns to our shareholders. Accordingly, the Board of Directors does not recommend the payment of a dividend for the year ended 31 December 1999.

Given the rapid development of mobile telecommunications technologies and the potentially limited life cycle of the Group's TACS network equipment, the Board has decided to accelerate the enhancement of technology and endeavour to assist the migration of our TACS subscribers to the GSM network, resulting in the writing-down and writing-off of the TACS network equipment. The Board believes that this decision will optimize the structure and enhance the quality of the Group's assets, and promote the potential development of its wireless data and wireless multimedia businesses, thereby enhancing the Company's operational and competitive flexibility.

As we enter the new millennium, the Y2K issues that required the Company's close attention have been successfully resolved according to plan. By 31 December 1999, the entire project had been successfully and timely concluded. To date, the Group has traversed Y2K high-risk dates smoothly and safely.

In this new millennium, as information technologies add impetus to the forces of globalization, the telecommunications industry, with its immense growth potential, is expected to increasingly emerge as a core industry. According to our estimates, mainland China's cellular telecommunications market grew at an average compound annual rate of 84 per cent during the last three years. However, the overall cellular penetration rate in mainland China was only about 3.4 per cent at the end of 1999. I believe that mainland China is one of the world's most significant mobile telecommunications markets in terms of its growth potential. The substantial completion of the reform and restructuring of China's telecommunications industry has given shape to a more fair, orderly, transparent and healthy telecommunications market. With its robust financial profile, advanced network infrastructure, stable market position and sound management expertise, the Group's competitive advantages are quite apparent. Looking forward, I am fully confident of the Group's bright future.



The Group will continue its customer-oriented management philosophy centered on providing high quality telecommunications services tailored to subscriber needs, with the primary goal of maximizing shareholder value. The Group's development strategy will continue to emphasize both organic and external growth. To enhance external growth, we will continue exploring opportunities to acquire high-quality telecommunications assets in mainland China. To achieve organic growth, we will endeavor to apply management and operating standards consistent with international best practice in the telecommunications industry and run the Group's businesses in a professional manner. We will optimize operations in the six provinces with a view toward maximizing enterprise value. The Group will continue enhancing its existing integrated network, while concurrently actively following the development of 2.5G and 3G mobile telecommunications technologies. The Group has been spot testing WAP and GPRS technologies, in preparation for the broad application of 2.5G and 3G mobile technologies at an appropriate time in the future, in order to bring a range of new services to the market and realize our transformation from a mobile telecommunications provider to a wireless multimedia services carrier. As always, we appreciate talent, respect knowledge and ability, and promote professionalism, internationalization and localization. We seek to encourage individual initiative, and will continue to endeavor to transform the Group into a truly world-class telecommunications company.

Wang Xiaochu

Chairman and President

13 April 2000