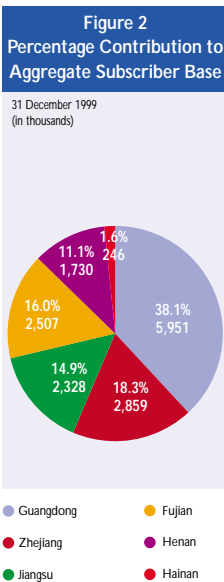
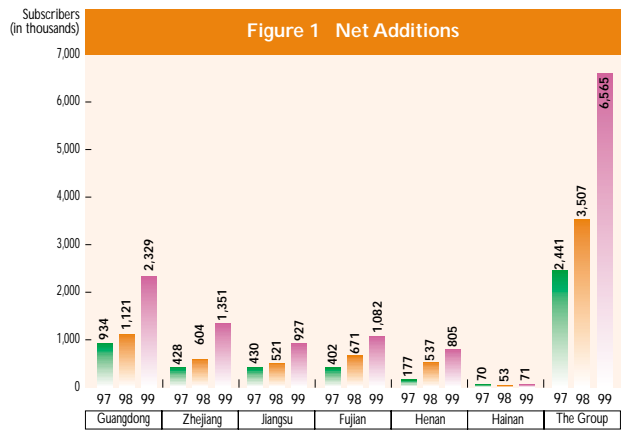


## Introduction

The Group achieved rapid organic and external growth in 1999. The Group's mobile telecommunications coverage expanded to six provinces and total usage volume increased in line with the rapid expansion of the Group's subscriber base. The expanded geographic coverage of our network, improvements in voice transmission quality, and development of new technologies and services ensured the Group's continued status as the market leader.

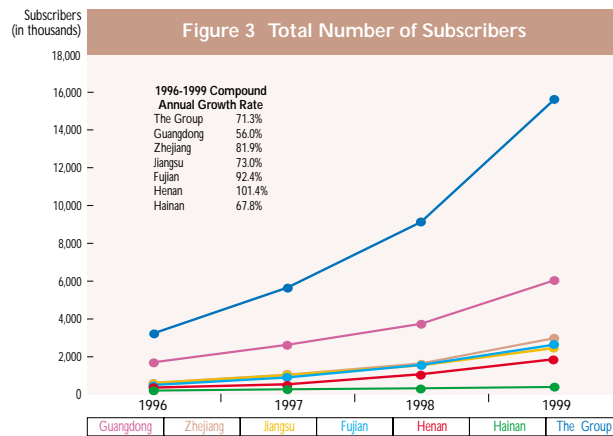
## Subscriber Base

The Group's subscriber base in the Guangdong, Zhejiang, Jiangsu, Fujian, Henan, and Hainan mobile markets has grown rapidly. At the end of 1999, the Group's aggregate subscriber base reached 15.621 million (excluding 128,000 prepaid card users), representing an increase of 6.565 million subscribers and a growth rate of 72.5 per cent over the pro forma combined subscriber base of 9.056 million at the end of 1998. As shown in Figure 1, of the Group's total new subscribers, Guangdong Mobile, Zhejiang Mobile, Jiangsu Mobile, Fujian Mobile, Henan Mobile and Hainan Mobile accounted for 2.329 million, 1.351 million, 927,000, 1.082 million, 805,000 and 71,000, respectively, reflecting year-to-year increases of 64.3 per cent, 89.7 per cent, 66.2 per cent, 75.9 per cent, 87.0



per cent and 40.5 per cent, respectively. Figure 2 shows the 1999 year-end subscriber number for each province, and such number as a percentage of the Group total subscriber base.

Since 1996, the Company has achieved a pro forma combined compound annual growth rate of 71.3 per cent in total subscriber base (see Figure 3). The 1999 combined subscriber growth rate for Fujian Mobile, Henan Mobile and Hainan Mobile, the three provincial mobile companies that the Group acquired on 12 November 1999, was 77.5 per cent. As the Group's average cellular penetration rate of 5.5 per cent in the six provinces is relatively low compared to those of other major international markets, the Group believes there is significant potential for future

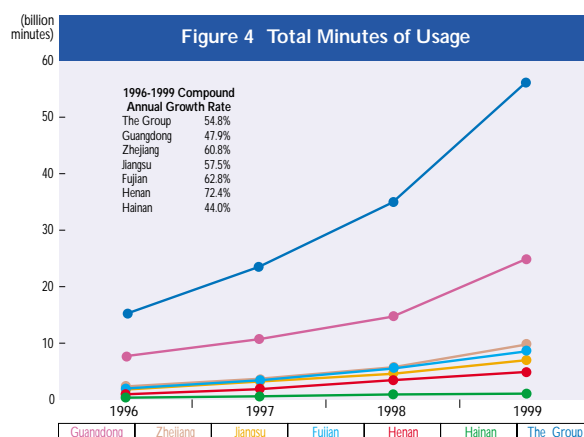


growth. In particular, the Group believes that increased competition in mainland China's telecommunications market, despite having reduced the Group's market share, has stimulated overall growth in the demand for mobile telecommunications services, thereby resulting in further growth to the Group's subscriber base.

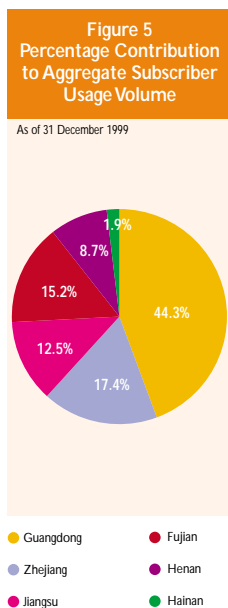
## Usage Volume

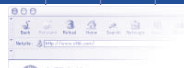
The Group's 1999 pro forma combined aggregate subscriber usage volume reached 56.158 billion minutes (see Figure 4), representing an increase of 21.263 billion minutes, or 60.9 per cent, from the pro forma aggregate subscriber usage volume of 34.895 billion minutes in 1998.

Guangdong Mobile, Zhejiang Mobile and Jiangsu Mobile accounted for 24.88 billion minutes, 9.75 billion minutes, and 6.99 billion minutes, respectively, representing increases of 69.4 per cent, 70.2 per cent and 52.6 per cent, respectively, over 1998.



Fujian Mobile, Henan Mobile and Hainan Mobile accounted for 8.55 billion minutes, 4.91 billion minutes and 1.07 billion minutes, respectively, representing increases of 55.3 per cent, 41.9 per cent and 15.5 per cent, respectively, over 1998. Figure 5 shows the relative percentage contribution of each of the six operating subsidiaries to the Group's pro forma combined aggregate subscriber usage volume.

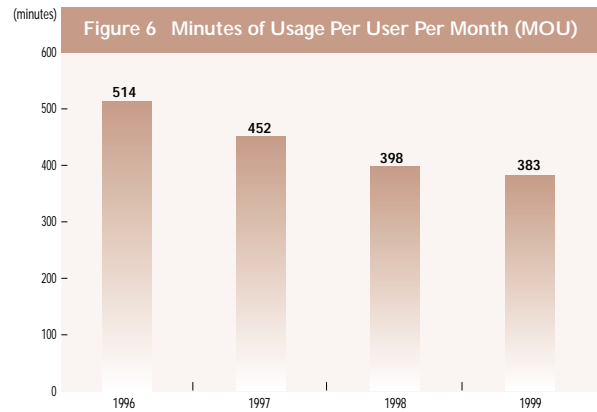




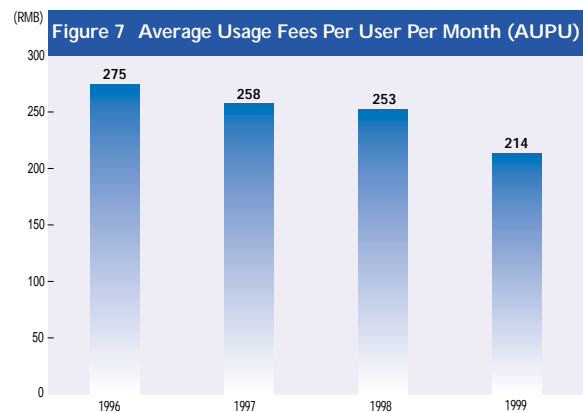
Based on the pro forma combined figures from 1996 through 1999, total subscriber usage volume grew at a compound annual rate of 54.8 per cent for the period, in line with the rapid expansion of the Group's subscriber base, which has contributed to the Group's revenue growth.

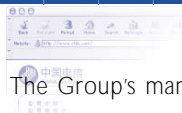
### Monthly Average Minutes of Usage and Revenue Per User

The Group's pro forma combined average minutes of usage per user per month ("MOU") decreased from 398 minutes in 1998 to 383 minutes in 1999, representing a 3.8 per cent decline. Guangdong Mobile's MOU was 429 minutes, representing a 7.3 per cent increase from 400 minutes in 1998; MOU for Zhejiang Mobile, Jiangsu Mobile, Fujian Mobile, Henan Mobile and Hainan Mobile was 376 minutes, 320 minutes, 376 minutes, 310 minutes and 436 minutes, respectively, representing declines of 5.0 per cent, 4.4 per cent, 10.6 per cent, 29.3 per cent and 16.6 per cent, respectively. See Figure 6 for the trend of the Group's pro forma combined MOU from 1996 to 1999. Figure 7 shows the declining trend in pro forma combined monthly average usage fees per user ("AUPU").



A comparison of Figure 6 and Figure 7 shows that both AUPU and MOU have a declining trend. The substantial increase in low-end customers within the subscriber base has contributed to the decline in MOU, which has resulted in a decline in AUPU. In addition, adjustments in the international and domestic long distance tariffs is another reason for the decline in AUPU.



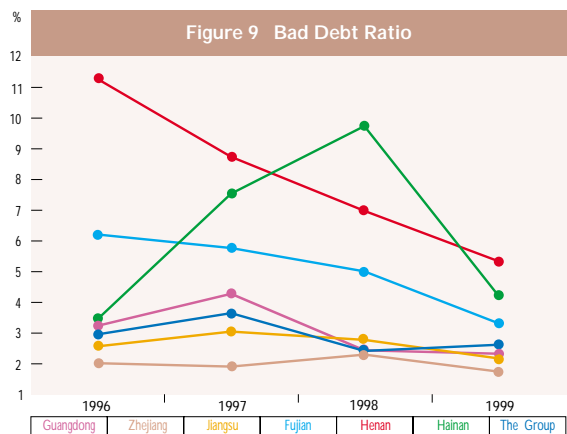
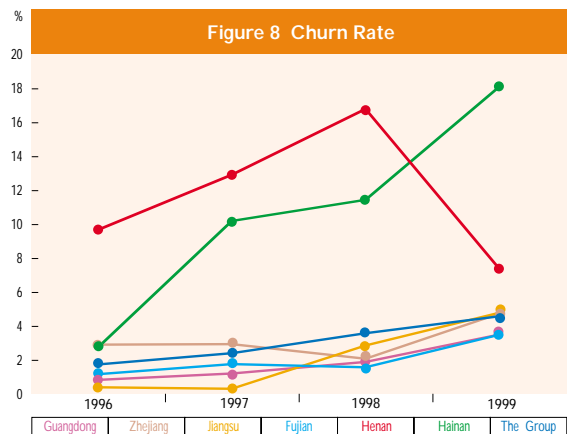


The Group's management believes that the decline in MOU is usual and in accordance with the experiences of mobile telecommunications companies operating in other countries. Different from the above trend, Guangdong Mobile's increased MOU resulted from newly offered Value Added Services ("VAS"), and an adjustment of the monthly usage fee from RMB100 to RMB50, in 1999. The Group believes that its efforts in developing new VAS, with particular emphasis on wireless data applications, may help to maintain the Group's MOU and AUPU at relatively high levels and reverse or mitigate the declining trend.

### Churn Rate and Bad Debts

The Group's pro forma combined churn rate was 4.59 per cent in 1999. For a historical analysis by province, see Figure 8. The Group believes that the changing trend in the churn rate during the 1996 through 1999 period was in line with the experiences of other international mobile telecommunications companies. In addition, the upward trend in the churn rate was attributable, in part, to the Group's tightened credit control policies. The policy requiring

temporary suspension of service where accounts are delinquent for one month; the making of 100 per cent provision for accounts that are overdue for three or more months in the Group's financial records; and the compulsory termination of services where accounts are overdue for six or more months, has contributed to the favorable declining trend in the Group's total bad debt ratio (bad debt provision expressed as a percentage of operating revenue, excluding connection fees), as shown in Figure 9. By conducting thorough credit reviews of new customers and promoting prepaid card services for low-end users, the Group believes that bad debts and churn rate can be maintained at a reasonably low level.





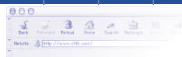
The Group's distribution network consisted of 9,175 sales outlets at the end of 1999, including 8,725 authorized dealers and 450 wholly-owned sales outlets, representing 95 per cent and five per cent of the overall distribution network, respectively. By admitting a significant number of authorized dealers, the Group believes it can more efficiently use external resources to expand distribution channels. In 1999, authorized independent dealers procured more than 80 per cent of all new subscribers, ensuring effective distribution and ready brand recognition.

While aggressively expanding the network of authorized independent dealers, the Group also relies on wholly-owned sales outlets to provide enhanced support to strategic customers and to improve customer satisfaction. The Group believes that its use of such sales outlets not only promotes loyalty among strategic customers, but also encourages the optimal deployment of its personnel and ensures a more rational cost structure that transforms fixed costs into variable costs linked directly to sales volume, resulting in increased competitiveness and flexibility. The Company is also actively considering providing on-line sales and customer services over the Internet.

### **Products, Services and Pricing**

The basic services offered by the Group include "Global Access", "Local Access", "Shenzhouxing" prepaid cards, in addition to various VAS and bundled service packages. In order to increase subscriber usage volume and stimulate sales, the Group offers various VAS, including, among others, voicemail, conference calling, call forwarding, and "Chinese Secretary". Stock price quotations, billing inquiry and others services have been offered in selected cities based on the Short Message Service ("SMS") platform. The Group constantly strives to identify new VAS, with particular emphasis on the further development of wireless data applications. Since November 1999, Guangdong Mobile, Zhejiang Mobile, and Fujian Mobile have conducted trial testing of Wireless Application Protocol ("WAP") and General Packet Radio Service ("GPRS") to evaluate market response. The Group plans to offer as soon as possible new wireless data applications and wireless Internet services when technology develops and market opportunities ripen. The Group expects that the portion of revenue contributed by VAS will gradually increase.

The Ministry of Information Industry and other relevant pricing authorities regulate standard tariffs for the various telecommunications services and products offered by the Group. The regulated tariffs include mainly the connection fee rate, monthly fee rate and usage fee rate. Based on local market circumstances, daily traffic distribution, special events and public holidays, the Group's operating subsidiaries implement a variety of promotions, such as half-price IDD

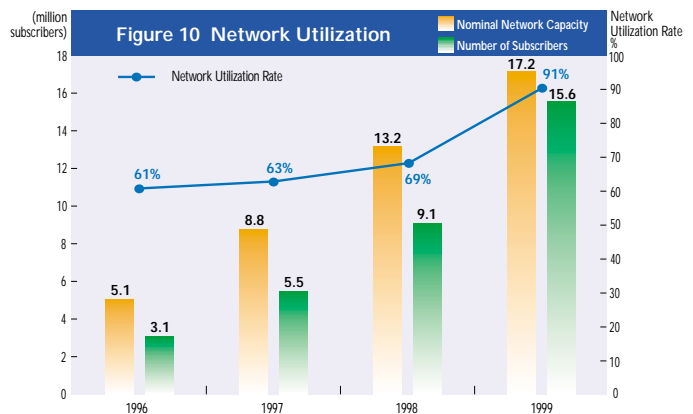


service during evening and nighttime hours and special May 17 International Telecommunications Day and Teachers' Day discounts. While connection fee rates have continued to decline, compared with tariffs in other countries, the Group's management believes mobile telephone tariffs in mainland China are among the world's lowest. The Group anticipates that the overall tariff level will remain relatively stable despite any possible changes to the tariff structure.

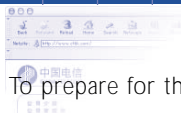
The Group's goal is to enhance subscriber satisfaction by improving the quality of its customer service. By direct selling through the Company's wholly-owned sales outlets, and establishing on line sales and customer service facilities, we offer one-stop shopping convenience for our strategic customers. New products and services have been developed to meet subscribers' needs. Operations have been streamlined and our computerized Business Operation Support System ("BOSS"), including billing systems, customer care centers, and sales and marketing systems have been upgraded. The Group believes that these efforts have contributed to the building of a base of loyal customers.

## Network

At the end of 1999, the nominal capacity of the Group's cellular telecommunications networks reached 17.187 million subscribers (see Figure 10), with the Group's GSM network at 14.538 million subscribers and TACS network at 2.649 million subscribers, representing a digital to analog ratio of 85 per cent to 15 per cent. The utilization rate was 96 per cent for the GSM network, and 60 per cent for the TACS network. See Figure 10 for the Group's network utilization from 1996 to 1999. The Group's networks cover some of China's most prosperous coastal provinces, including Guangdong, Zhejiang, Jiangsu, Fujian and Hainan, as well as China's most populous



province, Henan. The average call completion rate is over 70 per cent for the Group's GSM network, and between 50 and 60 per cent for the Group's TACS network.



To prepare for the launch of wireless Internet and other wireless data services and to reduce maintenance costs, the Group plans to complete the conversion of its remaining analog network subscribers to the GSM network within three years. The Group plans to continue upgrading its GSM network to enable it to provide all VAS defined under GSM MOU Phase II. In addition, the Group will closely follow the development of 2.5G and 3G wireless telecommunications technologies with new products and services for subscribers in accordance with market needs.

## Synergy

Achieving external growth through further acquisitions of quality telecommunications assets in China is one of the Group's fundamental growth strategies. The Group has adopted the following measures to capture potential synergies from such acquisitions:

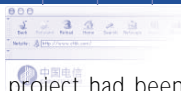
- Optimizing and dynamically adjusting the Group's network structure. The Group minimizes the total number of leased lines and thereby reduces leased line expenses, while ensuring the maintenance of voice quality;
- Negotiations with fixed-line operators resulted in several leased line tariff reductions in 1999;
- Experiments with WAP, GPRS and other technologies in the more economically developed provinces are expected to promote the development of new wireless data and wireless Internet products to satisfy future market needs;
- The sharing of management expertise and centralised intensive training have enhanced workforce productivity;
- The Group's expanded scale has facilitated the large-volume procurement of equipment, resulting in cost savings.

## Capital Expenditure

The pro forma combined capital spending of the Group in 1999 totaled RMB14.998 billion, more than 90 per cent of which was devoted to network construction, IT systems construction and the testing of new technologies, which increased network capacity by 3.99 million subscribers. The Group believes that the increased network capacity and advancements in technology will gradually enhance the economies of scale and increase productivity and efficiency.

## Year 2000 Issue

In preparation for Y2K, the Group implemented hardware and software upgrades in accordance with the detailed plans disclosed in our Interim Results for fiscal year 1998, our Annual Report for 1998, and our Interim Results for 1999. By 31 December 1999, the entire



project had been successfully and timely concluded. Our operations were not affected from the rollover to 2000 to date, and Y2K high-risk days have been traversed smoothly and safely. To address the Y2K issue, the Group invested a total of US\$32 million and, as of 31 December 1999, had no material commitment for further payments related to Y2K.

### **Growth Strategy**

In the near term, the Group will focus on further developing its mobile telephone businesses to become a world-class mobile telecommunications services provider. In the mid to long term, we plan to develop new wireless data services, gradually transforming the Group into a wireless multimedia services provider, with wireless broadband data, wireless voice services and a wide variety of other VAS. The Group expects to continue developing its businesses through both organic and external growth and seeking opportunities to acquire more quality telecommunications assets. The Group will adopt the international best practices standard in the telecommunications industry to improve efficiency and enhance the competitive advantages of its operating subsidiaries. To continue to develop new technologies, the Group expects to fully utilize its current GSM network to develop data services based on the current SMS platform, while employing 2.5G technologies, including WAP and GPRS, for wireless data services and wireless Internet and related VAS in selected markets. The Group will continue to closely follow developments in 3G technologies and to formulate the Group's development strategy for 3G mobile telecommunications services taking into account the characteristics of mainland China's telecommunications market to ensure the Group's continued status as the market leader in this new and increasingly competitive environment.