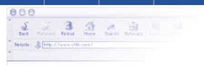


The information set out below presents the audited consolidated operating results and the unaudited pro forma combined operating results of the Group. The audited consolidated operating results for 1999 include results of operations of the newly acquired subsidiaries, Fujian Mobile, Henan Mobile and Hainan Mobile from 12 November 1999, the date of their acquisition by the Group and for 1998, it includes results of operations of Jiangsu Mobile from 4 June 1998, the date of its acquisition by the Group. The unaudited pro forma combined ("pro forma combined") operating results of the Group were prepared as if the current structure of the Group had been in existence throughout each of the two years ended 31 December 1998 and 1999.

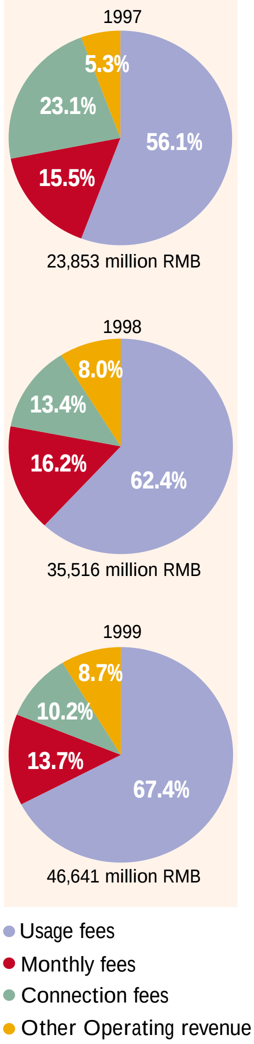
	Consolidated Operating Results			Pro Forma Combined Operating Results		
	1999 RMB million	1998 RMB million	Change	1999 RMB million	1998 RMB million	Change
Operating Revenue (Turnover)						
Usage fees	25,812	16,346	57.9%	31,442	22,169	41.8%
Monthly fees	4,981	4,347	14.6%	6,371	5,755	10.7%
Connection fees	4,319	3,323	30.0%	4,771	4,753	0.4%
Other operating revenue	3,511	2,329	50.8%	4,057	2,839	42.9%
Total	38,623	26,345	46.6%	46,641	35,516	31.3%
Operating expenses						
Leased lines	3,723	3,917	(5.0%)	4,690	5,165	(9.2%)
Interconnection	6,453	4,752	35.8%	7,683	5,512	39.4%
Depreciation	7,411	4,598	61.2%	9,130	6,568	39.0%
Personnel	2,256	1,595	41.4%	2,476	1,767	40.1%
Other operating expenses	5,140	3,548	44.9%	6,457	5,594	15.4%
Total	24,983	18,410	35.7%	30,436	24,606	23.7%

	Consolidated Operating Results			Pro Forma Combined Operating Results		
	1999	1998	Change	1999	1998	Change
	RMB million	RMB million		RMB million	RMB million	
Profit from operations	13,640	7,935	71.9%	16,205	10,910	48.5%
Write-down and write-off of TACS network equipment	(8,242)	(282)	2,822.7%			
Other income	552	336	64.3%			
Non-operating income/(expenses)	70	(51)	—			
Interest income	767	1,609	(52.3%)			
Finance costs	(343)	(160)	114.4%			
Profit from ordinary activities before taxation	6,444	9,387	(31.4%)			
Income tax	(1,647)	(2,486)	(33.7%)			
Profit from ordinary activities after taxation	4,797	6,901	(30.5%)			
Minority interests	—	(1)	—			
Profit attributable to shareholders	4,797	6,900	(30.5%)			

Information for reference

Profit attributable to shareholders (before write-down and write-off of TACS network equipment, net of associated income taxes)	10,320	7,088	45.6%			
EBITDA	21,603	12,869	67.9%	25,954	17,799	45.8%

Pro Forma Combined Turnover Composition



Management's Discussion and Analysis of Financial Condition and Results of Operations

The Group's business expanded substantially as a result of its continuing strategy of pursuing organic growth as well as external growth. Accordingly, the Group has continued to focus on controlling costs, improving its capital structure, enhancing asset quality and improving overall efficiency. These efforts have led to strong financial results in 1999. Turnover for 1999 was RMB38,623 million, representing a 46.6 per cent increase from 1998. EBITDA was RMB21,603 million, representing a 67.9 per cent increase from the previous year. Profit attributable to shareholders (before the write-down and write-off of certain TACS network equipment, net of associated income taxes) amounted to RMB10,320 million, which represented a 45.6 per cent increase over the previous year. Basic earnings per share before such write-down and write-off were RMB0.86, representing a 43.3 per cent increase from RMB0.60 for 1998. Profit attributable to shareholders after the write-down and write-off of TACS network equipment was RMB4,797 million, representing a 30.5 per cent decrease as compared with RMB6,900 million in the previous year. Basic earnings per share were RMB0.40, representing a 32.2 per cent decrease from RMB0.59 in the previous year.

Operating Revenue (Turnover)

Turnover for 1999 was RMB38,623 million, representing a 46.6 per cent increase over 1998. The full-year combined turnover of Guangdong Mobile, Zhejiang Mobile and Jiangsu Mobile totalled RMB36,682 million, representing a 28.6 per cent increase over the full-year combined turnover of the three subsidiaries in the previous year. This reflects that the original three subsidiaries continued to experience strong growth which, along with the acquisition in 1999, contributed significantly to the growth in the turnover of the entire Group. Full-year combined turnover for newly acquired Fujian Mobile, Henan Mobile and Hainan Mobile in 1999 was RMB9,959 million, reflecting a 42.5 per cent increase over 1998.

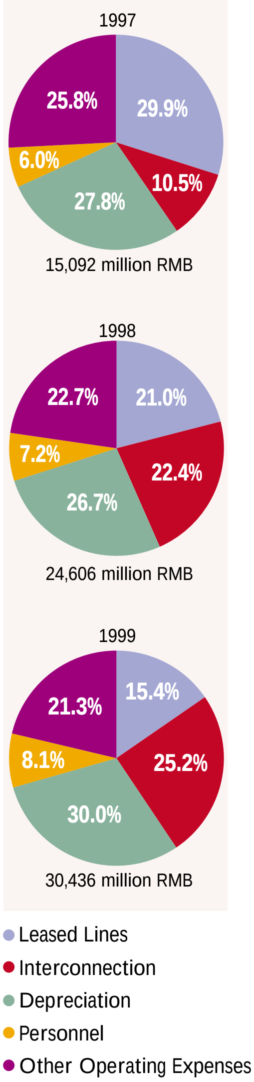
Revenue from usage fees for the year amounted to RMB25,812 million, representing a 57.9 per cent increase as compared with 1998. Pro forma combined usage fees for 1999 amounted to RMB31,442 million, representing a 41.8 per cent increase over 1998. The continued growth of usage fees in 1999 was principally attributable to the broadening of the subscriber base and the associated increase in aggregate usage volume. Pro forma combined usage fees contributed 67.4 per cent to the pro forma combined turnover as compared to 62.4 per cent in the prior year, resulting principally from a decrease in the proportional contribution of connection fees to turnover. The Group anticipates that the increase in these recurrent income items will continue to support steady and sustainable growth in turnover. Meanwhile, the introduction of prepaid cards by our operating subsidiaries will also generate additional usage fees and further increase its contribution to turnover.

Revenue from monthly fees for 1999 totalled RMB4,981 million, representing a 14.6 per cent increase over the previous year. Pro forma combined monthly fees amounted to RMB6,371 million, representing a 10.7 per cent increase over the previous year. The increase in monthly fees was less than the increase in the number of subscribers in 1999, largely as a result of an adjustment in the monthly fee rate charged by Guangdong Mobile from RMB100 in 1998, to RMB50 in 1999. Zhejiang Mobile also adjusted its monthly fee rate downward from RMB62.5 to RMB50, beginning in April 1999. However, the Group believes that maintaining monthly fees at current levels will help retain existing subscribers and attract new subscribers, thereby ensuring a steady stream of revenue.

Revenue from connection fees was RMB4,319 million, an increase of 30.0 per cent over 1998. Pro forma combined connection fees was RMB4,771 million, representing a slight increase of 0.4 per cent over 1998. The contribution of pro forma combined connection fees to turnover declined to 10.2 per cent in 1999. The average connection fee per new subscriber was RMB727 this year, representing a 46.3 per cent decline from RMB1,355 in the previous year. The Group believes that while the reduction in connection fees is substantial, the impact of such reduction on turnover will gradually lessen. Moreover, promotional tariff packages to subscribers and discounts on one-off fees, such as connection fees, will improve the Group's competitiveness.

Other operating revenue totalled RMB3,511 million in 1999, representing a 50.8 per cent increase over the previous year. Pro forma combined other operating revenue was RMB4,057 million, representing a 42.9 per cent increase over the previous year. Other operating revenue mainly reflects the Group's income from settlements with other operators for interconnection services provided by the Group, as well as monthly fees charged to subscribers for VAS. Pro forma combined other operating revenue contributed 8.7 per cent to turnover in 1999, representing a slight growth from 8.0 per cent in the prior year. The increase resulted principally from an increase in interconnection services furnished to other telecommunications operators. While revenue from VAS is not a significant component of revenue compared to the Group's other revenue, the Group believes that it will increase over time and will become important as a core revenue source of turnover in the future.

Pro Forma Combined Operating Expenses Structure



Operating Expenses

Total operating expenses for 1999 was RMB24,983 million, representing a 35.7 per cent increase from 1998. Pro forma combined operating expense for 1999 was RMB30,436 million, representing a 23.7 per cent increase from 1998. The percentage increase in pro forma combined operating expenses was less than that of pro forma combined turnover. Pro forma combined operating expenses per RMB of pro forma combined turnover decreased to RMB0.65 from RMB0.69 in the previous year. Pro forma combined operating costs per subscriber per month also decreased from RMB281 in 1998 to RMB207 in 1999, reflecting improved operating efficiency.

Total leased lines expenses for the year was RMB3,723 million, representing a 5.0 per cent decrease from 1998. Pro forma combined leased line expenses in 1999 amounted to RMB4,690 million, representing a 9.2 per cent decrease from 1998. The relative proportion of pro forma combined operating expenses represented by leased lines expenses declined to 15.4 per cent in 1999 from 21.0 per cent in the prior year, reflecting the Group's achievements in improving its network and more efficiently utilising leased lines. As a result of reductions in the standard leased line tariff during the year and a new bulk rental discount obtained by the Group, the Group managed to reduce leased lines expenses while further expanding the Group's network and increasing the number of leased lines.

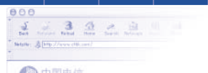
Interconnection expenses for the year totalled RMB6,453 million, representing a 35.8 per cent increase from 1998. Pro forma combined interconnection expenses were RMB7,683 million, representing a 39.4 per cent increase over 1998. Interconnection expenses as a percentage of pro forma combined operating expenses for 1999 was 25.2 per cent, compared to 22.4 per cent in the previous year. This higher ratio is due mainly to the fact that interconnection charges incurred by newly acquired Fujian Mobile, Henan Mobile and Hainan Mobile were not required to be settled in full in previous years. This situation was similar to that for Guangdong Mobile and Zhejiang Mobile (prior to their reorganisation and listing) and Jiangsu Mobile (prior to its reorganisation and acquisition). This makes the interconnection expenses for Fujian Mobile, Henan Mobile and Hainan Mobile not entirely comparable to those of the previous year. Correspondingly, after the implementation of interconnection arrangements, revenue from domestic and international long distance call payments were included in operating revenue in respect of each of these operating subsidiaries.

Depreciation expenses for 1999 amounted to RMB7,411 million, representing a 61.2 per cent increase over the previous year. Pro forma combined depreciation expenses amounted to RMB9,130 million, representing a 39.0 per cent increase from 1998. The increase in depreciation expenses was mainly due to the expansion of the Group's networks. Owing mainly to the proportionate decrease in items such as leased line charges relative to operating expenses, depreciation expenses represented 30.0 per cent of the pro forma combined operating expenses this year, representing a 3.3 per cent increase from 1998.

Personnel expenses was RMB2,256 million in 1999, representing a 41.4 per cent increase over 1998. Pro forma combined personnel expenses totalled RMB2,476 million, representing a 40.1 per cent increase from 1998. Pro forma combined personnel expenses in 1999 as a percentage of pro forma combined operating expenses was 8.1 per cent, representing a 0.9 percentage point increase over the previous year. The increase in personnel expenses was largely due to the Group's implementation of a performance-based compensation program and compensation restructuring to encourage performance as well as attract and retain talented employees.

Other operating expenses for 1999 totalled RMB5,140 million, representing a 44.9 per cent increase over the prior year. Pro forma combined other operating expenses was RMB6,457 million, representing an increase of 15.4 per cent from the previous year. The increase reflects increased promotional activities to attract new subscribers.

While the increasingly competitive environment has made it more difficult to maintain subscriber loyalty and the enlarged subscriber base has further increased the complexities of credit control, the Group's bad debt remains at a relatively low level. Bad debt has been historically low in Guangdong, Zhejiang and Jiangsu, and the Group has successfully applied its credit control experience in such provinces to its newly acquired subsidiaries in Fujian, Henan and Hainan provinces. The full-year combined bad debt provisions for Guangdong Mobile, Zhejiang Mobile and Jiangsu Mobile represented only 2.47 per cent of operating revenue (excluding connection fees) in 1998, and in 1999 the situation further improved, with provisions totalling just 2.17 per cent. The full-year combined bad debt provisions for the three newly acquired subsidiaries represented 4.18 per cent of operating revenue (excluding connection fees), improved from the pre-acquisition level of 4.25 per cent figure at mid-year 1999. In order to continue to effectively control bad debt, the Group believes that improved controls supported by comprehensive fee calculation and collection hardware systems are imperative. Such support systems for the newly acquired subsidiaries are now undergoing improvements. While the Group will continue to emphasize the importance of controlling bad debt, we will also continue to identify operational issues related to bad debt and adopt corresponding measures to limit bad debt to acceptable levels.



Write-down and write-off of TACS network equipment

The Group decided to write-down and write-off certain TACS network equipment in 1999, in an aggregate amount of RMB8,242 million. The net book value of the TACS network equipment at the end of 1999, before the write-down and write-off, was RMB9,767 million, representing 18.6 per cent of the net value of total fixed assets. At the end of 1999, the Group had an aggregate of 1.6 million TACS subscribers, representing 10 per cent of the Group's total subscribers. After the write-down and write-off, the net book value of the TACS network equipment was RMB1,525 million. Given the rapid development of mobile telecommunications technologies and the potentially limited life cycle of the Group's TACS network equipment, the management 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. In addition, the write-off is expected to lead to an improvement in the Group's asset quality; maximize operational flexibility; and maintain the Group's competitiveness in light of the ongoing opening and reform of China's telecommunications industry and the increasingly competitive market environment. Concurrently, the Group will control transfer costs. The Group will also continue to utilise the TACS network equipment through the introduction of services such as "Local Access" prior to the physical end of the life cycle of the TACS network equipment, and to identify the economic means for dismantling the equipment, so as to protect the interests of our shareholders.

Other Income, Non-operating Income/(Expense)

Other income in 1999 totalled RMB552 million, representing a 64.3 per cent increase from 1998. Other income mainly represents gross profits derived from sales of SIM cards and handsets.

The change in non-operating income was mainly due to a reduction in losses from the disposal of fixed assets in 1999 as compared to 1998. Non-operating income for the Group totalled RMB70 million in 1999, as compared to an expense of RMB51 million in 1998.

Interest income and Finance Costs

Interest income for 1999 was RMB767 million, representing a 52.3 per cent decline from RMB1,609 million in 1998. This is because a substantial portion of the proceeds from the Group's 1997 initial public offering was utilised in 1998 for the acquisition of Jiangsu Mobile and network construction for the operating subsidiaries.

Finance costs for 1999 was RMB343 million, representing a 114.4 per cent increase from the previous year. The increase in finance costs was primarily due to increased borrowing by Zhejiang Mobile and Jiangsu Mobile and interest payments on the Group's 5-year US$600 million fixed-rate notes issued in 1999.

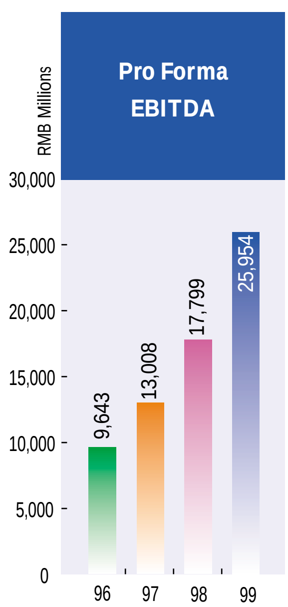
The Group has initiated measures to enhance capital allocation to ensure the optimal utilisation of resources.

Income Taxes

Income tax expenses for 1999 were RMB1,647 million, representing a 33.7 per cent decline from the previous year. The main reason for the decline was a decrease in profits before taxation as compared with 1998 following the write-down and write-off of the Group's TACS network equipment.

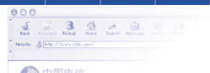
Profit attributable to shareholders

The Group's profit attributable to shareholders was RMB4,797 million in 1999, representing a 30.5 per cent decrease from RMB6,900 million in 1998, mainly caused by the write-down and write-off of TACS mobile telecommunications equipment this year. Profit attributable to shareholders for 1999, before the write-down and write-off of the Group's TACS network equipment, was RMB10,320 million, representing an increase of 45.6 per cent from the previous year. Full-year combined profit attributable to shareholder for Guangdong Mobile, Zhejiang Mobile and Jiangsu Mobile before the write-down and write-off of the TACS network equipment was RMB9,435 million, representing an increase of 51.9 per cent from the RMB6,211 million full-year combined net profit of these three provinces in 1998, reflecting strong profit growth. In addition, the Group's three newly acquired subsidiaries also contributed substantially to the profitability of the Group. Full-year combined net profit for Fujian Mobile, Henan Mobile and Hainan Mobile, before the write-down and write-off of the TACS network equipment, was RMB2,821 million, representing a 23.5 per cent increase from 1998.



EBITDA

EBITDA represents earnings before interest income, interest expense, non-operating income (expenses), income taxes, depreciation and amortisation, and write-down and write-off of fixed assets. While EBITDA is commonly used in the international telecommunications industry as an indicator of operating performance, leverage and liquidity, it is not presented as a measure of operating performance in accordance with generally accepted accounting principles and should not be considered as representing net cash flows from operating activities. In addition, the Group's computation of EBITDA may not be comparable to other similarly titled measures of other companies. The 1998 comparative figure has been recomputed in accordance with the above definition, where write-down and write-off of fixed assets has not been deducted.



EBITDA in 1999 was RMB21,603 million, representing a 67.9 per cent increase from RMB12,869 million in 1998. Pro forma combined EBITDA was RMB25,954 million, representing a 45.8 per cent increase from RMB17,799 million in 1998. Pro forma combined EBITDA margin was 55.6 per cent, representing a 5.5 per cent increase from 50.1 per cent in 1998. The increase was mainly due to the proportional decline in leased lines expenses relative to turnover, but also reflects the Group's achievements in controlling costs.

Profitability of the Acquired Operating Subsidiaries

The Group acquired interests in Fujian Mobile, Henan Mobile and Hainan Mobile in November 1999, and the three subsidiaries achieved impressive operating results. Full-year combined turnover of these subsidiaries in 1999 was RMB9,959 million, representing a 42.5 per cent increase over 1998. Full-year combined net profit of these subsidiaries reached RMB2,566 million after the write-down and write-off of the TACS network equipment of RMB380 million, representing a 12.3 per cent increase from the full-year combined net profit of these subsidiaries in 1998 and exceeding the profit forecast of RMB2,475 million disclosed in the shareholders' circular at the time of the acquisition. Full-year combined EBITDA was RMB5,454 million, exceeding the EBITDA forecast of RMB5,343 million disclosed in the shareholders' circular at the time of the acquisition, representing a 40.4 per cent increase from the combined EBITDA in 1998.

Capital Resources and Utilisation

The Group's cash and bank balances at the end of 1999 totalled RMB27,576 million, and were denominated in Renminbi, US dollars and Hong Kong dollars.

As at 31 December 1999, the Group's net current assets totalled RMB14,031 million, representing a 98.1 per cent increase from net current assets of RMB7,083 million as at 31 December 1998. The increase derived principally from earnings from operations in 1999, and the acquisition of its interests in Fujian Mobile, Henan Mobile and Hainan Mobile .

The Group's short-term borrowings and long-term borrowings as at 31 December 1999 were RMB6,198 million and RMB7,284 million, respectively, and were primarily denominated in Renminbi and US dollars. The ratio of debt to capitalisation (the sum of total borrowings and shareholders' equity) for the Group at the end of 1999 was 19.1 per cent, representing approximately a 7 percentage points increase from the ratio of 12.1 per cent at the end of 1998. This reflects the Group's achievements in optimising its capital structure to reduce capital cost and to leverage more effectively.

The Group's pro forma combined capital expenditures in 1999 totalled RMB14,998 million, which was mainly attributable to investments in network infrastructure of the subsidiaries and the development of fee calculation, operation and sales support systems for the newly acquired subsidiaries.

Financial Policies

The Group employs prudent financial management strategies to better achieve its financial targets and maximize returns for investors. Key initiatives in 1999 included:

Considering the Group's relatively low leverage position and the need for raising funds to support the organic and external growth of the Group, the Group successfully sold 5-year US$600 million fixed-rate debt securities in 1999, thereby timely improving the Group's capital structure and reducing the composite cost of capital. The Group's entrance into the international bond financing markets marked an important milestone and expanded available financing channels for future capital raising activities. The Group is currently planning to establish a wholly owned subsidiary in the PRC to hold its interests in its operating subsidiaries in mainland China and optimise the Group's capital management flexibility. The Group's management believes that the acquisition of its interests in Fujian Mobile, Henan Mobile and Hainan Mobile in 1999 will substantially contribute to the Group's continued financial strength and enhance economies of scale available to the Group.