IMPORTANT

If you are in doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares or notes in China Mobile (Hong Kong) Limited, you should at once hand this circular together with the accompanying form of proxy to the purchaser or other transferee or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser or transferee.

This circular is for the sole purpose of the extraordinary general meeting of the Company and is not an offer to sell or a solicitation of an offer to buy any securities. A registration statement relating to the Company's ordinary shares and American depositary shares and convertible notes has been filed with the United States Securities and Exchange Commission but has not become effective. Any sale of these securities in the United States will be made only after such registration statement has become effective and by means of a prospectus relating to such securities.

[CHINA MOBILE LOGO]

CHINA MOBILE (HONG KONG) LIMITED

(Incorporated in Hong Kong with limited liability under the Companies Ordinance)

VERY SUBSTANTIAL ACQUISITION
AND CONNECTED TRANSACTIONS

Independent Financial Adviser to the
Independent Board Committee

[N M ROTHSCHILD & SONS LOGO]

[Rothschild logo]

Financial Advisers to
China Mobile (Hong Kong) Limited

CICC LOGO **China International Capital** Corporation (Hong Kong) Limited

GOLDMAN SACHS LOGO **Goldman Sachs (Asia) L.L.C.**

A letter from the independent board committee of China Mobile (Hong Kong) Limited is set out on page 31 of this circular. A letter from N M Rothschild & Sons (Hong Kong) Limited containing its advice to the independent board committee is set out on pages 32 to 51 of this circular.

A notice dated 16 October 2000 convening an extraordinary general meeting of the Company to be held in the Conference Room, 5th Floor, Island Shangri-La Hotel, Pacific Place, Supreme Court Road, Central, Hong Kong, on 10 November 2000 at 10:00 a.m., is set out at the end of this circular. Whether or not you are able to attend the meeting, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as practicable and in any event at least 36 hours before the time appointed for holding the meeting. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or at any adjourned meeting should you so wish.

16 October 2000

CONTENTS

In this circular, unless the context otherwise requires, the following expressions have the following meanings:

"Acquisition"	the proposed acquisition by the Company of the entire issued share capital of each of the Target BVI Companies pursuant to the Acquisition Agreement, as further described in this circular
"Acquisition Agreement"	the conditional sale and purchase agreement dated 4 October 2000 made between the Company, CMBVI and CMCC relating to the Acquisition
"adjusted EBITDA"	earnings before interest income, interest expense, non-operating income (expenses), income tax, depreciation and amortisation and write-down and write-off of fixed assets
"ADSs"	American depositary shares
"Associates"	as defined in the Listing Rules
"Beijing Mobile"	Beijing Mobile Communication Company Limited, a wholly foreign-owned enterprise established under the laws of the PRC and wholly-owned by Beijing Mobile BVI
"Beijing Mobile BVI"	Beijing Mobile (BVI) Limited, a company incorporated on 1 September 2000 in the British Virgin Islands
"Board"	the board of directors of the Company
"Chesterton Petty"	Chesterton Petty Limited, a chartered surveyor and independent property valuer to the Company
"China Mobile (Shenzhen)"	China Mobile (Shenzhen) Limited, a wholly foreign-owned enterprise established under the laws of the PRC and wholly-owned by the Company
"CICC"	China International Capital Corporation (Hong Kong) Limited, a registered investment adviser and financial adviser to the Company in respect of the Acquisition
"CMBVI"	China Mobile Hong Kong (BVI) Limited, a company incorporated in the British Virgin Islands and the immediate controlling shareholder of the Company
"CMCC"	China Mobile Communications Corporation, a state-owned company established under the laws of the PRC
"CMHKG"	China Mobile (Hong Kong) Group Limited, a company incorporated in Hong Kong and an indirect controlling shareholder of the Company
"Combined Group"	the Company, its existing subsidiaries, the Target BVI Companies and the Target Companies
"Companies Ordinance"	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong)
"Company" or "CMHK"	China Mobile (Hong Kong) Limited, a company incorporated in Hong Kong whose Shares are listed on the Stock Exchange, whose ADSs are listed on the New York Stock Exchange and whose Notes are listed on the Stock Exchange and the Luxembourg Stock Exchange
"Completion"	completion of the Acquisition pursuant to the Acquisition Agreement

"Connected Transactions"	the transactions entered into between (a) the Company, its subsidiaries and/or the Target Companies on the one hand and (b) CMCC or its subsidiaries on the other, as set out in the section headed "Letter from the Chairman — Connected Transactions"
"Consideration Shares"	the new Shares proposed to be allotted and issued to CMBVI as part of the total purchase price of the Acquisition
"Convertible Note Offering"	the proposed offering of U.S. dollar-denominated convertible notes of the Company, as described in the section headed "Letter from the Chairman — Financing of the Acquisition — The Convertible Note Offering"
"CSRC"	China Securities Regulatory Commission
"CTC"	China Telecommunications Corporation, a state-owned company established under the laws of the PRC
"Directors"	the directors of the Company
"Extraordinary General Meeting"	the extraordinary general meeting of the Company to be convened on 10 November 2000, notice of which is set out at the end of this circular, or any adjournment thereof
"Fujian Mobile"	Fujian Mobile Communication Company Limited, a wholly foreign-owned enterprise established under the laws of the PRC and wholly-owned by Fujian Mobile BVI
"Fujian Mobile BVI"	Fujian Mobile (BVI) Limited, a company incorporated on 1 September 1999 in the British Virgin Islands
"Goldman Sachs"	Goldman Sachs (Asia) L.L.C., a registered investment adviser and financial adviser to the Company in respect of the Acquisition
"Group"	the Company and its existing subsidiaries
"GSM"	Global System for Mobile Communications, pan-European mobile telephone system operating in the 900 MHz frequency band based on digital transmission and cellular network architecture with roaming
"Guangdong Mobile"	Guangdong Mobile Communication Company Limited, a wholly foreign-owned enterprise established under the laws of the PRC and a wholly-owned subsidiary of the Company
"Guangxi Mobile"	Guangxi Mobile Communication Company Limited, a wholly foreign-owned enterprise established under the laws of the PRC and wholly-owned by Guangxi Mobile BVI
"Guangxi Mobile BVI"	Guangxi Mobile (BVI) Limited, a company incorporated on 1 September 2000 in the British Virgin Islands
"Hainan Mobile"	Hainan Mobile Communication Company Limited, a wholly foreign-owned enterprise established under the laws of the PRC and wholly-owned by Hainan Mobile BVI
"Hainan Mobile BVI"	Hainan Mobile (BVI) Limited, a company incorporated on 1 September 1999 in the British Virgin Islands

"Hebei Mobile"	Hebei Mobile Communication Company Limited, a wholly foreign-owned enterprise established under the laws of the PRC and wholly-owned by Hebei Mobile BVI
"Hebei Mobile BVI"	Hebei Mobile (BVI) Limited, a company incorporated on 1 September 2000 in the British Virgin Islands
"Henan Mobile"	Henan Mobile Communication Company Limited, a wholly foreign-owned enterprise established under the laws of the PRC and wholly-owned by Henan Mobile BVI
"Henan Mobile BVI"	Henan Mobile (BVI) Limited, a company incorporated on 1 September 1999 in the British Virgin Islands
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	the committee of Directors, consisting of Arthur Li Kwok Cheung, an independent non-executive Director, formed to advise the Independent Shareholders in respect of the terms of the Acquisition, the mechanism for the determination of the issue price of the Consideration Shares and the terms of the Connected Transactions
"Independent Shareholders"	Shareholders other than CMBVI and its Associates
"Jiangsu Mobile"	Jiangsu Mobile Communication Company Limited, a wholly foreign-owned enterprise established under the laws of the PRC and wholly-owned by Jiangsu Mobile BVI
"Jiangsu Mobile BVI"	Jiangsu Mobile (BVI) Limited, a company incorporated on 6 March 1998 in the British Virgin Islands
"Latest Practicable Date"	10 October 2000, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
"Liaoning Mobile"	Liaoning Mobile Communication Company Limited, a wholly foreign-owned enterprise established under the laws of the PRC and wholly-owned by Liaoning Mobile BVI
"Liaoning Mobile BVI"	Liaoning Mobile (BVI) Limited, a company incorporated on 1 September 2000 in the British Virgin Islands
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"mainland China"	China (excluding Hong Kong, Macau and Taiwan)
"MII"	the Ministry of Information Industry of the PRC, or where the context so requires, its predecessor, the former Ministry of Posts and Telecommunications
"MOFTEC"	the Ministry of Foreign Trade and Economic Cooperation of the PRC
"Noteholders"	holders of the Notes
"Notes"	7 7/8% notes due 2004 of the Company

"Offer Price"	the offer price per Share of the Share Offering
"PBOC"	the People's Bank of China, China's central bank
"PRC" or "China"	The People's Republic of China
"Prospectus"	the final prospectus to be issued by the Company in relation to the Share Offering and the Convertible Note Offering in the United States of America
"Restructuring"	the transfer by CMCC of its businesses, assets and liabilities related to mobile telecommunication services in Beijing, Shanghai, Tianjin, Hebei, Liaoning, Shandong and Guangxi to the respective Target Companies
"RMB"	Renminbi, the lawful currency of mainland China
"Roaming Agreement"	the inter-provincial interconnection and domestic and international roaming settlement agreement dated 5 May 2000 between the Company and CMCC
"Rothschild" or "N M Rothschild & Sons"	N M Rothschild & Sons (Hong Kong) Limited, an investment adviser registered under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong) and independent financial adviser to the Independent Board Committee in respect of the terms of the Acquisition, the mechanism for the determination of the issue price of the Consideration Shares and the terms of the Connected Transactions
"SDI Ordinance"	the Securities (Disclosure of Interests) Ordinance (Chapter 396 of the Laws of Hong Kong)
"SDPC"	the State Development Planning Commission of the PRC, formerly known as The State Planning Commission of the PRC
"Services Companies"	companies wholly-owned by CMCC in the provinces, municipalities and autonomous region in which the Group or the Target Companies operate, which conduct businesses not related to mobile telecommunications
"Shandong Mobile"	Shandong Mobile Communication Company Limited, a wholly foreign-owned enterprise established under the laws of the PRC and wholly-owned by Shandong Mobile BVI
"Shandong Mobile BVI"	Shandong Mobile (BVI) Limited, a company incorporated on 1 September 2000 in the British Virgin Islands
"Shanghai Mobile"	Shanghai Mobile Communication Company Limited, a wholly foreign-owned enterprise established under the laws of the PRC and wholly-owned by Shanghai Mobile BVI
"Shanghai Mobile BVI"	Shanghai Mobile (BVI) Limited, a company incorporated on 1 September 2000 in the British Virgin Islands
"Share(s)"	ordinary share(s) of HK$0.10 each in the capital of the Company
"Shareholders"	holders of Shares
"Share Offering"	the proposed global offering of Shares and ADSs of the Company, as described in the section headed "Letter from the Chairman — Financing of the Acquisition — The Share Offering"

"State Council"	the State Council of the PRC
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Strategic Investor Placing Agreement"	the strategic investor placing agreement dated 4 October 2000 between, *inter alia* , the Company and Vodafone setting out the terms and conditions of the Strategic Placing
"Strategic Placing"	the subscription for Shares by Vodafone as part of the Share Offering and as described in the section headed "Letter from the Chairman — Financing of the Acquisition — The Share Offering"
"Supplemental Agreement"	the supplemental agreement dated 19 September 2000 between the Company, the Target Companies and CMCC pursuant to which certain existing arrangements relating to interconnection and roaming, trademark licensing, spectrum and number resources usage and sharing of inter-provincial transmission leased line fees were extended to the Target Companies
"TACS"	Total Access Communication Systems, a European standard for analog mobile telephone transmissions in the 800 and 900 MHz frequency bands
"Target BVI Companies"	Beijing Mobile BVI, Shanghai Mobile BVI, Tianjin Mobile BVI, Hebei Mobile BVI, Liaoning Mobile BVI, Shandong Mobile BVI and Guangxi Mobile BVI
"Target Companies"	Beijing Mobile, Shanghai Mobile, Tianjin Mobile, Hebei Mobile, Liaoning Mobile, Shandong Mobile and Guangxi Mobile
"Target Group"	the group of companies comprising the Target Companies
"Tianjin Mobile"	Tianjin Mobile Communication Company Limited, a wholly foreign-owned enterprise established under the laws of the PRC and wholly-owned by Tianjin Mobile BVI
"Tianjin Mobile BVI"	Tianjin Mobile (BVI) Limited, a company incorporated on 1 September 2000 in the British Virgin Islands
"Unicom"	China United Telecommunications Corporation, a state-owned enterprise established under the laws of the PRC
"U.S. dollars" or "US$"	United States dollars, the lawful currency of the United States of America
"Vodafone"	Vodafone Group Plc.
"Zhejiang Mobile"	Zhejiang Mobile Communication Company Limited, a wholly foreign-owned enterprise established under the laws of the PRC and a wholly-owned subsidiary of the Company

For your convenience, this circular contains translations between Renminbi amounts and U.S. dollars at RMB8.2782 = US$1.00, between Renminbi amounts and Hong Kong dollars at RMB1.062 = HK$1.00, and between Hong Kong dollar amounts and U.S. dollars at HK$7.7960 = US$1.00, the prevailing rates on 30 June 2000. The translations are not representations that the Renminbi and Hong Kong dollar amounts could actually be converted into U.S. dollars or Hong Kong dollars at those rates, or at all.

For the purposes of this circular, cellular penetration rates represent the estimated total number of cellular subscribers (including Unicom's subscribers) divided by the total population.

The operating and financial information presented in this circular in respect of any time prior to 3 September 1997 reflects the cellular telecommunications businesses in Guangdong and Zhejiang provinces that the Group assumed pursuant to a corporate restructuring effected in September 1997 in connection with the Company's initial public offering. In addition, unless otherwise noted, the financial information presented in this circular includes the results of the Group's subsidiary, Jiangsu Mobile, from 4 June 1998, the date of the Group's acquisition of Jiangsu Mobile and, unless otherwise noted, the operating information presented in this circular includes information of Jiangsu Mobile from 1 January 1998. Furthermore, unless otherwise noted, the financial information presented in this circular includes the results of the Group's subsidiaries, Fujian Mobile, Henan Mobile and Hainan Mobile, from 12 November 1999, the date of the Group's acquisition of Fujian Mobile, Henan Mobile and Hainan Mobile and, unless otherwise noted, the operating information presented in this circular includes information of Fujian Mobile, Henan Mobile and Hainan Mobile from 1 January 1999.

[China Telecom LOGO]

CHINA MOBILE (HONG KONG) LIMITED

(Incorporated in Hong Kong with limited liability under the Companies Ordinance)

Executive Directors:

Wang Xiaochu (Chairman)
Li Zhenqun
Ding Donghua
Li Gang
Xu Long
He Ning
Liu Ping
Yuan Jianguo
Wei Yiping

Independent Non-Executive Directors:

Arthur Li Kwok Cheung
Antony Leung Kam Chung

Registered Office:

60th Floor
The Center
99 Queen's Road Central
Hong Kong

16 October 2000

To the Shareholders and, for information only, the Noteholders

Dear Sir or Madam,

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTIONS

ACQUISITION OF BEIJING MOBILE BVI, SHANGHAI MOBILE BVI, TIANJIN MOBILE BVI, HEBEI MOBILE BVI, LIAONING MOBILE BVI, SHANDONG MOBILE BVI AND GUANGXI MOBILE BVI

1. INTRODUCTION

On 4 October 2000, the Board of Directors announced that the Company had entered into the Acquisition Agreement, pursuant to which the Company agreed to acquire, and CMBVI, the Company's immediate controlling shareholder, agreed to sell, the entire issued share capital of each of the Target BVI Companies, subject to certain conditions.

The total purchase price of the Acquisition is HK$256,021 million (equivalent to approximately US$32,840 million). The Company will pay HK$79,291 million (equivalent to approximately US$10,171 million) of the total purchase price in cash and the remainder of HK$176,730 million (equivalent to approximately US$22,669 million) in the form of the Consideration Shares to be issued by the Company to CMBVI. The Company may, prior to the completion of the Acquisition, elect to increase the number of Consideration Shares to be issued to CMBVI, which will correspondingly reduce the cash portion of the total purchase price, provided that following completion of the Acquisition and the issue of the Consideration Shares to CMBVI, CMBVI's shareholding in the Company will not exceed 76.5% (which is CMBVI's maximum shareholding percentage in CMHK permitted by the Stock Exchange according to waivers granted by the Stock Exchange in 1997). If the number of Consideration Shares to be allotted to CMBVI is so increased pursuant to such election, the cash portion will be reduced correspondingly to keep the total purchase price the same. The Company will inform the Shareholders by way of announcement as soon as practicable following the making of an election described above. The Company intends to finance the cash portion of the purchase price primarily using existing internal cash resources, Renminbi-denominated syndicated bank loans and the proceeds of the Share Offering and the Convertible Note Offering. The balance of the cash portion of the purchase price will be satisfied from additional internal resources, other forms of funding, or if the Company elects, replaced with the issue of additional Consideration Shares to CMBVI as described above.

As at the Latest Practicable Date, CMBVI owned approximately 75% of the issued share capital of the Company. The net asset value of the Group as at 31 December 1999 was approximately HK$53,739 million. Accordingly, under the Listing Rules, the Acquisition constitutes both a very substantial acquisition and a connected transaction for the Company. The Acquisition, the issue of the Consideration Shares and the Connected Transactions require the approval of the Independent Shareholders at the Extraordinary General Meeting at which CMBVI and its Associates will abstain from voting.

An Independent Board Committee has been established to advise the Independent Shareholders in respect of the terms of the Acquisition, the mechanism for the determination of the issue price of the Consideration Shares and the terms of the Connected Transactions. In this respect, Rothschild has been retained as the independent financial adviser to the Independent Board Committee and a copy of its letter of advice is set out on pages 32 to 51 of this circular.

China International Capital Corporation (Hong Kong) Limited and Goldman Sachs (Asia) L.L.C. are the financial advisers to the Company in respect of the Acquisition.

The purpose of this circular is to provide you with further information relating to the Acquisition, the issue of the Consideration Shares and the Connected Transactions arising from the Completion and to seek your approval of the corresponding ordinary resolutions set out in the notice of the Extraordinary General Meeting at the end of this circular. The recommendation of the Independent Board Committee to the Independent Shareholders is set out on page 31 of this circular.

2. THE ACQUISITION

The Company has agreed, subject to certain conditions, to acquire from CMBVI the entire issued share capital of each of the Target BVI Companies for a total purchase price of HK$256,021 million (equivalent to approximately US$32,840 million). The Company will assume the net indebtedness of the Target Companies, which amounted to approximately HK$9,043 million (equivalent to approximately US$1,160 million) as of 30 June 2000. The Acquisition is in respect of the entire issued share capital of all seven Target BVI Companies. Unless the entire issued share capital of all seven Target BVI Companies can be acquired, the Acquisition will not proceed. Upon Completion, each of the Target BVI Companies will become a wholly-owned subsidiary of the Company. The only asset of each of the Target BVI Companies is its entire interest in the respective Target Companies.

The Target Companies are the leading providers of mobile telecommunications services in their respective provinces, municipalities and autonomous region. As of 20 September 2000, the Target Companies had a total of approximately 15.4 million cellular subscribers. Their weighted average market share was approximately 80% in the seven provinces, municipalities and autonomous region in which they operate as of 30 June 2000. The number of subscribers and the respective estimated market share in each of the provinces, municipalities and autonomous region as of 30 June 2000 are set out below:-

Target Company	Approximate number of subscribers	Estimated market share in respective province, municipality and autonomous region(1)
	(thousands)	(%)
Beijing Mobile	1,994	80.0
Shanghai Mobile.....	2,028	78.8
Tianjin Mobile........	824	83.7
Hebei Mobile	2,021	83.3
Liaoning Mobile.....	2,818	75.4
Shandong Mobile....	2,790	77.3
Guangxi Mobile......	1,169	95.5

(1) Calculated based on total number of cellular subscribers in the relevant geographical region estimated by the Company.

The Acquisition was negotiated and entered into on an arm's length basis based on normal commercial terms. The above consideration was determined based on various factors, including the prospective adjusted EBITDA and prospective profit contributions of the Target Companies to the Combined Group, the quality of the assets being acquired, their growth prospects, earnings potential, competitive advantages in their respective markets and relevant valuation benchmarks.

The consideration will represent a multiple of 40 times the combined 1999 earnings before write-down and write-off of fixed assets, 101 times the combined 1999 earnings after write-down and write-off of fixed assets and 33 times the combined 2000 forecast earnings of the Target Companies and will represent a multiple of 20 times the combined 1999 adjusted EBITDA and 15 times the combined 2000 forecast adjusted EBITDA of the Target Companies. The consideration will represent approximately US$1,898 (equivalent to approximately HK$14,799) per subscriber based on a forecast of 17.3 million subscribers by the end of 2000. The forecast combined earnings and combined adjusted EBITDA of the Target Companies are based on certain prospective financial information prepared by the Company and the Target Companies.

The Board takes the view that the consideration payable by the Company for the Target Companies and the other terms of the Acquisition are fair and reasonable, and that the Acquisition is in the best interests of the Company and its investors.

The following depicts the corporate structure of the Company, with its principal subsidiaries, immediately following completion of the Acquisition, the Share Offering and the Convertible Note Offering:

LOGO

(1) CMCC owns all of the issued voting share capital of and economic interest in CMHKG.

(2) CMBVI's percentage interest in CMHK immediately after the completion of the Acquisition, the Share Offering and the Convertible Note Offering will depend on the number of Consideration Shares to be issued to CMBVI and the number of Shares/ADSs to be issued in the Share Offering, which, in turn, will depend on the Offer Price. It is expected that immediately following the completion of the Acquisition, the Share Offering and the Convertible Note Offering (assuming that the underwriters' over-allotment option in the Share Offering is exercised in full and there is no conversion of the convertible notes proposed to be issued under the Convertible Note Offering), CMBVI's shareholding in CMHK will be approximately 75% but in any event will not exceed 76.5%.

(3) China Mobile (Shenzhen), a wholly-owned subsidiary of the Company incorporated in mainland China, was established in June 2000 to improve profit monitoring and financial management of the Company's operating subsidiaries in mainland China, to handle roaming and interconnection clearing and settlement among such subsidiaries and among such subsidiaries and other enterprises of CMCC and to conduct research and development relating to wireless data communications.

Further information on the Target Companies is set out in Appendix II to this circular.

3. FINANCING OF THE ACQUISITION

Under the Acquisition Agreement, the total purchase price of the Acquisition is HK$256,021 million (equivalent to approximately US$32,840 million). The Company will pay HK$79,291 million (equivalent to approximately US$10,171 million) of the total purchase price in cash and the remainder of HK$176,730 million (equivalent to approximately US$22,669 million) in the form of the Consideration Shares to be issued by the Company to CMBVI, subject to adjustment as described above (if applicable). The number of Consideration Shares will be determined by dividing the amount of the total purchase price for the Acquisition to be satisfied in the form of Consideration Shares by the Offer Price. Application will be made to the Listing Committee of the Stock Exchange for the listing of and permission to deal in, the Consideration Shares. The Company intends to pay the cash portion of the total purchase price of the Acquisition with a combination of U.S. dollars, Hong Kong dollars or Renminbi. Of such amount, the Company intends that:

(a) approximately US$500 million (equivalent to approximately HK$3,898 million) will be funded by the existing internal cash resources of the Company;

(b) approximately US$1,510 million (equivalent to approximately HK$11,772 million) will be financed by Renminbi-denominated syndicated bank loans;

(c) approximately US$600 million (equivalent to approximately HK$4,678 million) (assuming that the underwriters' option to purchase additional convertible notes in the Convertible Note Offering described below is not exercised) will be financed by the proceeds of an offering of U.S. dollar-denominated convertible notes;

(d) approximately US$6,575 million (equivalent to approximately HK$51,255 million) (assuming that the underwriters' over-allotment option in the Share Offering described below is not exercised) will be financed by the proceeds of an offering of ADSs and/or new Shares, comprising;

• US$2,500 million (equivalent to approximately HK$19,490 million) to Vodafone pursuant to the Strategic Placing; and

• US$4,075 million (equivalent to approximately HK$31,765 million) to other investors in the Share Offering; and

(e) the remainder will be paid from additional internal resources and other forms of funding, or if elected by the Company, may be replaced with the issue of additional Consideration Shares to CMBVI as described below.

The Renminbi-denominated Syndicated Bank Loans

China Mobile (Shenzhen) has entered into two loan agreements on 7 October 2000 with a bank syndicate comprising eight PRC domestic and international banks, with China Construction Bank and Bank of China as joint lead banks. The total amount of the loans is RMB12.5 billion (equivalent to approximately US$1,510 million or HK$11,772 million).

One of the two loans is a half-year loan for RMB5 billion, the interest rate of which is 5.022% per annum, being 10% below the six-month base lending rate for financial institutions on 7 October 2000 as announced by the PBOC. The other loan is a three-year loan for RMB7.5 billion. The interest rate for the first year of this loan is 5.346% per annum, being 10% below the three-year base lending rate for financial institutions on 7 October 2000 as announced by the PBOC. The interest rate for this three-year loan will be adjusted yearly on the same basis. China Mobile (Shenzhen) plans to drawdown the two loans immediately after Completion. The duration of and the interests on the two loans will commence and accrue from the date of the drawdown. All the six wholly-owned operating subsidiaries of the Company (namely, Guangdong Mobile, Zhejiang Mobile, Jiangsu Mobile, Fujian Mobile, Henan Mobile and Hainan Mobile) have provided joint and several guarantees in respect of the two loans. Under these guarantees, the six existing operating subsidiaries of the Company have agreed that they will not incur, assume or create any other indebtedness or contingent liability without the prior written consent of the relevant lenders if the aggregate outstanding amount of their indebtedness and contingent liabilities exceeds 120% of their collective owners' equity.

In deciding to use RMB loans as a means of financing for the Acquisition, the Company has taken into consideration the fact that RMB financing may reduce the overall cost of capital, appropriately increase the leverage ratio and further optimise the capital structure of the Company. At the same time, it may effectively eliminate foreign exchange risk and expand the Company's financing channels in mainland China.

The Share Offering

The Company intends to offer Shares and ADSs pursuant to the Share Offering. Each ADS represents the right to receive 5 Shares. The net proceeds of the Share Offering will be used to finance part of the cash portion of the total purchase price of the Acquisition.

The detailed pricing and other terms of the Share Offering (including the number of ADSs and/or Shares to be issued) have not yet been determined. It is currently expected that approximately US$6,575 million (equivalent to approximately HK$51,255 million) will be raised under the Share Offering. In addition, the underwriters of the Share Offering are expected to be granted an over-allotment option, exercisable within 28 days of the date of the Prospectus, to purchase Shares and/or ADSs representing up to 15% of the initial size of the Share Offering (which is currently expected to amount to approximately US$986 million (equivalent to approximately HK$7,688 million)). For illustrative purposes only, assuming that the ADSs and/or Shares offered pursuant to the Share Offering and the Consideration Shares are issued at HK$55.5 per Share, being the closing price of the Shares on the Stock Exchange on the Latest Practicable Date, the ADSs and/or Shares to be offered pursuant to the Share Offering will represent approximately 6.7% of the existing issued share capital and 5.1% of the enlarged issued share capital of the Company immediately after completion of the Share Offering and the issue of the Consideration Shares (assuming that the underwriters' over-allotment option in the Share Offering is not exercised). Assuming that the over-allotment option is exercised in full and that the ADSs and/or Shares offered pursuant to the Share Offering and the Consideration Shares are issued at HK$55.5 per Share, being the closing price of the Shares on the Stock Exchange on the Latest Practicable Date, the ADSs and/or Shares to be offered pursuant to the Share Offering will represent approximately 7.8% of the existing issued share capital and 5.9% of the enlarged issued share capital of the Company immediately after completion of the Share Offering and the issue of the Consideration Shares. The proceeds from the exercise of the underwriters' over-allotment option in the Share Offering will be used to finance the Acquisition and/or for general working capital purposes.

The Company will apply to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares (including the Shares underlying the ADSs) to be offered pursuant to the Share Offering. Application will also be made to list the ADSs to be offered in the Share Offering on the New York Stock Exchange.

The Strategic Investor Placing Agreement

The Company has entered into the Strategic Investor Placing Agreement on 4 October 2000 with Vodafone, under which

Vodafone has agreed to subscribe for, as part of the Share Offering, Shares with an aggregate subscription price of US$2,500 million (equivalent to approximately HK$19,490 million) at the offering price in the Share Offering. For illustrative purposes only, assuming that the ADSs and/or Shares offered pursuant to the proposed Share Offering are issued at HK$55.5 per Share, being the closing price of the Shares on the Stock Exchange on the Latest Practicable Date, Vodafone will subscribe for 351,171,171 Shares, representing 38% of the total number of Shares offered in the Share Offering (or 33% if the underwriters' over-allotment option in the Share Offering is exercised in full). Vodafone has agreed that without the consent of, *inter alia*, the Company, it will not directly or indirectly offer, sell, pledge or otherwise dispose of any of such Shares that it acquires for a period of at least 180 days from the date of the Prospectus. Vodafone will not become entitled to nominate or appoint any person to be a director of the Company as a result or through its acquisition of such Shares. The Strategic Investor Placing Agreement is conditional upon underwriting agreements for the Share Offering being entered into and having become unconditional by no later than 31 December 2000.

The Convertible Note Offering

The Company currently intends to offer U.S. dollar denominated convertible notes with an estimated aggregate principal amount of approximately US$600 million (equivalent to approximately HK$4,678 million). It is expected that the underwriters of the Convertible Note Offering will be granted an option, exercisable within 28 days of the date of the Prospectus, to purchase up to an additional US$90 million (equivalent to approximately HK$702 million) principal amount of convertible notes from the Company. The net proceeds of the Convertible Note Offering will also be used to finance part of the cash portion of the total purchase price of the Acquisition.

The convertible notes will be unsecured, senior and unsubordinated indebtedness of the Company and will rank equally with all of the Company's other existing and future unsecured, senior and unsubordinated indebtedness and will be senior in right of payment to all of the Company's existing and future obligations that are expressly subordinated in right of payment to the convertible notes. The convertible notes will be issued in fully registered form in minimum denominations of US$1,000 and integral multiples of US$1,000, and will be represented by one or more global notes, registered in the name of Cede & Co., as nominee of The Depository Trust Company. The percentage of issued share capital into which the convertible notes to be offered under the proposed Convertible Note Offering may convert will be disclosed by way of an announcement once the terms of the convertible notes have been finalised. Such an announcement will be made prior to the date on which the Extraordinary General Meeting is to be held. The Company will be providing certain covenants in favour of the holders of the convertible notes in connection with the Convertible Note Offering. The Company has applied for the listing of the convertible notes on the Luxembourg Stock Exchange. The Company will also apply to the Stock Exchange for the listing of, and permission to deal in, the Shares to be issued upon conversion of the convertible notes.

The Company will ensure that each of the substantial shareholders of the Company, the Directors and their respective Associates will not subscribe for any of the convertible notes to be offered under the Convertible Note Offering and that, after the Convertible Note Offering, the Company will disclose to the Stock Exchange any dealings by any of the substantial shareholders of the Company, the Directors or their respective Associates from time to time in the convertible notes upon the Company becoming aware of such dealings.

The Offerings

The Share Offering and the Convertible Note Offering will commence as soon as practicable and are expected to complete following agreement by the Company with the underwriters of the Share Offering and the underwriters of the Convertible Note Offering, respectively, of pricing and other terms of the respective offerings. The closing of the Share Offering and the Convertible Note Offering will not be dependent on each other. It is currently expected that the terms of issue of the Share Offering (including the number and price of the ADSs and Shares) will be determined around late October 2000 to early November 2000, the offering price being determined with reference to the then current market prices of the ADSs and Shares and the level of interest for the ADSs and Shares expressed by prospective investors. The terms of the convertible notes, including, but not limited to, interest rates and conversion price, have not yet been finalized and are also expected to be determined around late October 2000 to early November 2000. The Shares to be offered in the Share Offering (including the Shares underlying the ADSs) and the Shares into which the convertible notes may convert will be issued under the general mandate granted to the Directors at the annual general meeting of the Company held on 16 June 2000. Neither CMCC nor other connected persons of the Company will subscribe for the securities to be offered under the Share Offering or the Convertible Note Offering.

Further announcements will be made as soon as practicable following the date on which the sizes and other terms of the Share Offering (including the number of Shares and/or ADSs to be issued pursuant thereto) and the Convertible Note Offering are determined.

If the Acquisition is not completed, the net proceeds from these offerings will be used for general corporate purposes and/or for other potential strategic investments in the telecommunications industry in mainland China. Pending these uses, the net proceeds will be invested in interest-bearing short-term deposits or short-term U.S. government bonds.

4. CONDITIONS OF THE ACQUISITION AGREEMENT

Completion of the Acquisition Agreement is conditional upon the fulfilment of the following conditions on or before 31 December 2000, or such later date as CMBVI, the Company and CMCC shall agree:

(a) the passing of resolutions by the Independent Shareholders approving the Acquisition, the issue of the Consideration Shares to CMBVI and the Connected Transactions, and the passing of a resolution by the Shareholders approving the increase in authorised share capital of the Company;

(b) the Company having received adequate funding or financing to satisfy the cash portion of the total purchase price of the Acquisition;

(c) the granting by the Listing Committee of the Stock Exchange of the listing of, and permission to deal in, the Consideration Shares to be issued by the Company upon Completion;

(d) there having been no material adverse change to the financial conditions, business operations or prospects of any of the Target BVI Companies or the Target Companies; and

(e) the receipt of various approvals from relevant PRC regulatory authorities.

Certain PRC regulatory approvals have been obtained, including those from the MOFTEC, the Ministry of Finance, the Ministry of Land and Natural Resources and the CSRC. In addition, the approval from the MOFTEC in relation to the change of legal status of the Target Companies to wholly foreign-owned enterprises is pending.

Each of the Target Companies currently has a business licence as a limited liability company. Upon approval by the MOFTEC, the business licence of each of the Target Companies will be replaced by a new one issued by the local Administration for Industry and Commerce to reflect its status as a wholly foreign-owned enterprise. It is expected that the new business licences will be obtained within six months after receiving such MOFTEC approval. The businesses of the Target Companies will not be affected by the process of issuance of their new business licences.

The Acquisition shall be completed following the satisfaction (or waiver) of the above conditions, and is expected to take place on the date of the completion of the Share Offering and the Convertible Note Offering, or on the business day in Hong Kong and PRC next following the passing of the ordinary resolutions set out in this circular, whichever is later, or such other date as may be agreed between CMBVI and the Company following notification by the Company to CMBVI of the fulfilment, to the satisfaction of the Company, or waiver of all the conditions precedent. If any of the above-mentioned conditions is not satisfied or waived by 31 December 2000, or such other date as CMBVI, the Company and CMCC may agree, the Acquisition Agreement shall lapse.

5. REASONS FOR AND BENEFITS OF THE ACQUISITION

The Acquisition represents an attractive opportunity for the Group to consolidate its strong position and further capitalise on the growth potential of the Chinese telecommunications industry. Each of the Target Companies is the leading provider of mobile telecommunications services in its respective region. The Acquisition will further consolidate the Group's overall market position.

The Target Companies have experienced significant growth in the total number of subscribers from approximately 3.7 million as of 31 December 1997 to approximately 15.4 million as of 20 September 2000. However, the cellular penetration rates in these regions are relatively low compared to those of other Asian and international markets. As of 30 June 2000, the cellular penetration rate was approximately 19.7% for Beijing, 17.4% for Shanghai, 10.2% for Tianjin, 3.7% for Hebei, 8.9% for Liaoning, 4.1% for Shandong and 2.6% for Guangxi, with an overall average of approximately 6.1%. The Directors believe that these rates indicate significant potential for subscriber growth in these regions.

Following the completion of the Acquisition, the Combined Group will have a geographically contiguous market covering all of the coastal regions of mainland China. Based on information as of 30 June 2000, the subscribers of the Group will increase from approximately 21.6 million before the Acquisition, or 34.3% of all cellular subscribers in mainland China as of such date, to approximately 35.3 million after the Acquisition, or 55.9% of all cellular subscribers in mainland China as of such date. The Acquisition will increase the population under the Group's network coverage from approximately 326 million, or 25.7% of mainland China's total population, to approximately 607 million people, or 48.0% of mainland China's total population as of such date. The Directors believe that the Acquisition will provide a solid foundation for its future growth.

The Directors believe that the Acquisition will enhance the Group's growth prospects, further consolidate its strong position in the mobile telecommunications market in mainland China and create value for investors.

Assuming that the Acquisition had taken place on 1 January 1999, the pro forma effects on the total operating revenue, adjusted EBITDA and net profit and earnings per Share for the six-month period ended 30 June 2000 are set out below. In connection with the Acquisition, the fixed assets of the Target Group were revalued as of 30 June 2000, and connection fee revenue and certain surcharge revenue, previously not taxable under PRC regulations, will become subject to enterprise income tax at a 33% rate when the Target Companies are registered as wholly foreign-owned enterprises. No adjustments have been reflected in respect of these arrangements of the Target Group.

	For the six-month period ended 30 June 2000			
	Before Acquisition (the Group)		Post Acquisition (the Combined Group)	
	(RMB millions except per Share data)	(HK$ millions except per Share data)	(RMB millions except per Share data)	(HK$ millions except per Share data)
Operating revenue	28,897	27,200	44,603	41,983
Adjusted EBITDA	16,817	15,829	25,269	23,785
Net profit	8,724	8,212	12,632	11,890
Number of Shares outstanding (millions)	13,706	13,706	17,953	17,953
Basic earnings per Share............	64 cents	60 cents	70 cents(1)	66 cents(1)
Diluted earnings per Share.........	64 cents	60 cents	70 cents(1)	66 cents(1)

(1) These calculations assume that the Company issues additional Shares pursuant to the Share Offering and/or additional Consideration Shares to CMBVI.

The pro forma net profit of the Combined Group for the six-month period ended 30 June 2000 has been prepared giving effect to the following:

(a) to adjust for the reduction in interest income of approximately RMB 125 million (equivalent to approximately HK$118 million), calculated at a weighted average interest rate of 6.05% for the cash portion of the purchase consideration to be taken from the internal resources of the Company as if the transaction had taken place on 1 January 1999; and

(b) to record the interest expense of the convertible notes and the RMB bank loans of approximately RMB 421 million (equivalent to approximately HK$396 million), calculated at interest rates of 3.8125% per annum (being the mid point of a range from 2.875% to 4.750%, which range is shown for illustrative purposes only, and is determined from recent market transactions) and 5.346% per annum for the RMB 7,500 million bank loan and 5.022% per annum for the RMB 5,000 million bank loan, respectively, as if the issuance of convertible notes and the RMB bank loan borrowings were consummated on 1 January 1999.

Summary Operating and Other Data

The following table set out certain summary operating and other data of the Group and the Target Group and also on a combined basis to illustrate the effects of the Acquisition.

	As of or for the year ended 31 December			As of or for the six months ended 30 June
	1997	1998	1999	2000
The Group				
Total population base (in millions)(1)......................	115	188	324	326(2)
Cellular penetration (%)(3).....................................	3.0	3.7	5.5	8.0(2)
Subscribers (in thousands)				

Contract	3,405	6,531	15,621	19,142
Prepaid(4)	—	—	—	2,496
Total subscribers	3,405	6,531	15,621	21,638*
Market share (%)(3)	97.6	94.5	87.4	83.0
Average churn rate (%)(5)(6)	1.6	2.1	4.6	3.9
Average minutes of use per subscriber per month (7)	441	385	383	320
Average revenue per subscriber per month (RMB)(8)	474	450(9)	347(10)	261
The Target Group				
Total population base (in millions)(1)	277	279	281	282(2)
Cellular penetration (%)(3)	1.4	2.5	4.2	6.1(2)
Subscribers (in thousands)				
Contract	3,699	6,471	10,121	12,280
Prepaid(4)	—	—	—	1,363
Total subscribers	3,699	6,471	10,121	13,643**
Market share (%)(3)	94.6	91.3	85.4	80.0
Average churn rate (%)(5)(6)	5.1	6.3	7.9	6.4
Average minutes of use per subscriber per month (7)	419	386	340	310
Average revenue per subscriber per month (RMB)(8)	387	309	270	224
The Combined Group				
Combined total population base (in millions)(1)	392	467	605	607(2)
Cellular penetration (%)(3)	1.9	3.0	4.9	7.1(2)
Subscribers (in thousands)				
Contract	7,104	13,002	25,743	31,422
Prepaid(4)	—	—	—	3,858
Total subscribers	7,104	13,002	25,743	35,280***
Market share (%)(3)	95.9	92.9	86.6	81.8
Average churn rate (%)(5)(6)	3.4	4.2	5.9	4.9
Average minutes of use per subscriber per month (7)	429	386	366	316
Average revenue per subscriber per month (RMB)(8)	430	373(9)	310(10)	247

* 23.9 million subscribers as of 20 September 2000.

** 15.4 million subscribers as of 20 September 2000.

*** 39.3 million subscribers as of 20 September 2000.

(1) *Source:* 1998 China Statistical Yearbook, 1999 China Statistical Yearbook and 2000 China Statistical Abstract.

(2) Estimate based on population as of 31 December 1999 as published in the 2000 China Statistical Abstract, and further assuming the same annual population growth rate in each province, municipality or autonomous region in 2000 as in 1999.

(3) Calculated based on the Company's estimate of the total number of cellular subscribers.

(4) The Group and the Target Group began trial prepaid services in selected cities in the second half of 1999 and launched prepaid services on a full scale basis in the beginning of 2000 in the markets in which the Group and the Target Group operate.

(5) Measures the rate of subscriber disconnections from mobile telephone service, determined by dividing (A) the sum of voluntary and involuntary deactivations (excluding deactivations due to subscribers switching from one contract service to another) during the relevant period by (B) the average number of subscribers during the period (calculated as the average at the beginning and end of the year (in the case of 1997 and 1998) and at the beginning of the year and the end of each calendar month (in the case of 1999 and the six months ended 30 June 2000)). On this basis, the calculated churn rate will be affected by the number of voluntary and involuntary deactivations and the significant growth in the subscriber base. For ease of comparison, the calculation includes the relevant information of Jiangsu Mobile in respect of the full year of 1998 and the relevant information of Fujian Mobile, Henan Mobile and Hainan Mobile in respect of the full year of 1999.

(6) The Group began offering prepaid services in late 1999. Some of the Group's subscribers have switched from contract services

to prepaid services, which does not require subscriber registration. Since the exact number of such switching subscribers cannot be ascertained, the above churn rate accounts for them as churn subscribers, even though they remain the Group's subscribers. Based on the Group's own recent market surveys, the Company believes that if such subscribers were to be excluded from the churn rate calculation, the calculated churn rates would have been lower than those shown in the schedule above.

(7) Calculated by (A) dividing the total minutes of usage during the relevant period by the average number of subscribers during the period (calculated in the same manner as described in note (5) above) and (B) dividing the result by the number of months in the period. For ease of comparison, the calculation includes the relevant information of Jiangsu Mobile in respect of the full year of 1998 and the relevant information of Fujian Mobile, Henan Mobile and Hainan Mobile in respect of the full year of 1999.

(8) Calculated by (A) dividing the operating revenue during the relevant period by the average number of subscribers during the period (calculated in the same manner as described in note (5) above) and (B) dividing the result by the number of months in the period.

(9) Excluding Jiangsu Mobile, because the operating revenues of Jiangsu Mobile are included in the Group's financial results only from 4 June 1998, the date of its acquisition by the Company.

(10) Excluding Fujian Mobile, Henan Mobile and Hainan Mobile, because the operating revenues of Fujian Mobile, Henan Mobile and Hainan Mobile are included in the Group's financial results only from 12 November 1999, the date of their acquisition by the Company.

6. PROSPECTIVE FINANCIAL INFORMATION

The Company and the Target Companies have prepared certain prospective financial information in respect of the Target Companies for the year ending 31 December 2000. There is no present intention to update this information during the year or to publish such information in future years, although the Directors are aware of the requirements of paragraphs 2.10 and 2.11 of the Listing Agreement between the Company and the Stock Exchange. This information is necessarily based upon a number of assumptions (see Appendix VII) that, while presented with numerical specificity and considered reasonable by the Company and the Target Companies, are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the control of the Company and the Target Companies, and upon assumptions with respect to future business decisions which are subject to change. Accordingly, there can be no assurance that these results will be realised. The prospective financial information presented below may vary from actual results, and these variations may be material.

The Company and the Target Companies believe that, on the bases and the assumptions discussed in Appendix VII and in the absence of unforeseen circumstances, the combined net profit of the Target Companies for the year ending 31 December 2000 is unlikely to be less than RMB8,300 million (equivalent to approximately HK$7,817 million) under accounting principles generally accepted in Hong Kong ("Hong Kong GAAP"). The texts of the letters from KPMG, CICC and Goldman Sachs in respect of the profit forecast are set out in Appendix VII to this circular.

On the same bases and assumptions for the profit forecast, the Company and the Target Companies believe that the combined revenue, combined cash flow from operating activities and the combined adjusted EBITDA of the Target Companies for the year ending 31 December 2000 are unlikely to be less than RMB33,400 million (equivalent to approximately HK$31,454 million), RMB 18,290 million (equivalent to approximately HK$17,225 million) and RMB17,900 million (equivalent to approximately HK$16,857 million), respectively. The Company and the Target Companies are not currently aware of any extraordinary items which have arisen or are likely to arise in respect of the year ending 31 December 2000 which would affect the prospective financial information presented.

The consolidated accounts of the Company and its subsidiaries for the year ending 31 December 2000 will be audited by their independent auditors. The Company's annual report for 2000 will discuss the performance of the Target Group and will address the profit forecast of the Target Group contained in this circular and provide an explanation of material differences, if any, between such profit forecast and the audited results of the Target Group prepared under Hong Kong GAAP.

7. RELATIONSHIP WITH CMCC

As at the Latest Practicable Date, CMCC indirectly owned an aggregate of approximately 75% of the Company's issued voting share capital and economic interest. CMCC has undertaken that:

(a) it will extend its full support to the Group's present operations and future development;

(b) the Group will be the only cellular mobile communications services company operating in mainland China under CMCC's control that will be listed on any securities exchange in Hong Kong or outside China;

(c) to the extent within CMCC's control, the Group will be treated equally with any other cellular mobile communications operators in respect of all approvals, transactions and arrangements between the Group and CMCC and other cellular mobile communications entities controlled by CMCC;

(d) CMCC and the provincial entities under its control will not, directly or indirectly, participate in the operation of any cellular mobile communications services in any province in which the Group currently operates or may operate in the future; and

(e) in the provinces in which the Group operates, it will have the option to operate additional communications services that fall within CMCC's scope of business (including the testing and commercial operation of services using new technologies such as third generation cellular mobile communications technologies), and the Group will have the right to acquire CMCC's interest in such services.

The Group believes that the second generation Code Division Multiple Access technology has limited commercial value to its business due to the rapid development of mobile communications technology. As a result, the Group has decided not to pursue the development of the second generation of this technology. The Group intends to focus on the development and application of third generation mobile communication technologies, including wide-band Code Division Multiple Access technology.

8. CONNECTED TRANSACTIONS

A number of transactions have been and will be entered into between (a) the Company, its subsidiaries and/or the Target Companies on the one hand; and (b) CMCC or its subsidiaries on the other, which will constitute connected transactions for the Company under the Listing Rules upon the completion of the Acquisition.

Certain charges for the services under these transactions are fixed according to tariffs set by the Chinese regulatory authorities. Those transactions where the charges are not set by Chinese regulatory authorities are based on commercial negotiation between the relevant parties, in each case on an arm's length basis. In this regard, the Company has the benefit of an undertaking from CMCC that to the extent within CMCC's control, the Company will be treated equally with any other cellular mobile communications operators in respect of all approvals, transactions and arrangements between the Company and CMCC and other cellular mobile communications entities controlled by CMCC. This forms an important basis of the connected transactions entered or proposed to be entered into by the Group. Further details of the Connected Transactions are set out in Appendix II to this circular. The figures presented below for 1999 in relation to interconnection revenue and expenses, roaming revenue and expenses and inter-provincial transmission line leasing fees represents the actual amount for the period from 1 April 1999 to 31 December 1999, as settlement of these charges with CMCC became effective from 1 April 1999.

Roaming Arrangement

Each of the Target Companies and the Group offers domestic and international roaming services to its subscribers. In May 2000, the Company entered into the Roaming Agreement with CMCC which applies to the six existing operating subsidiaries of the Company. The Roaming Agreement is valid for two years from 1 April 1999, and will be automatically renewed on an annual basis unless either party notifies the other of its intention to terminate at least three months prior to the expiration of the term.

Under this agreement, with regard to inter-provincial roaming, 80% of the basic roaming calling charges payable by a roaming subscriber is credited to the visited network operator and the remaining 20% is retained by the roaming subscriber's home network operator.

With regard to international roaming, roaming calling charges incurred by an international cellular subscriber making or receiving a call while roaming in the areas in mainland China where the Group operates are collected and credited to the Group by CMCC, and the Group will make the necessary settlement with the relevant telecommunications operators in mainland China. CMCC also collects a 15% surcharge on the roaming calling charges from the international mobile communications operators and shares such surcharge equally with the Group. When the Group's subscribers roam internationally, the Group will collect the roaming calling charges together with a 15% surcharge from its subscribers and will pay the roaming calling charges together with half of the surcharge collected to CMCC, which will make the necessary settlement with the international mobile communications operators concerned.

In addition, CMCC provides inter-provincial and international roaming clearing and settlement services, including related data transmission services, to the Group. The Group pays to CMCC a roaming call record processing fee of RMB0.02 for each domestic roaming call record processed and RMB0.30 for each international roaming call record processed.

The existing arrangement was arrived at after arms-length commercial negotiations between the parties and after taking into account the guidelines laid down by the relevant tariff regulatory authorities. The transactions with the Group pursuant to the Roaming Agreement were approved by Independent Shareholders at an extraordinary general meeting of the Company held on 16 June 2000. For further details on the roaming arrangements, please refer to the section headed "Operations of Target Companies — Roaming" in Appendix II.

The Company has, subject to completion of the Acquisition and Independent Shareholders' approvals, entered into the Supplemental Agreement with CMCC in order that, among other things, this roaming arrangement with CMCC will apply to the Target Companies after the Acquisition.

The aggregate roaming revenue for the Target Group in 1999 was RMB1,211,432,000 (equivalent to approximately HK$1,140,279,000). The aggregate roaming expenses (excluding roaming call record processing fees) paid by the Target Group in 1999 were RMB1,094,935,000 (equivalent to approximately HK$1,030,624,000). The estimated roaming revenue for the Target Group in 2000 is RMB1,912,703,000 (equivalent to approximately HK$1,800,361,000) and the estimated roaming expenses (excluding roaming call record processing fees) and the estimated roaming call record processing fees for the Target Group in 2000 is RMB1,796,339,000 (equivalent to approximately HK$1,690,831,000) and RMB23,879,000 (equivalent to approximately HK$22,476,000), respectively.

Licensing of Trademark

CMCC is the owner of the "CHINA MOBILE" name and logo. CMCC has applied for registration of the "CHINA MOBILE" logo as a trademark in mainland China. In addition, applications have been filed in Hong Kong to register "CHINA MOBILE and logo" as the Group's trademark for certain goods and services. Pursuant to a non-exclusive licence agreement the Company entered into in October 1999 with CMCC, the Group has obtained the right to use the logo for a term of six years from 8 October 1999. No licence fee is payable for the period up to the third anniversary of the date when the registration of the logo in mainland China becomes effective. The parties can negotiate any fees payable after that period, provided that the fees cannot exceed the fees that CMCC charges its affiliates. CMCC may terminate the licence agreement if it no longer has any interest in the Company. Independent Shareholders had previously approved the transactions with the Group pursuant to this agreement. The Company has, subject to completion of the Acquisition and Independent Shareholders' approvals, entered into the Supplemental Agreement with CMCC to, among other things, extend the arrangement under the existing licence agreement to the Target Companies after the Acquisition.

Spectrum Fees

The MII and the Ministry of Finance jointly determine the standardized spectrum fees payable to the MII by all mobile communications operators in mainland China, including the Group. Based on this standardized fee scale, CMCC determines the allocation of spectrum usage fees to be paid by each mobile communications operator under its control and the aggregate sum payable to the MII. In October 1999, the Company entered into an agreement with CMCC, under which the Group has been granted the exclusive right to use the frequency spectrum and telephone numbers allocated to the Group in the respective areas in which the Group operates. For the usage of the 800/900 MHz and 1800 MHz frequency bands, the charges will be shared between the Group's and CMCC's operating subsidiaries. 60% of the charges will be shared on the basis of the number of base stations at the end of the previous year and 40% of such charges will be shared on the basis of the bandwidth of the spectrum used. The agreement is valid for one year from 8 October 1999 and will be automatically renewed on an annual basis unless either party notifies the other of its intention to terminate at least three months prior to the expiration of the term. Independent Shareholders had previously approved the transactions with the Group pursuant to this agreement. The Company has, subject to completion of the Acquisition and Independent Shareholders' approvals, entered into the Supplemental Agreement with CMCC to, among other things, extend the arrangement under the existing agreement to the Target Companies after the Acquisition.

The aggregate spectrum fees paid by the Target Group in 1998 and 1999 were RMB10,196,000 (equivalent to approximately HK$9,597,000) and RMB14,165,000 (equivalent to approximately HK$13,333,000), respectively. The estimated total spectrum fees payable by the Target Group in 2000 is RMB15,581,000 (equivalent to approximately HK$14,666,000).

Sharing of Inter-Provincial Transmission Line Leasing Fees

In May 2000, the Company entered into an agreement with CMCC in relation to the leasing of inter-provincial transmission lines. This agreement is valid for two years from 1 April 1999 and will be automatically renewed on an annual basis unless either party notifies the other of its intention to terminate at least three months prior to the expiration of its term. The provisions relating to the inter-provincial transmission line leasing fee sharing arrangement applies to Fujian Mobile, Henan Mobile and Hainan Mobile from 1 April 1999, and to Guangdong Mobile, Zhejiang Mobile and Jiangsu Mobile from 1 October 1999. The inter-provincial transmission line leasing fees payable by the Group will be equal to the amount actually payable by CMCC to CTC, which amount is determined based on the standard leasing fee stipulated by the relevant authorities after adjusting for the discount entitled by the Group, on the basis that the cellular network operators at both ends of the transmission lines will share the transmission line leasing fees equally. The transactions with the Group pursuant to this agreement were approved by Independent Shareholders at an extraordinary general meeting of the Company held on 16 June 2000. The Company has, subject to completion of the Acquisition and Independent Shareholders' approvals, entered into the Supplemental Agreement with CMCC in order that, among other things, the existing agreement will also apply to the Target Companies after the Acquisition.

The aggregate amount of inter-provincial transmission line leasing fees paid by the Target Group in 1999 was RMB292,210,000 (equivalent to approximately HK$275,047,000). The estimated aggregate amount of inter-provincial transmission line leasing fees payable by the Target Group in 2000 is RMB377,477,000 (equivalent to approximately HK$355,306,000).

Interconnection Arrangement

The cellular networks of each of the Target Companies and the Group interconnect with the fixed line network and cellular networks of CMCC in other regions. In May 2000, the Company entered into the Roaming Agreement with CMCC which applies to the six existing operating subsidiaries of the Company. This agreement is valid for two years from 1 April 1999 and will be automatically renewed on an annual basis unless either party notifies the other of its intention to terminate in writing at least three months prior to expiration of the term. Under this agreement, with regard to inter-provincial roaming, when the roaming subscriber places a call from a roaming location, the operator of the visited network receives all long distance calling charges, if any, and when the roaming subscriber receives a call at a roaming location, the network operator with whom the subscriber is registered retains all long distance calling charges, if any.

International long distance calling charges incurred by an international cellular subscriber making an international long distance call while roaming in the areas in mainland China where the Group operates are collected by CMCC and are credited to the Group. The Group will make the necessary settlement with the relevant telecommunications operators in mainland China. CMCC also collects a 15% surcharge on such international long distance calling charges from the international mobile communications operators and shares such surcharge equally with the Group. When the Group's subscribers roam internationally, the Group will collect the international long distance calling charges, if any, together with a 15% surcharge from its subscribers and will pay the international long distance calling charges together with half of the surcharge collected to CMCC, which will make the necessary settlement with the international mobile communications operators concerned. The existing arrangements were arrived at after arm's length commercial negotiations between the parties and after taking into account the guidelines laid down by the relevant tariff regulatory authorities. The transactions with the Group pursuant to the Roaming Agreement were approved by the Independent Shareholders at an extraordinary general meeting of the Company held on 16 June 2000. For further details on the interconnection arrangements, please refer to the section headed "Operations of the Target Companies — Interconnection" in Appendix II. Where long distance charges cannot be distinguished from basic roaming charges, such long distance charges are grouped under roaming charges. The Company has, subject to completion of the Acquisition and Independent Shareholder's approvals, entered into the Supplemental Agreement with CMCC to, among other things, extend the existing arrangement to the Target Companies after the Acquisition.

The aggregate interconnection revenue for the Target Group in 1999 was RMB699,778,000 (equivalent to approximately HK$658,677,000). The aggregate interconnection expenses paid by the Target Group in 1999 was RMB724,288,000 (equivalent to approximately HK$681,747,000). The estimated interconnection revenue for the Target Group in 2000 is RMB852,736,000 (equivalent to approximately HK$802,651,000) and the estimated interconnection expenses for the Target Group in 2000 is RMB984,627,000 (equivalent to approximately HK$926,795,000).

Prepaid Services

Each of the Target Companies and the Group offers prepaid services. Some of such prepaid services, primarily the "Shenzhouxing" service, allow subscribers to add value to their SIM cards. The prepaid subscribers can make and receive local and domestic and international long distance calls and most of those subscribers also enjoy nationwide domestic roaming services. The prepaid subscribers may add value to their cards by purchasing value-adding cards from any of the Group's network operators or CMCC's network operators. The Company has, subject to Independent Shareholder's approvals, entered into an agreement with CMCC regarding the sharing and settlement of revenue when prepaid subscribers purchase value-adding cards issued by network operators other than their home network operators. This agreement applies to the six existing operating subsidiaries of the Company and the Target Companies with retrospective effect from 1 July 2000. The sharing of revenue from prepaid subscribers purchasing value-adding cards issued by network operators other than their home network operators commenced as from 1 February 2000. This agreement is for a term of one year and will be automatically renewed on an annual basis unless either party notifies the other of its intention to terminate in writing at least three months prior to the expiration of the term. Under this agreement, the network operator which issued the value-adding card remits 85% of the face value of the value-adding card to the subscriber's home network operator, and keeps the remainder as a handling charge. The arrangement for the sharing and settlement of interconnection and roaming revenue in relation to prepaid services is the same as the arrangement in relation to contract subscribers.

The estimated aggregated handling charge in settlement of value added through prepaid cards sold at a visited location receivable by the Target Group from CMCC and its subsidiaries in 2000 is RMB20,150,000 (equivalent to approximately HK$18,966,000). The estimated aggregate handling charge payable by the Target Group to CMCC and its subsidiaries in 2000 is RMB11,798,000 (equivalent to approximately HK$11,105,000).

Property Leasing and Management Services

Each of the Target Companies leases and some of the Target Companies also sub-lease from other subsidiaries of CMCC various properties for use as its business premises and offices and for locating equipment. In relation to leased properties, the rental payments are determined with reference to market rates. In relation to properties sub-leased to the Target Companies by such subsidiaries (which were in turn leased to such subsidiaries by third parties), the rental is equal to the rental payable to such third parties and such subsidiaries do not make any gains as the intermediate lessors. Some of such subsidiaries of CMCC also provide property management services in relation to the properties leased or sub-leased (other than for Tianjin Mobile and Guangxi Mobile). Property management fees are determined with reference to market rates.

The initial terms of such leases and sub-leases to the Target Companies range from six months to ten years. The initial terms of such leases and sub-leases to Guangxi Mobile are renewable on an annual basis if Guangxi Mobile gives six months' notice to the relevant lessor of its intention to renew. Guangxi Mobile is entitled to terminate such leases and sub-leases by giving three months' notice at any time. The initial terms of such leases and sub-leases to Tianjin Mobile are automatically renewed on an annual basis unless terminated by Tianjin Mobile by three months' notice given at any time, or by the relevant lessor by giving notice of its intention to terminate three months prior to the expiration of the relevant term. In relation to leases and sub-leases to Beijing Mobile, the relevant lease terms and (subject to the relevant head lease being valid or renewable for the extended term) sub-lease terms will be automatically renewed on an annual basis unless terminated by Beijing Mobile by three months' notice given at any time or the relevant lessor terminates by giving three months' notice prior to the expiration of the relevant term. The initial terms of such leases and sub-leases to Shanghai Mobile are automatically renewed on an annual basis unless terminated by Shanghai Mobile by three months' notice given at any time or, in relation to sub-leases, terminated by the relevant lessor by giving three months' notice prior to the expiration of the relevant term. In relation to the other Target Companies, the relevant lease terms and (subject to the relevant head lease being valid or renewable for the extended term) sub-lease terms will be automatically renewed on an annual basis unless terminated by the relevant Target Company by three months' notice given at any time and, in relation to sub-leased properties, the relevant lessor may also terminate by giving three months' notice prior to the expiration of the relevant term. Beijing Mobile also leases certain properties and provides property management services to a subsidiary of CMCC for a term of one year on terms substantially similar to those set out above.

As at 30 June 2000, the aggregate area of the properties leased and sub-leased by Beijing Mobile, Shanghai Mobile, Tianjin Mobile, Hebei Mobile, Liaoning Mobile, Shandong Mobile and Guangxi Mobile, from subsidiaries of CMCC is 10,909.00m(2), 24,879.90m(2), 857.00m(2), 61,726.50m(2), 3,828.56m(2), 28,813.33m(2), and 8,780.53m(2), respectively. An average monthly rental of RMB50, RMB15, RMB34, RMB34, RMB26.35, RMB36.78 and RMB11.80 per square metre leased will be payable by Beijing Mobile, Shanghai Mobile, Tianjin Mobile, Hebei Mobile, Liaoning Mobile, Shandong Mobile and Guangxi Mobile, respectively. As at 30 June 2000, the aggregate area of the properties leased and sub-leased by the relevant subsidiary of CMCC from

Beijing Mobile is 2,200m(2). An average monthly rental of RMB50 per square metre leased will be payable by such subsidiary. Chesterton Petty, an independent valuer, has confirmed that the rentals payable under such leases and sub-leases are not more than market rates within each respective geographical area as at the relevant dates of such leases and the relevant head leases, and that all other terms of such leases and sub-leases are not onerous or unusual. These agreements provide for the framework within which properties are leased or sub-leased to the relevant lessees and, depending on the requirements of the relevant lessees from time to time, the relevant lessees may increase or decrease the number of properties leased. As a result, the number of properties and, therefore, the aggregate square metres leased or sub-leased to and the aggregate rental payable by, the relevant lessees may vary from time to time.

The aggregate rental paid by the Target Group in 1998 and 1999 were RMB5,331,000 (equivalent to approximately HK$5,018,000) and RMB5,980,000 (equivalent to approximately HK$5,629,000), respectively. The estimated aggregate rental payable by the Target Group in 2000 is RMB34,748,000 (equivalent to approximately HK$32,707,000). The estimated rental receivable by Beijing Mobile in 2000 is RMB330,000 (equivalent to approximately HK$311,000).

Construction and Related Services

In September 2000, Beijing Mobile, Shanghai Mobile, Liaoning Mobile and Shandong Mobile entered into agreements with certain subsidiaries of CMCC under which such subsidiaries provide services such as construction, design, equipment installation, testing and/or maintenance services and/or act as general contractors in relation to construction and other projects of the Target Companies. Such agreements are for terms of between six months and 16 months, each such term being automatically renewed on an annual basis unless either party (in the case of Shandong Mobile, Shanghai Mobile and Beijing Mobile) or Liaoning Mobile (in the case of Liaoning Mobile) notifies the other of its intention to terminate in writing at least three months prior to the expiration of the term. Beijing Mobile had previously also entered into other agreements with entities which are now subsidiaries of CMCC for the provision of certain construction and related services which will continue to be performed according to their terms after the Acquisition. The charges payable for services rendered under such agreements are determined according to standards laid down by the relevant governmental departments and/or by reference to market rates.

The aggregate charges payable for construction and related services by Beijing Mobile, Shanghai Mobile, Liaoning Mobile and Shandong Mobile in 1998 and 1999 were RMB32,520,000 (equivalent to HK$30,610,000) and RMB160,184,000 (equivalent to HK$150,776,000), respectively. The estimated aggregate charges payable for construction and related services by Beijing Mobile, Shanghai Mobile, Liaoning Mobile and Shandong Mobile in 2000 is RMB136,827,000 (equivalent to HK$128,790,000).

Equipment Maintenance and Related Services

In September 2000, Beijing Mobile, Shanghai Mobile and Liaoning Mobile entered into agreements with certain subsidiaries of CMCC under which such subsidiaries provide equipment maintenance and related services to such Target Companies. Such agreements are for terms of between six months and 15 months, each such term being automatically renewed on an annual basis unless either party (in the case of Beijing Mobile) or Shanghai Mobile or Liaoning Mobile (in the case of Shanghai Mobile and Liaoning Mobile, respectively) notifies the other of its intention to terminate in writing at least three months prior to the expiration of the term. Beijing Mobile had previously also entered into another agreement with an entity which is now a subsidiary of CMCC for the provision of certain equipment maintenance services which will continue to be performed according to its terms after the Acquisition. The charges payable for services rendered under such agreements are determined according to standards laid down by the relevant governmental departments and/or by reference to market rates.

The aggregate charges payable for equipment maintenance by Beijing Mobile, Shanghai Mobile, Liaoning Mobile and Shandong Mobile in 1999 was RMB2,695,000 (equivalent to HK$2,537,000). The estimated aggregate charges payable for equipment maintenance services by Beijing Mobile, Shanghai Mobile, Liaoning Mobile and Shandong Mobile to such subsidiaries of CMCC in 2000 is RMB26,092,000 (equivalent to HK$24,559,000). This includes service charges of RMB2,695,000 (equivalent to approximately HK$2,537,000) and RMB9,800,000 (equivalent to approximately HK$9,224,000) in 1999 and 2000, respectively, relating to maintenance services obtained by Shandong Mobile, although Shandong Mobile obtains such maintenance services pursuant to an agreement for construction and related services with a subsidiary of CMCC (see the section headed "Construction and Related Services" above).

Transmission Tower Production, Sales and Other Services and Antenna Maintenance Services

On 1 August 2000, Hebei Mobile entered into an agreement with a subsidiary of CMCC under which such subsidiary provides transmission tower design, production, installation and maintenance services and antenna maintenance services to Hebei Mobile, and sells transmission towers and spare parts to Hebei Mobile. The initial term of this agreement is for one year from 1 August 2000 to 31 July 2001. This agreement will be automatically renewed on an annual basis unless either party notifies the other of its intention to terminate in writing at least three months prior to the expiration of the term. The price of such transmission towers and spare parts and the charges payable for services rendered under the agreement are determined according to standards laid down by the relevant governmental departments and by reference to market rates.

The aggregate amounts payable by Hebei Mobile for purchases of transmission towers from such subsidiary of CMCC in 1998 and 1999 were RMB29,696,000 (equivalent to HK$27,952,000) and RMB15,150,000 (equivalent to HK$14,260,000), respectively.

The estimated aggregate amounts payable by Hebei Mobile for purchases of transmission towers from such subsidiary of CMCC in 2000 is RMB34,232,000 (equivalent to HK$32,221,000). The estimated aggregate charges payable for related services and antenna maintenance services by Hebei Mobile to such subsidiary in 2000 is RMB5,000,000 (equivalent to HK$4,706,000).

The Connected Transactions are expected to be entered into in the ordinary and usual course of business and on normal commercial terms. The Directors are of the view that the terms of the Connected Transactions are fair and reasonable so far as the Shareholders are concerned.

The Connected Transactions described above constitute, or will upon completion of the Acquisition constitute, connected transactions under Chapter 14 of the Listing Rules. As the Connected Transactions are expected to occur on a regular and continuous basis in the ordinary and usual course of business, the Company has made an application to the Stock Exchange for a waiver from compliance with the normal approval and disclosure requirements related to connected transactions under the Listing Rules.

The Stock Exchange has indicated that it will grant the waiver applied for in relation to the above connected transactions which will be effective until 31 December 2001, on the following conditions:

(a) Arm's length basis: The transactions as well as the respective agreements governing such transaction shall be:

(i) entered into in the ordinary and usual course of its business on terms that are fair and reasonable so far as the Independent Shareholders are concerned; and

(ii) on normal commercial terms and in accordance with the terms of the agreements governing such transactions.

(b) Disclosure: The Company shall disclose in its annual report details of the transactions as required by Rule 14.25(1)(A) to (D) of the Listing Rules, i.e.

(i) the date or period of the transactions;

(ii) the parties thereto and a description of their relationship;

(iii) a brief description of the transactions and the purpose of the transactions;

(iv) the total consideration and the terms; and

(v) the nature and extent of the interest of the connected person in the transactions.

(c) Independent directors' review: The independent non-executive Directors shall review annually the transactions and confirm, in the Company's annual report and accounts for the year in question, that such transactions have been conducted in the manner as stated in sub-paragraphs (a) above and within the upper limits set out in paragraph (g) below.

(d) Auditors' review: The auditors of the Company shall review annually the transactions and shall provide the Directors with a letter, details of which will be set out in the Company's annual accounts, stating that the transactions:

(i) received the approval of the board of Directors;

(ii) are in accordance with the pricing policy as stated in the Company's annual report; and

(iii) have been conducted in the manner as stated in sub-paragraph (a)(ii) above.

(e) Shareholders' approval: Details of the transactions are disclosed to the Company's existing shareholders who will be asked to vote in favour of an ordinary resolution to approve the transactions and the upper limits set out in paragraph (g) below at the Company's Extraordinary General Meeting.

(f) Undertaking: For the purpose of the above review by the auditors of the Company, CMCC has undertaken to the Company that it will provide the Company's auditors with access to its and its associates' accounting records.

(g) Upper limits: Connected Transactions of the following types shall not exceed the upper limits set out below in the relevant financial year of the Combined Group:

(i) payments by the Target Companies to subsidiaries of CMCC for rental and property management fees in any financial year shall not exceed RMB 85,000,000 in that financial year;

(ii) payments by the Target Companies to subsidiaries of CMCC for construction and related services in any financial year shall not exceed 0.25% of the combined total turnover of the Combined Group in that financial year;

(iii) payments by the Target Companies to subsidiaries of CMCC for equipment maintenance and related services in any fiscal year shall not exceed 0.05% of the combined total turnover of the Combined Group in that financial year;

(iv) payments by Hebei Mobile to the relevant subsidiary of CMCC for purchase of transmission towers and transmission tower-related services and antenna maintenance services in any financial year shall not exceed 0.06% of the combined total turnover of the Combined Group in that financial year; and

(v) handling charges received by the Combined Group from subsidiaries of CMCC in respect of prepaid services in any financial year shall not exceed 2% of the Combined Group's total turnover in that financial year and handling charges paid by the Combined Group to subsidiaries of CMCC in respect of prepaid services in any financial year shall not exceed 2% of the Combined Group's total turnover in that financial year.

The Stock Exchange has also indicated that if any of the values of the Connected Transactions exceed the relevant upper limits or if any of the terms of the agreements related to the Connected Transactions, or the nature of the Connected Transactions is altered (unless as provided for under the terms of the relevant agreement) or if the Group enters into any new agreements with connected persons in the future, the Company will need to comply fully with all the relevant provisions of Chapter 14 of the Listing Rules dealing with connected transactions.

9. INCREASE IN AUTHORISED SHARE CAPITAL

In order to allow the issue of the Consideration Shares and to facilitate future expansion of capital base, the Directors propose, subject to the approval of the Shareholders at the Extraordinary General Meeting, to increase the authorised share capital of the Company from HK$1,600,000,000 to HK$3,000,000,000 by the creation of 14,000,000,000 new Shares. Such new Shares shall rank pari passu in all respects with the Shares in issue on the date of the Extraordinary General Meeting.

10. EXTRAORDINARY GENERAL MEETING

A notice of the Extraordinary General Meeting to be held in the Conference Room, 5th Floor, Island Shangri-La Hotel, Pacific Place, Supreme Court Road, Central, Hong Kong, on 10 November 2000 at 10:00 a.m., is set out at the end of this circular. Ordinary resolutions will be proposed to approve the Acquisition, the increase in the authorised share capital of the Company, the issue of the Consideration Shares and the Connected Transactions.

In accordance with the Listing Rules, CMBVI, the controlling shareholder of the Company which is beneficially interested in approximately 75% of the issued share capital of the Company as at the Latest Practicable Date, and its respective Associates, will abstain from voting on the resolutions to approve the Acquisition, the issue of the Consideration Shares and the Connected Transactions at the Extraordinary General Meeting. However, CMBVI and its Associates will be entitled to vote in relation to the ordinary resolution to approve the increase in the authorised share capital of the Company.

A form of proxy for use at the Extraordinary General Meeting is enclosed. Whether or not Shareholders are able to attend the Extraordinary General Meeting, they are requested to complete and return the enclosed form of proxy to the Company's registered office at 60th Floor, The Center, 99 Queen's Road Central, Hong Kong, as soon as practicable and in any event at least 36 hours before the time appointed for holding the Extraordinary General Meeting. Completion and return of the form of proxy will not preclude Shareholders from attending and voting in person at the Extraordinary General Meeting should they so wish.

11. RECOMMENDATION OF THE INDEPENDENT BOARD COMMITTEE

Rothschild has been retained as the independent financial adviser to advise the Independent Board Committee in respect of the terms of the Acquisition, the mechanism for the determination of the issue price of the Consideration Shares and the terms of the Connected Transactions.

The Independent Board Committee, having taken into account the advice of Rothschild, considers the terms of the Acquisition, the mechanism for the determination of the issue price of the Consideration Shares and the terms of the Connected Transactions, from a financial perspective, to be fair and reasonable so far as the Independent Shareholders are concerned and the Acquisition to be in the interest of the Group. Accordingly, the Independent Board Committee recommends that the Independent Shareholders should vote in favour of the ordinary resolutions to approve the Acquisition, the issue of the Consideration Shares and the Connected Transactions at the Extraordinary General Meeting. The letter from Rothschild containing its advice and recommendation and the principal factors and reasons taken into account in arriving at its recommendation is set out on pages 32 to 51 of this circular.

12. ADDITIONAL INFORMATION

Your attention is drawn to the letter of the Independent Board Committee set out on page 31 of this circular, the letter set out on pages 32 to 51 of this circular from Rothschild, the independent financial adviser to the Independent Board Committee in respect of the Acquisition, the mechanism for the determination of the issue price of the Consideration Shares and the Connected Transactions, and to the information set out in the appendices to this circular.

By Order of the Board
China Mobile (Hong Kong) Limited
Wang Xiaochu
Chairman

[China Telecom LOGO]

CHINA MOBILE (HONG KONG) LIMITED

(Incorporated in Hong Kong with limited liability under the Companies Ordinance)

16 October 2000

To the Independent Shareholders

Dear Sir or Madam,

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTIONS ACQUISITION OF BEIJING MOBILE BVI, SHANGHAI MOBILE BVI, TIANJIN MOBILE BVI, HEBEI MOBILE BVI, LIAONING MOBILE BVI, SHANDONG MOBILE BVI AND GUANGXI MOBILE BVI

I refer to the circular (the "Circular") dated 16 October 2000 issued by the Company to its Shareholders and Noteholders (for information only) of which this letter forms part. The terms defined in the Circular shall have the same meanings when used in this letter, unless the context otherwise requires.

On 4 October 2000, the Board announced that the Company had entered into the Acquisition Agreement, pursuant to which the Company agreed to acquire, and CMBVI agreed to sell, the entire issued share capital of each of Beijing Mobile BVI, Shanghai Mobile BVI, Tianjin Mobile BVI, Hebei Mobile BVI, Liaoning Mobile BVI, Shandong Mobile BVI and Guangxi Mobile BVI, subject to certain conditions.

The Independent Board Committee was formed on 4 October 2000 to make a recommendation to the Independent Shareholders as to whether, in its view, the terms of the Acquisition, the mechanism for the determination of the issue price of the Consideration Shares and the terms of the Connected Transactions, from a financial perspective, are fair and reasonable so far as the Independent Shareholders are concerned. Rothschild has been retained as independent financial adviser to advise the Independent Board Committee on the fairness and reasonableness of the Acquisition, the mechanism for the determination of the issue price of the Consideration Shares and the terms of the Connected Transactions from a financial perspective.

The terms and the reasons for the Acquisition (including arrangements regarding the financing of the Acquisition) are summarised in the Letter from the Chairman set out on pages 7 to 30 of the Circular. The terms of the Connected Transactions are also summarised in the Letter from the Chairman.

As your Independent Board Committee, I have discussed with the management of the Company the reasons for the Acquisition, the mechanism for the determination of the issue price of the Consideration Shares and the terms of the Connected Transactions and the basis upon which their terms have been determined. I have also considered the key factors taken into account by Rothschild in arriving at its opinion regarding the Acquisition, the mechanism for the determination of the issue price of the Consideration Shares and the terms of the Connected Transactions as set out in the letter from Rothschild on pages 32 to 51 of the Circular, which I urge you to read carefully.

The Independent Board Committee concurs with the views of Rothschild and considers that the terms of the Acquisition, the mechanism for the determination of the issue price of the Consideration Shares and the terms of the Connected Transactions, from a financial perspective, are fair and reasonable so far as the Independent Shareholders are concerned. The Independent Board Committee considers that the Acquisition is in the interest of the Group. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of ordinary resolutions numbered 1, 3 and 4 set out in the notice of the Extraordinary General Meeting at the end of the Circular.

Yours faithfully
Arthur Li Kwok Cheung
Independent Board Committee

[N M ROTHSCHILD & SONS LOGO]
16th Floor
Alexandra House
Central
Hong Kong

16 October 2000

To the Independent Board Committee of
China Mobile (Hong Kong) Limited

Dear Sir,

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTIONS

ACQUISITION OF BEIJING MOBILE BVI, SHANGHAI MOBILE BVI, TIANJIN MOBILE BVI, HEBEI MOBILE BVI, LIAONING MOBILE BVI, SHANDONG MOBILE BVI AND GUANGXI MOBILE BVI

We refer to the Acquisition Agreement, the issue of the Consideration Shares and the Connected Transactions, details of which are contained in the circular of the Company dated 16 October 2000 to the Shareholders and Noteholders, for information only, (the "Circular") of which this letter forms part. Rothschild has been retained as the independent financial adviser by the Company to advise the Independent Board Committee as to whether or not the terms of the Acquisition, the mechanism for the determination of the issue price of the Consideration Shares and the terms of the Connected Transactions, from a financial perspective, are fair and reasonable and in the interest of the Group as a whole so far as the Independent Shareholders are concerned.

The terms used in this letter shall have the same meanings as defined elsewhere in the Circular unless the context otherwise requires.

Pursuant to the Listing Rules, the Acquisition constitutes both a very substantial acquisition and a connected transaction for the Company, which will be subject to, *inter alia,* the Independent Shareholders' approval at the Extraordinary General Meeting. The Connected Transactions constitute or will constitute, upon Completion, connected transactions for the Company under the Listing Rules. As the Connected Transactions are expected to occur on a regular and continuous basis in the ordinary and usual course of business, the Company has applied to the Stock Exchange for a waiver from compliance with the normal approval and disclosure requirements relating to connected transactions under the Listing Rules (the "Waiver"). The Stock Exchange has indicated that the granting of the Waiver, which will be effective until 31 December 2001, will be subject to, *inter alia,* the Independent Shareholders' approval of the Connected Transactions at the Extraordinary General Meeting.

In formulating our recommendation, we have relied on information and facts supplied to us by the Board and we have assumed that any representations made to us are true, accurate and complete in all material respects as at the date hereof and that they may be relied upon. We have also assumed that all information, representations and opinions contained or referred to in the Circular are fair and reasonable and have relied on them.

We have been advised by the Board that no material facts have been omitted and we are not aware of any facts or circumstances which would render the information provided and the representations made to us untrue, inaccurate or misleading. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Board. The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement in the Circular misleading. We consider that we have reviewed sufficient information to reach an informed view in order to provide a reasonable basis for our advice. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Group and the Target BVI Companies and their subsidiaries.

PRINCIPAL FACTORS AND REASONS

In arriving at our opinion, we have taken into consideration the following principal factors and reasons:

1. Background and rationale

As noted in the "Letter from the Chairman" of the Circular, the Board is of the view that the Acquisition represents an attractive opportunity for the Group to consolidate its strong position and further capitalise on the growth potential of the Chinese mobile telecommunications industry. Since each of the Target Companies is the leading provider of mobile telecommunications services with a weighted average of approximately 80% market share in their operating regions as of 30 June 2000, we concur with the Board's view that the Acquisition will further consolidate and strengthen the Group's overall market position.

In addition, the Combined Group, after Completion, will have a geographically contiguous market covering all of the coastal regions of mainland China. As also noted in the "Letter from the Chairman" of the Circular, based on the data as of 30 June 2000, population covered by networks of the Group would increase from the existing 326 million, before the Acquisition, to about 607 million, after Completion. This represents an increase in the Group's coverage of mainland China's total population from the existing 25.7%, before the Acquisition, to about 48.0%, after Completion. Also based on the data as of 30 June 2000, total subscriber number of the Group would increase from the existing 21.6 million (or approximately 34.3% of all cellular subscribers in mainland China), before the Acquisition, to about 35.3 million (or approximately 55.9% of all cellular subscribers in mainland China), after Completion, representing an increase of about 63.4%.

Notwithstanding the fact that the Target Companies have experienced significant growth in their subscriber number from approximately 3.7 million, in aggregate, as of 31 December 1997 to approximately 15.4 million, in aggregate, as of 20 September 2000, the cellular penetration rates in the regions where the Target Companies operate remain low with an overall average of approximately 6.1% as of 30 June 2000.

Furthermore, the telecommunications industry in mainland China has experienced significant expansion in the past few years, in particular, the mobile market has recorded a huge growth. The total number of cellular subscribers in mainland China increased from approximately 13.7 million at the end of 1997 to approximately 43.2 million at the end of 1999, representing a compound annual growth rate of about 77.9%. As noted in Appendix I to the Circular, recent data from the MII and CMCC indicate that the number of cellular subscribers increased to approximately 63.1 million as of 30 June 2000, and China's mobile market is the third largest in the world, in terms of subscriber number, after the United States and Japan. However, it should also be noted that the cellular penetration rate in mainland China is still relatively low at approximately 3.4% at the end of 1999, compared to Hong Kong which had a penetration rate of about 55.0% and the other more developed countries in Asia such as Singapore, Japan and South Korea which had penetration rates of about 41.7%, 46.6% and 51.5% respectively, and other international markets such as the United States and the United Kingdom which had penetration rates of about 31.1% and 40.5% respectively. Further background information on the telecommunications industry in mainland China is set out in Appendix I to the Circular. In addition, the continued development of mainland China's economy is also expected to boost the demand for telecommunications services. As such, we share the same view as the Board that the mobile market in mainland China has significant potential for continued growth.

On the above basis, we concur with the Board's view that the Acquisition will enhance the Group's growth prospects, further consolidate the Group's strong position in the mobile telecommunications market in mainland China and will therefore create value for the Group's investors.

2. The Acquisition

(i) Assets to be acquired

The Company has conditionally agreed to acquire from CMBVI the entire issued share capital of each of Beijing Mobile BVI, Shanghai Mobile BVI, Tianjin Mobile BVI, Hebei Mobile BVI, Liaoning Mobile BVI, Shandong Mobile BVI and Guangxi Mobile BVI, for a total acquisition price of approximately HK$256.0 billion (equivalent to about US$32.8 billion). The only asset of each of the Target BVI Companies is its entire interest in Beijing Mobile, Shanghai Mobile, Tianjin Mobile, Hebei Mobile, Liaoning Mobile, Shandong Mobile and Guangxi Mobile respectively.

Each of the Target Companies is the leading provider of mobile telecommunications services in its respective operating region, namely Beijing, Shanghai and Tianjin directly administered municipalities, Hebei, Liaoning and Shandong provinces, and Guangxi autonomous region of the PRC, and offers mobile communications services principally using GSM technology. The Target Companies are also major providers of Internet Protocol communications services and wireless data services in their respective operating regions. As noted in the "Letter from the Chairman" of the Circular, the subscriber base and market share of each of the Target Companies as of 30 June 2000 in its operating region are set out below:

	As of 30 June 2000	
	Subscriber base (million)	Estimated market share (%)
Beijing Mobile	2.0	80.0
Shanghai Mobile	2.0	78.8
Tianjin Mobile	0.8	83.7
Hebei Mobile	2.0	83.3
Liaoning Mobile................	2.8	75.4
Shandong Mobile	2.8	77.3
Guangxi Mobile	1.2	95.5
Total/weighted average	**13.6**	**80.0**

Further operational information on the Target Companies is set out in Appendix II to the Circular.

We summarise below the combined revenue, the combined adjusted EBITDA, the combined net profit excluding write-down and write-off of TACS network equipment and after related tax adjustment, and the combined net profit of the Target Group for the three years ended 31 December 1999 and the six months ended 30 June 2000, which were extracted from or computed based on the accountants' report on the Target Group and the additional information to Shareholders as set out in Appendix III and Appendix VIII to the Circular. It should be noted that the significantly lower combined net profit for the year ended 31 December 1999 was mainly caused by the write-down and write-off of TACS network equipment of approximately RMB4.5 billion (equivalent to about HK$4.2 billion or US$0.5 billion), and we have confirmed with the management of the Target Group and the Board that no significant further write-down and/or write-off of TACS network equipment for the Target Companies is envisaged in the near future.

	Year ended 31 December			Six months ended 30 June
	1997	1998	1999	2000
Revenue				
(RMB million)	12,977	18,859	26,384	15,706
(HK$ million)	12,215	17,751	24,834	14,784
(US$ million)..	1,568	2,278	3,187	1,897
Adjusted EBITDA				
(RMB million)	6,520	8,409	13,322	8,452
(HK$ million)	6,137	7,915	12,540	7,956
(US$ million)..	788	1,016	1,609	1,021
Net profit excluding write-down and write-off of TACS network equipment and after related tax adjustment				
(RMB million)	4,336	4,583	6,760	4,454
(HK$ million)	4,081	4,314	6,363	4,192
(US$ million)..	524	554	817	538
Net profit				
(RMB million)	4,336	4,583	2,682	4,454
(HK$ million)	4,081	4,314	2,524	4,192
(US$ million)..	524	554	324	538

In addition, certain prospective financial information in respect of the Target Companies for the year ending 31 December 2000 has been prepared by the Company and the Target Companies. Based on the assumptions set out in Appendix VII to the Circular and in the absence of unforeseen circumstances, the Board believes that the combined revenue, the combined net profit and the combined adjusted EBITDA of the Target Group for the year ending 31 December 2000 will unlikely be less than RMB33.4 billion, RMB8.3 billion and RMB17.9 billion respectively, equivalent to about HK$31.5 billion, HK$7.8 billion and HK$16.9 billion respectively, or about US$4.0 billion, US$1.0 billion and US$2.2 billion respectively. The Company and the Target Companies are not currently aware of any extraordinary items which have arisen or are likely to arise in respect of the year ending 31 December 2000 which would affect the prospective financial information prepared.

As also noted in Appendix III to the Circular, the combined net assets of the Target Group amounted to approximately RMB29.3 billion (equivalent to about HK$27.6 billion or US$3.5 billion) as at 30 June 2000.

(ii) Basis of the consideration

The Acquisition Agreement was entered into after arm's length negotiation between the Company and CMBVI, and the total acquisition price of approximately HK$256.0 billion (equivalent to about US$32.8 billion) was determined having considered various factors including the prospective adjusted EBITDA and prospective profit contributions of the Target Companies to the Combined Group, the quality of the assets being acquired, their growth prospects, earnings potential, competitive advantages in their respective markets and relevant valuation benchmarks. In addition, the terms of the Acquisition Agreement were all determined based on normal commercial terms. The Company will also assume the net indebtedness of the Target Companies, which amounted to approximately HK$9.0 billion (equivalent to about US$1.2 billion) as of 30 June 2000.

(iii) Financing of the Acquisition

The total purchase price under the Acquisition Agreement will be satisfied as to approximately HK$79.3 billion (equivalent to about US$10.2 billion) in cash and the remainder of approximately HK$176.7 billion (equivalent to about US$22.7 billion) by way of issue of the Consideration Shares to CMBVI. The Consideration Shares will be issued at a price equivalent to the Offer Price (see further discussion below in the section relating to the mechanism for the determination of the issue price of the Consideration Shares). Furthermore, the Company may, prior to Completion, elect to increase the portion of the total purchase price to be satisfied by the Consideration Shares by way of increasing the total number of Consideration Shares to be issued to CMBVI, provided that CMBVI's shareholding in the Company, immediately after Completion and the issue of the Consideration Shares, will not exceed 76.5% (which is CMBVI's maximum shareholding percentage in CMHK as permitted under the Stock Exchange's waivers granted in 1997). Correspondingly, the cash portion of the total purchase price will be reduced by the same amount to keep the total purchase price unchanged.

As noted in the "Letter from the Chairman" of the Circular, the major portion of the cash consideration will be funded by the combination of funds raised from the Share Offering of approximately US$6.6 billion (equivalent to about HK$51.3 billion) (including the Shares which Vodafone has agreed to subscribe for, with an aggregate subscription price of US$2.5 billion (equivalent to about HK$19.5 billion)) and the Convertible Note Offering of approximately US$0.6 billion (equivalent to about HK$4.7 billion), as well as the Renminbi-denominated syndicated bank loans of approximately US$1.5 billion (equivalent about HK$11.8 billion). The remainder of approximately US$1.5 billion (equivalent to about HK$11.7 billion) will be funded as to approximately US$0.5 billion (equivalent to about HK$3.9 billion) by the existing internal cash resources of the Company and approximately US$1.0 billion (equivalent to about HK$7.8 billion) by additional internal resources and other forms of funding of the Company, or if elected by the Company, to be replaced with the issue of additional Consideration Shares to CMBVI as discussed above. The Share Offering and the Convertible Note Offering will occur as soon as the Company and the respective underwriters agree on the pricing and other terms of the respective offerings. It should be noted that detailed pricing and terms of the Share Offering and the Convertible Note Offering have not been finalised yet, but are expected to be determined around late October 2000 to early November 2000. The pricing of the Share Offering will be determined with reference to the prevailing market prices of the ADSs and the Shares and the level of interest for the ADSs and the Shares expressed by prospective investors.

We have discussed the structure of financing of the Acquisition with the Board and concur with its view that:

(a) the issue of the Consideration Shares and the new Shares under the Share Offering to partly satisfy the total acquisition price will reduce the required internal resources of the Group to fund the Acquisition and at the same time strengthen the Group's capital base;

(b) the issue of the convertible notes under the Convertible Note Offering to partly satisfy the total acquisition cost will provide a relatively less expensive way to raise funds than bank borrowings, in terms of interest cost, and also minimise any immediate dilution effect in the existing shareholders' interests; and

(c) the Acquisition to be funded partly by the low-cost Renminbi-denominated syndicated bank loans is an efficient way to utilise the Group's leverage strength (see further discussion on the pro forma financial effects on CMHK below).

On the above basis, we concur with the Board's view that the financing structure of the Acquisition will effectively utilise the available resources of the Group, and hence is in the interest of the Group so far as the Independent Shareholders are concerned.

(iv) Conditions of the Acquisition

As noted in the "Letter from the Chairman" of the Circular, Completion is conditional upon fulfillment of various conditions including the approval of the Acquisition, the issue of the Consideration Shares to CMBVI and the Connected Transactions by the Independent Shareholders at the Extraordinary General Meeting, and the Company having received adequate funding or financing to satisfy the cash portion of the total purchase price of the Acquisition. Further details of the other conditions precedent to the Completion are set out in the "Letter from the Chairman" of the Circular.

The Acquisition shall be completed following the satisfaction (or waiver) of the aforesaid conditions, and Completion is expected to take place on the date of the completion of the proposed Share Offering and Convertible Note Offering, or the next business day in Hong Kong and the PRC following the Extraordinary General Meeting, whichever is later, or such other date as may be agreed between CMBVI and the Company following notification by the Company to CMBVI of the fulfillment to the satisfaction of the Company (or waiver) of all the conditions precedent. If any of the conditions precedent to the Completion is not satisfied or waived by 31 December 2000, or such other date as CMBVI, the Company and CMCC may agree, the Acquisition Agreement shall lapse.

(v) Valuation of the Target Companies

The total consideration of approximately HK$256.0 billion (equivalent to approximately US$32.8 billion) implies an enterprise value ("EV") for the Target Companies of approximately HK$265.0 billion (equivalent to approximately US$34.0 billion), being the equity value (the total consideration paid in this case) plus net debts of the Target Companies as at 30 June 2000 of approximately HK$9.0 billion (equivalent to about US$1.2 billion) to be assumed by the Group.

We have analysed the acquisition price of the Target Companies using three valuation methodologies, which are (a) discounted cash flow ("DCF") analysis; (b) comparable company analysis; and (c) recent merger and acquisition transactions of cellular companies.

(a) Discounted cash flow analysis

We have used the DCF analysis as the primary valuation tool as it reflects the future cashflow of the Target Companies which takes into account the characteristics of the markets, competition in the sector and regulatory environment where the Target Companies operate, the Target Companies' cost structure and capital expenditure requirements as well as the profile of their subscriber bases. Our DCF model is driven by the parameters from the long term business plans and forecasts of the Target Companies obtained from the Target Companies and/or the Company. We have reviewed the key assumptions and operating benchmarks of the Target Companies, as well as researched on the performance of other listed cellular operators, and are comfortable that the aforesaid business plans are achievable.

The EV for the Target Companies of approximately HK$265.0 billion (equivalent to approximately US$34.0 billion) is within our DCF valuation range and has an EV/forecast adjusted EBITDA multiple of approximately 15.7 times and an EV/forecast revenue multiple of approximately 8.4 times for the year ending 31 December 2000, and an EV/subscriber of approximately US$1,965 (equivalent to about HK$15,319) (or approximately US$1,898 (equivalent to about HK$14,799) per subscriber based on the equity value of the consideration under the Acquisition Agreement), based on the forecast subscriber number of the Target Companies by the end of 2000 of 17.3 million (see further discussion regarding comparable company analysis below).

(b) Comparable company analysis

Usual financial ratios such as price/earnings and price/net book value have not been used in our analysis in this section as these ratios:

- are not commonly used to analyse companies in the telecommunications sector as they are not suitable for companies in high growth and high capital intensive sectors; and

- do not take into account differences in accounting treatments for tax and depreciation in different countries.

Accordingly, we have conducted our analysis by using EV/EBITDA (which is commonly used in the telecommunications industry as an indicator of operating performance and liquidity), EV/revenue (which shows the earnings capability of the operators) and EV/subscriber (which represents the value per subscriber) as such ratios reduce the aforesaid limitations of using price/earnings or price/net book value, and are commonly used valuation benchmarks for cellular operators. We have compared such benchmarks of the Target Companies (determined based on the total consideration for the Target Companies under the Acquisition Agreement) with comparable listed cellular companies (see the table below in this section). We would however like to note that the comparable company analysis should be used only as a check on the DCF valuation as the comparable company analysis does not fully take into account differences in regulatory regimes, level of competition and income levels in different markets, and subscriber profile of different operators.

Since the principal business activity of CMHK's operating subsidiaries and the Target Companies is the provision of mobile services in mainland China, we consider that CMHK represents the best comparable of the Target Companies. In addition, China Unicom Limited ("China Unicom"), another Hong Kong listed telecommunications operator with cellular business in mainland China, is also considered comparable to the Target Companies although we note that China Unicom is an integrated provider of telecommunications services, also offering paging, long distance, data and Internet services. We have however also prepared a list of listed cellular companies in other countries which share some common characteristics with those of the Target Companies such as penetration rate, level of income, average revenue per subscriber and growth potential. However, we consider that such other listed cellular companies are not directly comparable with the Target Companies.

	EV(1)/forecast EBITDA 2000 (full year)(2) (times)	**EV(1)/forecast subscriber End of 2000(2) (US$)**	**EV(1)/forecast revenue 2000 (full year)(2) (times)**
CMHK	22.3	3,789	11.2
China Unicom...........	23.1	2,500	9.3
Target Companies	15.7	1,965	8.4
discount to CMHK ...	*29.6%*	*48.1%*	*25.0%*
discount to China Unicom	*32.0%*	*21.4%*	*9.7%*

(1) Enterprise values of CMHK and China Unicom are calculated based on their respective closing prices as at the Latest Practicable Date

(2) Forecast EBITDA 2000 (full year), forecast subscriber by the end of 2000, and forecast revenue 2000 (full year) for CMHK and China Unicom are based on Rothschild's estimates

As noted in the above table, the valuation benchmarks for the Target Companies are at a discount to both CMHK and China Unicom.

(c) Comparable transaction analysis

Our analysis also included research into recent merger and acquisition transactions in the global cellular sector in the past 12 months. The following table sets out our findings:

	EV(1)/forecast EBITDA 2000 (full year) (times)	**EV(1)/forecast subscriber End of 2000 (US$)**	**EV(1)/forecast revenue 2000 (full year) (times)**
Cellular transactions worldwide in the last 12 months			
High	58.6	7,549	17.0
Low...	19.3	1,788	3.9
Mean...	35.8	4,207	9.8

(1) Based on the consideration paid in these transactions

We consider that the valuation benchmarks for the Target Companies implied by the acquisition price under the Acquisition Agreement is reasonable when compared to recent merger and acquisition transactions in global cellular sector.

As with comparable company analysis, benchmarks derived from comparable transaction analysis do not take into account regulatory, economic and competitive differences in various countries. We have taken these differences into account in our analysis of these valuation benchmarks.

On the above basis, we consider that the consideration payable under the Acquisition Agreement to be fair and reasonable so far as the Independent Shareholders are concerned.

3. The mechanism for the determination of the issue price of the Consideration Shares

As noted in the "Letter from the Chairman" of the Circular, the issue price of the Consideration Shares to CMBVI will be equivalent to the Offer Price under the Share Offering, which as mentioned above, has not been fixed yet. Based on our discussion with the Board, we understand that the Offer Price will be determined through the book-building exercise of the Share Offering (i.e. the Offer Price is determined based on prevailing market prices for the ADSs and the Shares and market demand of the ADSs and the Shares at the timing of the offering). On such basis, we are of the view that the mechanism for the determination of the issue price of the Consideration Shares is fair and reasonable so far as the Independent Shareholders are concerned.

4. The Connected Transactions

The Company, its subsidiaries and/or the Target Companies have entered or will enter into certain transactions pursuant to a number of operating agreements with CMCC or its subsidiaries, which constitute or will constitute, upon Completion, connected transactions for the Company under the Listing Rules. Since these transactions are expected to occur on a regular and continuous basis in the ordinary and usual course of business, the Company has applied to the Stock Exchange for the Waiver. The Stock Exchange has indicated that the Waiver, if granted, will be effective until 31 December 2001, and is subject to the satisfaction of various conditions, *inter alia*, (a) the approval of the Independent Shareholders in respect of the Connected Transactions; and (b) all such Connected Transactions shall be entered into in the ordinary and usual course of business of the Company on terms that are fair and reasonable so far as the Independent Shareholders are concerned.

It should be noted that services under the Connected Transactions are charged either in accordance with the tariffs/standards set by the relevant Chinese regulatory authorities and/or by reference to market rates and/or after arm's length negotiation between the parties involved and based on normal commercial terms. As also noted in the "Letter from the Chairman" of the Circular, to the extent within CMCC's control, CMCC undertakes that the Company will be treated equally with other cellular mobile communications operators in respect of all approvals, transactions and arrangements between the Group and CMCC and cellular mobile communications operators controlled by CMCC. This forms an important basis for the Group and/or the Target Companies in entering into these connected transactions. Furthermore, *(i)-(v)* of the agreements listed below are merely extension of the Group's existing arrangements to cover the Target Companies upon Completion, and Independent Shareholders' approvals have already been obtained for such arrangements previously.

We set out below a summary of each of the aforesaid connected transactions.

(i) Roaming

The Roaming Agreement was entered into after arms' length negotiations between the parties involved and after taking into account the guidelines laid down by the relevant tariff regulatory authorities which provides for, *inter alia*, (a) the sharing of basic roaming revenue between the Company and CMCC, and (b) procedures and timing of settlement of the roaming revenue and the record processing fees, which allow the Group to provide inter-provincial and international roaming services to its subscribers.

The Roaming Agreement currently applies to the six existing operating subsidiaries of the Company. Subject to Completion and Independent Shareholders' approvals, the Company has entered into the Supplemental Agreement with CMCC to extend the existing arrangement under the Roaming Agreement to cover the Target Companies upon Completion.

(ii) Interconnection

The Roaming Agreement also provides for the procedures and timing of settlement of the long distance calling charges, if any, when roaming subscribers make or receive calls from a roaming location.

The interconnection arrangement under the Roaming Agreement currently applies to the six existing operating subsidiaries of the Company. The Company has, subject to Completion and Independent Shareholders' approvals, entered into the Supplemental Agreement with CMCC to extend the existing interconnection arrangement under the Roaming Agreement to cover the Target

Companies upon Completion.

(iii) Licensing of trademark

The Company has entered into a non-exclusive licence agreement with CMCC, pursuant to which the Group has the right to use the "CHINA MOBILE" logo for a term of six years from 8 October 1999. No licence fee is payable for the first three years after the registration of the logo in mainland China becomes effective. The fees payable thereafter will be negotiated between the Company and CMCC, provided that such fees cannot exceed the fees that CMCC charges its affiliates.

The Company has, subject to Completion and Independent Shareholders' approvals, entered into the Supplemental Agreement with CMCC to extend the arrangement under the existing licensing agreement to cover the Target Companies upon Completion.

(iv) Spectrum fees

Under this agreement, the Group has the exclusive right to use the frequency spectrum and telephone numbers allocated to the Group in the areas where it operates. It also provides for the mechanism for sharing of the spectrum usage fees between the Group's operating subsidiaries and CMCC's other operating subsidiaries which is based on the standardised fee scale jointly determined by the MII and the Ministry of Finance.

The Company has, subject to Completion and Independent Shareholders' approvals, entered into the Supplemental Agreement with CMCC to extend the existing arrangement with respect to spectrum usage to cover the Target Companies upon Completion.

(v) Sharing of inter-provincial transmission leased line fees

Under the existing inter-provincial transmission leased line agreement with CMCC, the Group leases from CTC, via CMCC, inter-provincial transmission lines which link the Group's mobile switching centres together and with other mobile switching centres of CMCC. The rental payable by the Group is determined on the basis that the cellular network operators at both ends of the transmission lines will share the transmission leasing fees equally, and will be equal to the actual amount payable by CMCC to CTC which is determined based on the standard leasing fee stipulated by the relevant authorities after adjusting for the discount entitled by the Group.

The Company has, subject to Completion and Independent Shareholders' approvals, entered into the Supplemental Agreement with CMCC to extend the existing arrangement under the inter-provincial transmission leased line agreement to cover the Target Companies upon Completion.

(vi) Prepaid services

Each of the Target Companies and the operating subsidiaries of the Group offers prepaid services, and under some of such prepaid services, subscribers are allowed to add value to their SIM cards by purchasing value-adding cards from any of the Group's network operators or CMCC's network operators. Accordingly, the Company has, subject to Independent Shareholders' approvals, entered into an agreement with CMCC in relation to the sharing and settlement of revenue when prepaid subscribers purchase value-adding cards issued by network operators other than their home network operators. This agreement will apply to the six existing operating subsidiaries of the Company and the Target Companies with retrospective effect from 1 July 2000. The sharing of revenue from prepaid subscribers purchasing value-adding cards issued by network operators other than their home network operators commenced as from 1 February 2000. This agreement was entered into after arm's length negotiation between the Company and CMCC and based on normal commercial terms. The Waiver provides for an upper limit in respect of handling charges of prepaid services received by the Combined Group from subsidiaries of CMCC in any financial year which shall not exceed 2% of the Combined Group's total turnover in that financial year and handling charges paid by the Combined Group to subsidiaries of CMCC regarding prepaid services in any financial year shall not exceed 2% of the Combined Group's total turnover in that financial year.

(vii) Property leasing and management services

Each of the Target Companies leases and some of the Target Companies also sub-lease from other subsidiaries of CMCC various properties for use as their business premises and offices and for locating equipment. Rental payments by the Target Companies for the leased properties and sub-leased properties are either determined with reference to market rates or equal to the actual rental payable by such CMCC's subsidiaries. In addition, some of the relevant subsidiaries of CMCC also provide property management services in relation to the leased or sub-leased properties to the aforesaid Target Companies and such property management fees are also determined with reference to market rates. As noted in the "Letter from the Chairman" of the Circular, Chesterton Petty, an independent valuer, has confirmed that the rentals payable under such leases and sub-leases are not more than market rates within each respective geographical area as at the relevant dates of such leases and the relevant head leases, and that all other terms of such leases and sub-leases are not onerous or unusual. The Waiver provides for an upper limit on the payments by the Target Companies to subsidiaries of CMCC for rental and property management fees in any financial year which shall not exceed RMB85 million.

(viii) Construction and related services

Beijing Mobile, Shanghai Mobile, Liaoning Mobile and Shandong Mobile have entered into agreements with certain subsidiaries of CMCC regarding provisions of construction, design, equipment installation, testing and/or maintenance services and/or to act as general contractors in relation to construction and other projects of such Target Companies. The charges payable for services rendered under such agreements are determined based on standards laid down by the relevant governmental departments and/or by reference to market rates. The Waiver provides for an upper limit on payments by the Target Companies to subsidiaries of CMCC for construction and related services in any financial year which shall not exceed 0.25% of the Combined Group's total turnover in that financial year.

(ix) Equipment maintenance and related services

Beijing Mobile, Shanghai Mobile and Liaoning Mobile have entered into agreements with certain subsidiaries of CMCC in relation to the provision of equipment maintenance and related services to such Target Companies. The charges payable for services rendered under such agreements are determined based on standards laid down by the relevant governmental departments and/or by reference to market rates. The Waiver provides for an upper limit on payments by the Target Companies to subsidiaries of CMCC for equipment maintenance and related services in any financial year which shall not exceed 0.05% of the Combined Group's total turnover in that financial year.

(x) Transmission tower production, sales and other services and antenna maintenance services

Hebei Mobile has entered into an agreement with a subsidiary of CMCC in relation to (a) provisions of transmission tower design, production, installation and maintenance services, (b) provisions of antenna maintenance services, and (c) sales of transmission towers and spare parts to Hebei Mobile. The price of such transmission towers and spare parts and the charges payable for services rendered under such agreements are determined based on standards laid down by the relevant governmental departments and/or by reference to market rates. The Waiver provides for an upper limit on payments by Hebei Mobile to the relevant subsidiary of CMCC for the purchase of transmission towers and related services, and antenna maintenance services in any financial year which shall not exceed 0.06% of the Combined Group's total turnover in that financial year.

On the basis that: (a) the terms and charges of the Connected Transactions were determined either in accordance with the tariffs/standards set by the relevant Chinese regulatory authorities and/or by reference to market rates and/or after arm's length negotiation between the parties involved and based on normal commercial terms; (b) in view of the aforesaid equal treatment undertaking given by CMCC; and (c) some of these agreements ((i)-(v) of the above Connected Transactions) are merely extension of the Group's existing arrangements to cover the Target Companies upon Completion, we are of the view that the terms of the Connected Transactions and the application of the aforesaid upper limits under the Waiver for certain types of transaction are fair and reasonable so far as the Independent Shareholders are concerned.

5. Pro forma financial effects on CMHK

We have conducted various analyses on the pro forma financial effects of the Acquisition (including the various fund raising activities relating to the Acquisition) on the Group, which were prepared based on the audited and pro forma financials of the Group, the Target Companies and the Combined Group as set out in Appendices III to VI and VIII to the Circular. It should be noted that the pro forma figures in the Circular were prepared by the management of the Group and/or the management of the Target Companies on the bases and assumptions as set out in the respective sections of the appendices. In addition, we have also made various assumptions in our computation of the pro forma financial effects, including those set out below. Accordingly, all the figures and financial effects shown in this section are for illustrative purposes only.

We summarised in the following table the key financial information of the Group, before and after completion of the Acquisition, the Share Offering, the Convertible Note Offering and the obtaining of the additional bank loans in relation to the Acquisition, which we have used in our analysis of the pro forma financial effects of the Acquisition on the Group. As discussed above, the following pro forma figures of the Combined Group were prepared based on various assumptions, including,

(a) the Acquisition had taken place on 1 January 1999 with approximately HK$184.4 billion (equivalent to about US$23.7 billion) out of the total consideration of approximately HK$256.0 billion (equivalent to about US$32.8 billion) in the form of Consideration Shares (assuming the Company has elected to increase the total number of Consideration Shares to be issued to CMBVI to about 3,323 million Shares under the option as mentioned in the section relating to the financing of the Acquisition above), and the issue price of the Consideration Shares is HK$55.50 each, being the closing price of the Shares on the Stock Exchange as at the Latest Practicable Date;

(b) the Shares offered pursuant to the Share Offering are issued at HK$55.50 per Share, being the closing price of the Shares on the Stock Exchange as at the Latest Practicable Date, which resulted in the issuance of a total number of approximately 924 million new Shares (assuming the underwriters' over-allotment option under the Share Offering as discussed in the section relating to the proposed Share Offering in the "Letter from the Chairman" of the Circular is not exercised) with gross proceeds of approximately HK$51.3 billion (equivalent to about US$6.6 billion) and assuming there is no issuing expenses;

(c) the issuance of convertible notes under the Convertible Note Offering resulting in gross proceeds of approximately HK$4.7 billion (equivalent to about US$0.6 billion) (assuming the underwriters' option to purchase additional convertible notes under the Convertible Note Offering as discussed in the section relating to the proposed Convertible Note Offering in the "Letter from the Chairman" of the Circular is not exercised), with a coupon rate of about 3.8125% per annum (being the mid point of a range from 2.875% to 4.750%, which is determined from recent market transactions and is shown here for illustrative purposes only). No conversion of the convertible notes under the Convertible Note Offering is assumed in the following calculations;

(d) the additional bank loans of approximately HK$11.8 billion (equivalent to about US$1.5 billion) in relation to the Acquisition, with interest rates at 5.346% per annum for the RMB7.5 billion (equivalent to about HK$7.1 billion or US$0.9 billion) bank loan and 5.022% per annum for the RMB5.0 billion (equivalent to about HK$4.7 billion or US$0.6 billion) bank loan (further details of the loan agreements are set out in the section relating to the Renminbi-denominated syndicated bank loans in the "Letter from the Chairman" of the Circular); and

(e) approximately HK$3.9 billion (equivalent to about US$0.5 billion) of the cash portion of the purchase price is funded by existing internal cash resources of the Company.

	Year ended 31 December 1999		**Six months ended 30 June 2000**	
	The Group (Actual)	**The Combined Group (Pro forma)**	**The Group (Actual)**	**The Combined Group (Pro forma)**
Revenue				
(RMB million)..........	38,623	65,007	28,897	44,603
(HK$ million)...........	36,354	61,189	27,200	41,983
(US$ million)...........	4,666	7,853	3,490	5,388
Adjusted EBITDA				
(RMB million)..........	21,603	34,925	16,817	25,269
(HK$ million)...........	20,334	32,874	15,829	23,785
(US$ million)...........	2,609	4,219	2,031	3,052
Adjusted net profits(1)				
(RMB million)..........	10,320	16,032	8,724	12,632
(HK$ million)...........	9,714	15,090	8,212	11,890
(US$ million)...........	1,247	1,937	1,055	1,526
Adjusted earnings per Share(2)				
(RMB)....................	0.86	0.98	0.64	0.70
(HK$).....................	0.80	0.92	0.60	0.66
(US$)	0.10	0.12	0.08	0.08
Interest expense				
(RMB million)..........	343	1,822	335	1,152
(HK$ million)...........	323	1,715	315	1,084
(US$ million)...........	41	220	40	139
Interest coverage(3)				

(times)	63	19	50	22

	As at 30 June 2000	
	The Group (Actual)	The Combined Group (Pro forma)
Net assets		
(RMB million)	65,823	73,534
(HK$ million)	61,957	69,215
(US$ million)	7,951	8,883
Net assets per Share		
(RMB)	4.80	4.10
(HK$)	4.52	3.86
(US$)	0.58	0.50
Total debts(4)		
(RMB million)	10,902	44,496
(HK$ million)	10,262	41,883
(US$ million)	1,317	5,375
Net debts/(cash)(5)		
(RMB million)	(23,320)	7,871
(HK$ million)	(21,950)	7,409
(US$ million)	(2,817)	951
Total owners' equity		
(RMB million)	65,823	73,534
(HK$ million)	61,957	69,215
(US$ million)	7,951	8,883
Total debts/capital(6)	14.2%	37.7%
Net debts/total owners' equity (%)	net cash	10.7%

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(1) Net profit excluding write-down and write-off of TACS network equipment and after related income tax adjustment

(2) Adjusted net profits divided by shares or pro forma shares utilised in basic calculations

(3) Adjusted EBITDA divided by interest expenses

(4) Sum of bank and other loans, bills payable, obligation under finance leases, fixed rates notes and convertible notes

(5) Total debts less cash and bank deposits

(6) Sum of total debts and total owners' equity

(i) Adjusted EBITDA and earnings

As set out in the above table, the pro forma adjusted EBITDA of the Combined Group would be approximately HK$32.9 billion for the year ended 31 December 1999 and approximately HK$23.8 billion for the six months ended 30 June 2000, which are approximately 61.7% and 50.3% higher than the actual adjusted EBITDA of the Group (before the Acquisition) of about HK$20.3 billion and HK$15.8 billion respectively for the same periods. The pro forma adjusted net profit for the Combined Group would be approximately HK$15.1 billion for the year ended 31 December 1999 and approximately HK$11.9 billion for the six months ended 30 June 2000, which are also about 55.3% and 44.8% higher than the actual results of the Group (before the Acquisition) of about HK$9.7 billion and HK$8.2 billion respectively for the same periods. On the per share basis, the pro forma adjusted earnings per Share of the Combined Group for year ended 31 December 1999 and the six months ended 30 June 2000 would be HK$0.92 and HK$0.66 respectively, which are about 14.9% and 10.0% higher than the actual earnings per Share of the Group (before the Acquisition) for the same periods.

(ii) Net assets and goodwill

Assuming the Acquisition took place on 30 June 2000, a goodwill of approximately HK$228.3 billion would be recorded as the difference between the total consideration of HK$256.0 billion paid for the Acquisition and the fair value of the underlying net assets of the Target Group. This amount would be eliminated against reserves of the Company, and will not have any immediate impact on the Group's profit and loss accounts.

The pro forma net assets of the Combined Group would be approximately HK$69.2 billion as at 30 June 2000, which is about

11.7% higher than the actual net assets reported by the Group (before the Acquisition) as of the same date. However, the pro forma net asset value per Share of the Combined Group would be approximately HK$3.86 as at 30 June 2000, which is about 14.6% lower than the actual net asset value per Share of the Group (before the Acquisition) of approximately HK$4.52 as of the same date. The dilution in net asset value per Share is mainly attributable to the elimination of the abovementioned goodwill arising from the Acquisition. It is acceptable in our view to sacrifice a dilution in net asset backing for improvement in earnings (see discussion above in relation to effects on adjusted EBITDA and earnings) as we do not consider net asset backing as an important valuation parameter for valuing telecommunications companies.

(iii) Gearing

As noted in the above table, pro forma total debts of the Combined Group would increase to approximately HK$41.9 billion from the actual total debts of approximately HK$10.3 billion as of 30 June 2000. Pro forma net debts would also increase to approximately HK$7.4 billion, compared to the net cash position as of 30 June 2000. The pro forma gearing of the Combined Group, defined as net debts divided by total owners' equity, would be approximately 10.7% as at 30 June 2000, compared to the net cash position of the Group (before the Acquisition) as of the same day. As also noted in the above table, the total debts/capital ratio would increase from the existing 14.2% to approximately 37.7%. However, we consider that the gearing level of the Combined Group remains at an acceptable level.

(iv) Interest coverage

As stated in the above table, the pro forma interest expenses of the Combined Group for the year ended 31 December 1999 would be approximately HK$1.7 billion, compared with the actual amount of approximately HK$323 million as recorded by the Group for the year ended 31 December 1999. This is mainly attributable to the increased borrowing level of the Combined Group as a result of the Acquisition. Accordingly, the interest coverage, defined as adjusted EBITDA divided by total interest expenses, would decrease from approximately 63 times to 19 times for the year ended 31 December 1999. For illustrative purposes only, we have also compared the interest coverage ratios of the Group (before and after the Acquisition) for the six months ended 30 June 2000 and noted that the interest coverage would decrease from about 50 times to 22 times. Although interest coverage would be decreased significantly as a result of the Acquisition, we are of the view that such coverage ratio of the Combined Group still remains at an acceptable level.

As demonstrated above, the adjusted EBITDA, the adjusted net profits and the net asset value of the Group would be enhanced after the Acquisition. On the per share basis, there would be an immediate earnings enhancement, based on the comparison between the pro forma numbers and the actual results recorded by the Group for the year ended 31 December 1999 and the six months ended 30 June 2000. In contrast, net asset value per Share would have a moderate dilution effect as a result of the Acquisition. As mentioned above, we consider that the analysis of net asset value per share is of relatively less importance than earnings per share, in particular, for mobile operators. Accordingly, we have placed less reliance on the analysis of the net asset value per share in arriving at our conclusion. Furthermore, notwithstanding the fact that the Acquisition will cause the Group's gearing level to increase and the Group's interest coverage ratio to decline, we are of the opinion that such gearing and interest coverage levels after the Acquisition represent more efficient capital utilisation and would still remain within acceptable ranges. On the above basis, we are of the view that the Acquisition to be in the interest of the Group as a whole so far as the Independent Shareholders are concerned.

6. Shareholding

It is expected that CMCC will remain as the controlling shareholder, owning approximately 75% interest in the Company, immediately after completion of the Acquisition, the Share Offering and the Convertible Note Offering (assuming that there is no conversion of the convertible notes proposed to be issued under the Convertible Note Offering). Assuming that the Consideration Shares and the new Shares to be issued pursuant to the Share Offering are issued at HK$55.50 each, being the closing price of Shares as at the Latest Practicable Date, CMCC's interest in the Company immediately after completion of the Acquisition and the Share Offering will be approximately 75% and approximately 25% of the then issued Shares will be in public hands. As discussed in the section relating to the Convertible Note Offering above, the pricing and terms of the Convertible Note Offering have not been finalised yet. Accordingly, the exact number of new Shares which can be converted from the convertible notes under the Convertible Note Offering is not determinable. Given that the total issue size of the convertible notes under the Convertible Note Offering is relatively small, compared to the market capitalisation of the Group (after completion of the Acquisition and the Share Offering), we believe that the dilution effect upon conversion of such convertible notes in future, if any, will be insignificant.

7. Other considerations

(i) Industry restructuring and competition

Recently, the telecommunications industry in mainland China has substantially completed a major restructuring exercise involving the segregation of the government's regulatory function from its business management functions in respect of state-owned enterprises, and the division of the telecommunications operations into fixed line communications, mobile communications, paging services and satellite communications. In addition, the Chinese government has stated its intention to encourage orderly competition in mainland China's telecommunications industry. Further background on the recent development of the telecommunications industry in mainland China is set out in Appendix I to the Circular.

The Group and the Target Companies have been facing increasing competition in the past few years. Nevertheless, the Group and the Target Companies still experienced strong growth in revenue and subscriber numbers, mainly attributable to significant competitive advantages of the Group and the Target Companies such as the quality of their cellular networks, the experience and quality of their management and employees, their widely recognised brand name, and the significant expansion in the overall mobile market in mainland China. It is expected that the growth in the overall mobile market in mainland China will remain strong in the near future, and we concur with the Board's view that the Acquisition provides an excellent opportunity for the Group to strengthen its market position by achieving further economies of scale and therefore maximising the benefits and returns expected to arise from the rapid development and continuous strong growth in the mainland China's mobile sector.

(ii) Proposed strategic alliance with Vodafone

As also noted in the "Letter from the Chairman" of the Circular, the Company has entered into a non-binding memorandum of understanding with Vodafone which sets forth the principal terms of cooperation between them in relation to mobile voice and data communications services. In addition, Vodafone has agreed to subscribe for Shares under the proposed Share Offering with an aggregate subscription price of US$2.5 billion (equivalent to about HK$19.5 billion). The Board believes that the proposed strategic alliance with Vodafone would enhance the Company's strengths in the telecommunications market in mainland China, as well as better position the Company for further expansion opportunities, if appropriate, globally. The Board also believes that the Company would benefit from the exchange of experiences and managerial, technical and operational resources with Vodafone.

SUMMARY

Having considered the above principal factors and reasons, we would draw your attention to the following key factors in arriving at our conclusion:

(a) the Acquisition will significantly increase the Group's subscriber base. It represents an attractive opportunity to further consolidate and strengthen the Group's overall market position by achieving further economies of scale and therefore capitalising on the strong growth in mainland China's mobile market;

(b) the purchase price was negotiated on arm's length basis and the financing structure of the Acquisition will effectively utilise the available resources of the Combined Group;

(c) the valuation of the Target Companies is within the range of our DCF analysis, representing a discount to market valuation of the comparable companies, and falls in the lower end of the valuation range of recent merger and acquisition transactions in the global cellular sector in the past 12 months;

(d) the issue price of the Consideration Shares will be effectively, and ultimately determined based on the prevailing market prices of the ADSs and the Shares, and the market demand of the ADSs and the Shares at the time when the pricing and terms of the Share Offering are fixed;

(e) the terms and charges of the Connected Transactions were determined either based on the tariffs/standards set by the Chinese regulatory authorities and/or by reference to market rates and/or after arm's length negotiation and based on normal commercial terms. Furthermore, some of these agreements are merely extension of the Group's existing arrangements to cover the Target Companies upon Completion;

(f) the total profit of the Group will be enhanced, with an immediate enhancement in the per share profitability;

(g) the total net asset value of the Group will be increased but there will be a moderate dilution on the per share basis due to the elimination of goodwill arising from the Acquisition against reserves of the Company;

(h) the Combined Group will have a higher gearing ratio and a lower interest coverage, but both will still be within an acceptable level; and

(i) CMCC will remain as the controlling shareholder and continue to provide full support to CMHK.

RECOMMENDATION

Having considered the above principal factors and reasons and the terms of the Acquisition Agreement (including the mechanism for the determination of the issue price of the Consideration Shares) and the agreements of the Connected Transactions, we consider that their terms, from a financial perspective, to be fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Group as a whole. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of ordinary resolutions numbered 1,3 and 4 as detailed in the notice of the Extraordinary General Meeting set out at the end of the Circular.

Yours very truly,
For and on behalf of
N M Rothschild & Sons (Hong Kong) Limited

Kelvin Chau
Director

The Telecommunications Market

The telecommunications industry in mainland China has experienced rapid growth over the last three years. According to the MII, fixed line subscribers increased from approximately 70.3 million at the end of 1997 to approximately 108.8 million at the end of 1999. Over the same period, cellular subscribers increased from 13.7 million to 43.2 million. The following table sets forth certain information relating to population and the telecommunications industry in mainland China as of 31 December 1997, 1998 and 1999.

	As of 31 December			Compound annual growth rate
	1997	1998	1999	1997-1999
Population (in millions)	1,236	1,248	1,259	0.9%
Fixed line subscribers (in millions)	70.3	87.4	108.8	24.4%
Fixed line penetration	5.7%	7.0%	8.6%	—
Cellular subscribers (in millions)	13.7	25.0	43.2	77.9%
Cellular penetration	1.1%	2.0%	3.4%	—

Sources: 1998 China Statistical Yearbook, 1999 China Statistical Yearbook, 2000 China Statistical Abstract and the MII.

Penetration refers to the number of subscribers per 100 of population and penetration rate shows the total number of subscribers as a percentage of the total population in a service area.

The telephone penetration rate in mainland China is still relatively low compared to other countries. As a result, the Company believes that, given the rapid growth of the economy in mainland China, the telecommunications market has significant potential for continued growth. The table below sets forth comparative industry and economic information for mainland China and certain other countries and regions.

Country/Region	Cellular penetration 1999	Total cellular subscribers 1999	Fixed line penetration 1999	GDP per capita 1999
	(%)	(thousands)	(%)	(US$)
India	0.2	1,584	2.5	474
Pakistan	0.4	476	2.2	454
Mainland China	3.4	43,238	8.6	778
Philippines	3.6	2,724	3.8	996
Thailand	4.2	2,585	8.5	2,090
Brazil	8.7	14,593	14.9	3,395
Argentina	12.1	4,429	20.1	7,751
Turkey	12.5	8,044	28.0	3,053
Malaysia	12.9	2,919	19.5	3,817
Chile	14.8	2,224	20.7	4,593
United States	31.1	84,716	68.4	33,944
United Kingdom	40.5	23,944	62.2	24,784
Singapore	41.7	1,343	58.4	27,559
Japan	46.6	59,000	49.3	34,445
South Korea	51.5	24,135	45.8	8,420
Hong Kong	55.0	3,782	56.4	21,659

Sources: Prodata and The Economist Intelligence Unit; the MII (for mainland China).

The mobile communications sector is one of the fastest growing sectors within the telecommunications industry in mainland China. According to the MII, the number of cellular subscribers in mainland China increased from approximately 13.7 million at the end of 1997 to approximately 43.2 million at the end of 1999, representing a compound annual growth rate of 77.9%, compared to a compound annual growth rate of 24.4% in the number of fixed line subscribers over the same period. Recent data from the Mll and CMCC indicate that the number of cellular subscribers increased to approximately 63.1 million as of 30 June 2000. Currently, China has the third largest number of cellular subscribers in the world after the United States and Japan. Mobile communications services are currently available in most cities in mainland China. Despite the rapid growth in the number of subscribers in recent years, the mobile penetration rate in mainland China is still relatively low compared to other Asian and international markets.

The following table sets forth certain information regarding the number of mobile subscribers of the major mobile communications service providers in mainland China as of 31 December 1997, 1998 and 1999 and as of 30 June 2000:

Cellular subscribers (in millions)	As of 31 December			As of 30 June
	1997	1998	1999	2000
CMCC				
The Group	3.4	6.5	15.6	21.6
Other subsidiaries of CMCC	9.8	17.1	22.4	30.3
Total	13.2	23.6	38.0	51.9
Unicom	0.5	1.4	5.2	11.1
Total	13.7	25.0	43.2	63.1

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Sources: the Mll and CMCC.

Industry Structure

Industry Restructuring

Prior to 1993, all public telecommunications networks and services in mainland China were controlled and operated by the MII through the former Directorate General of Telecommunications, the provincial telecommunications administrations, and their city and county level bureaus. In the first half of 2000, the Chinese government substantially completed a restructuring of the telecommunications industry. One of the principal objectives of the restructuring was to separate the government's regulatory function from its business management functions in respect of state-owned enterprises. As a result, the MII ceased to have an indirect controlling interest in the Company, and no longer exercises control over telecommunications operations, but continues in its capacity as the industry regulator providing industry policy guidance, as well as exercising regulatory authority over all telecommunications services providers in mainland China.

As part of the restructuring, the telecommunications operations previously controlled by the MII have been separated along four business lines: fixed line communications, mobile communications, paging services and satellite communications.

CMCC was established in July 1999 as a state-owned company to hold and operate the mobile communications networks nationwide resulting from the separation. CTC was established in May 2000 as a state-owned company to hold and operate the fixed line telephone and data communications networks nationwide resulting from the separation.

The MII has recently confirmed that it will continue, within its regulatory function, to honour the undertakings it gave to the Company in 1999 in relation to, among other things, extending its full support to the Company's present and future development.

Industry Participants

It is the Chinese government's policy to encourage orderly competition in the telecommunications industry. As a result of the restructuring of the industry, a number of new industry participants have emerged, including the entities which have been reorganized on the basis of the telecommunications operations formerly controlled by the MII.

Fixed Line Communications. Following the industry restructuring in 1999, CTC was established to operate fixed line networks and provide fixed line telephone and data communications services nationwide. Unicom also provides fixed line services.

Mobile Communications. Currently, the Group provides mobile communications services in six provinces in mainland China. CMCC, the Company's ultimate controlling shareholder, provides mobile communications services in the provinces, municipalities and autonomous regions in which the Group does not currently operate. In addition, Unicom also offers mobile communications services in most provinces, municipalities and autonomous regions in China.

Internet Protocol Telephony and Data Communications. Internet Protocol telephony service offers significant pricing advantages over traditional telephony services that utilize public switched telephone networks. Internet Protocol refers to protocol used for the Internet that facilitates communications among multiple networks. In 1999, CTC, China Netcom Corporation, Unicom and Jitong Communications Co. Ltd. began offering Internet Protocol telephony services. In May 2000, the Group and, the parent company of the Company, CMCC also began offering Internet Protocol telephony services to cellular subscribers.

CTC, CMCC (including the Group), Unicom, China Netcom Corporation and Jitong Communications Co. Ltd. are the five principal data communications service providers in mainland China.

Other Communications Services. There are over 1,500 paging service providers in mainland China. Unicom is the largest provider of paging services among them.

CTC is currently conducting trial operations in certain cities of telephone services based on Personal Access System technology. This technology is based on a small-scale and low-speed wireless access application, which is generally used to supplement and extend city fixed line networks.

China Satellite Communications Corporation, which assumed the satellite operations previously controlled by the MII, is the largest provider of satellite communications services in mainland China.

The following table sets forth certain information regarding the principal participants in the telecommunications industry in mainland China:

Participant	Principal business
CMCC(1)(2)	• Mobile communications services • Wireless data communications services • Internet access services • Internet Protocol telephony services
CTC(1)	• Fixed line telephony • Data communications services • Internet access services • Internet Protocol telephony services
Unicom(3)	• Mobile communications services • Data communications services • Paging(1) • Fixed line telephony • Internet access services • Internet Protocol telephony services
China Satellite Communications Corporation(1)	• Satellite communications
Jitong Communications Co. Ltd.	• Data communications services • Internet access services • Internet Protocol telephony services
China Netcom Corporation	• Data communications services • Internet access services • Internet Protocol telephony services

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(1) Reorganized on the basis of the telecommunications operations previously controlled by the MII.

(2) Includes the Group. The Company is approximately 75% indirectly owned by CMCC and approximately 25% owned by public shareholders.

(3) Includes Unicom's listed subsidiary, which is 77.5% indirectly owned by Unicom and 22.5% owned by public shareholders, based on publicly available information.

Industry Trends

The Company believes that the telecommunications industry in mainland China will be driven by several important trends in the future, including:

Continued Strong Growth

The Company believes the telecommunications industry will continue to experience strong growth, as the continued development of mainland China's economy is expected to increase the demand for communications services. With a relatively low cellular penetration rate of 3.4% at the end of 1999, China's mobile communications industry offers strong potential for growth. The Directors anticipate that wireless voice service will become increasingly popular as a result of improving wireless network quality, decreasing costs of wireless services and increasing demand for mobility. At current growth rates, the Directors believe that the application of mobile handsets to Internet-based content and data will further drive future industry growth, and that the wireless penetration rate will surpass fixed line penetration in the future.

Growth in Demand for Wireless Data Services

In addition to basic voice telecommunications, the Directors believe that demand for wireless data services will also be a growth driver in the long-term. The introduction of new wireless technologies, such as general packet-switched radio services and eventually third generation technologies, will facilitate access to Internet-based content and data as well as electronic transactions using mobile handsets and other forms of wireless terminal devices. The application of these new technologies enables cellular users to conduct multi-media communications involving voice, video and data.

An Increasingly Open and Transparent Regulatory Environment and Orderly Competitive Environment

The Directors believe that an open and transparent regulatory environment is pivotal to the healthy development of the telecommunications industry in mainland China. In addition, the Directors believe that the recently completed industry restructuring will promote the continued growth of the industry by enhancing regulatory transparency, encouraging autonomous enterprise management and promoting orderly competition. China's pending entry into the World Trade Organization is expected to open the domestic telecommunications market to external competition, further encouraging progress toward a more open and transparent regulatory environment.

Acquisition Restructuring

In connection with the proposed Acquisition, each of the Target Companies has restructured its business and certain of such companies have renewed or entered into a number of operational agreements, which include:

- agreements with respect to interconnection revenue and costs;
- agreements relating to transmission line leases;
- service agreements relating to collection and marketing services and the repair and maintenance of equipment; and
- lease agreements relating to property leases.

In addition, the acquisition restructuring will result in the occurrence of a number of events, some of which could have a material impact on the financial results of each of the Target Companies. These events include:

- changes in the tax treatment of connection fees and certain surcharge revenue; and
- the revaluation of certain fixed assets.

Operations of the Target Companies

The Target Companies are the leading providers of mobile telecommunications services in their respective provinces, municipalities and autonomous region. The Target Companies offer mobile communications services principally using GSM technology, and their networks reach all cities and counties and most major roads and highways in their respective geographic regions. Each of the Target Companies is also a major provider of Internet Protocol communications services and wireless data services in the geographical region in which it serves.

The following table sets forth certain demographic and industry data for Beijing, Shanghai, Tianjin, Hebei, Liaoning, Shandong and Guangxi for the periods indicated:

	As of or for the year ended 31 December		
	1997	1998	1999
Population (in thousands)(1)			
Beijing	12,400	12,460	12,570
Shanghai	14,570	14,640	14,740
Tianjin	9,530	9,570	9,590
Hebei	65,250	65,690	66,140
Liaoning	41,380	41,570	41,710
Shandong	87,850	88,380	88,830
Guangxi	46,330	46,750	47,130
GDP per capita (RMB)(1)			
Beijing	16,735	18,482	19,803
Shanghai	25,750	28,253	30,805
Tianjin	13,796	14,808	15,932
Hebei	6,079	6,525	6,913
Liaoning	8,525	9,333	9,958
Shandong	7,590	8,120	8,648
Guangxi	4,356	4,076	4,264
Cellular penetration (%)(2)(3)			
Beijing	5.5	9.5	14.9
Shanghai	4.9	8.1	12.8
Tianjin	2.9	5.1	8.7
Hebei	0.7	1.4	2.2
Liaoning	1.6	3.2	6.1
Shandong	0.9	1.7	2.8
Guangxi	0.7	1.1	1.6
Fixed line penetration (%)(4)			
Beijing	20.2	25.1	29.9
Shanghai	26.0	29.5	32.9
Tianjin	14.2	17.3	21.3
Hebei	5.0	6.1	7.4

Liaoning	9.5	11.5	13.9
Shandong	4.7	6.0	7.9
Guangxi	3.0	3.6	4.5

(1) *Source:* 1998 China Statistical Yearbook, 1999 China Statistical Yearbook and 2000 China Statistical Abstract.

(2) Calculated based on the Company's estimate of the total number of mobile subscribers, including subscribers of other operators.

(3) The cellular penetration rate in Beijing, Shanghai, Tianjin, Hebei, Liaoning, Shandong and Guangxi as of 30 June 2000 was 19.7%, 17.4%, 10.2%, 3.7%, 8.9%, 4.1% and 2.6%. Cellular penetration rate as of 30 June 2000 is an estimate based on population data as of 31 December 1999 as published in the 2000 China Statistical Abstract, and further assuming the same annual population growth rate in each province, municipality or autonomous region in 2000 as in 1999.

(4) *Source:* the MII.

Beijing, Shanghai and Tianjin are municipalities directly administered by the Chinese central government. They are among the most economically developed cities in China, and have significantly higher per capita incomes. Beijing Mobile, Shanghai Mobile and Tianjin Mobile began providing mobile telecommunications services in the late 1980s.

Subscribers and Usage

The Target Companies had a total of approximately 15.4 million cellular subscribers as of 20 September 2000. Their weighted average market share was approximately 80% in the seven provinces, municipalities and autonomous region in which they operate as of 30 June 2000.

The following table sets forth selected historical information about the subscriber base (including subscribers for the prepaid services) of the Target Companies for the periods indicated:

Subscriber Base and Related Information

	As of or for the year ended 31 December			**As of or for the six months ended 30 June**
	1997	**1998**	**1999**	**2000**
Subscribers (in thousands)				
Beijing	613	1,007	1,565	1,994
Shanghai	648	1,008	1,506	2,028
Tianjin	249	430	721	824
Hebei	448	865	1,367	2,021
Liaoning	677	1,290	2,122	2,818
Shandong	751	1,364	2,094	2,790
Guangxi	312	507	747	1,169
Total	3,699	6,471	10,121	13,643*
Average churn rate (%)(1)				
Beijing	3.3	8.5	8.9	4.9
Shanghai(2)	7.3	7.9	11.0	2.5
Tianjin(2)	3.0	5.8	12.0	12.5
Hebei	12.7	12.9	11.5	5.3
Liaoning	3.4	2.5	5.8	8.8
Shandong	2.8	3.0	3.7	7.6
Guangxi	3.0	6.6	7.2	3.4
Market share (%)(3)				
Beijing	90.4	85.1	83.8	80.0
Shanghai	90.4	85.1	79.9	78.8
Tianjin	90.9	88.7	86.8	83.7
Hebei	98.3	96.5	93.7	83.3
Liaoning	100.0	97.7	82.8	75.4
Shandong	94.7	90.9	84.1	77.3
Guangxi	99.4	99.0	98.5	95.5
Minutes of usage (in billions)				
Beijing	2.4	4.2	6.0	4.0
Shanghai	2.9	4.1	5.3	3.3
Tianjin	1.1	1.5	2.0	1.4

Hebei	1.7	2.7	4.5	2.8
Liaoning	2.7	4.4	6.1	4.1
Shandong	2.0	4.6	6.6	4.4
Guangxi	1.2	2.0	2.8	1.7
Average minutes of usage per subscriber per month(4)				
Beijing	446	435	398	376
Shanghai	492	416	370	312
Tianjin	469	376	304	299
Hebei	408	343	319	289
Liaoning	425	369	311	284
Shandong	309	361	316	306
Guangxi	424	410	382	300
Average revenue per subscriber per month (RMB)(5)				
Beijing	536	448	369	310
Shanghai	358	270	295	263
Tianjin	326	287	249	207
Hebei	353	311	264	214
Liaoning	407	298	232	175
Shandong	336	268	231	201
Guangxi	341	258	253	212

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* 15.4 million subscribers as of 20 September 2000.

(1) Measures the rate of subscriber disconnections from mobile telephone service, determined by dividing (A) the sum of voluntary and involuntary deactivations (excluding deactivations due to subscribers switching from one of the contract services offered by the Target Companies to another) during the relevant period by (B) the average number of subscribers during the period (calculated as the average at the beginning and end of the year (in the case of 1997 and 1998), and at the beginning of the year and the end of each calendar month (in the case of 1999 and the six months ended 30 June 2000)). On this basis, the calculated churn rate will be affected by the number of voluntary and involuntary deactivations and the significant growth in subscriber base.

The upward trend in churn rate is attributable in part, to tightened credit control policies and the compulsory termination of services where accounts are overdue for six or more months. The Target Companies began offering prepaid services in late 1999 or 2000. Some of the subscribers of the Target Companies have switched from the Target Companies' contract services to their prepaid service, which does not require subscriber registration. Since the exact number of such subscribers cannot be ascertained, the above churn rate accounts for them as churn subscribers, even though they continue to be subscribers of the Target Companies.

(2) In 1999, Tianjin Mobile and Shanghai Mobile deactivated services for subscribers whose accounts had been overdue for more than six months. Those involuntary deactivations resulted in significantly higher churn rates.

(3) Calculated based on total number of cellular subscribers in the relevant geographical region estimated by the Company.

(4) Calculated by (i) dividing the total minutes of usage during the relevant period by the average number of subscribers during the period (calculated in the same manner as note (1) above) and (ii) dividing the result by the number of months in the period.

(5) Calculated by (i) dividing the operating revenue during the relevant period by the average number of subscribers during the period (calculated in the same manner as note (1) above) and (ii) dividing the result by the number of months in the period.

Total minutes of usage for the Target Companies increased significantly from 1997 to 1999. However, the average monthly usage and revenue per subscriber for the Target Companies have declined over the last few years as cellular penetration has increased, and the subscriber base of the Target Companies as a whole has extended to include more low-usage subscribers. As connection fees for mobile communications services in mainland China have declined significantly in recent years, the cost for mobile users to switch among cellular networks has also decreased. This, together with increased competition, has contributed to the increase in the Target Companies' churn rates since 1997.

The Company believes that, on the bases and assumptions set forth in the Prospectus and in the absence of unforeseen circumstances, the Target Companies will have approximately 17.3 million subscribers in total by the end of 2000. This subscriber projection necessarily is based upon a number of assumptions and estimates that, while presented with numerical specificity and considered reasonable by the Company, are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the Company's control. This subscriber projection may vary materially from the actual subscriber number of these companies.

Contract Subscribers

The following table sets forth the total number of contract cellular subscribers of the Target Companies for the periods indicated:

	As of 31 December			As of 30 June
	1997	1998	1999	2000
Contract subscribers (in thousand)				
Beijing	613	1,007	1,565	1,802
Shanghai	648	1,008	1,506	1,723
Tianjin	249	430	721	784
Hebei	448	865	1,367	1,732
Liaoning	677	1,290	2,122	2,493
Shandong	751	1,364	2,094	2,596
Guangxi	312	507	747	1,150
Total	3,699	6,471	10,121	12,280

Prepaid Services

In the second half of 1999, the Target Companies introduced prepaid services that are similar to the prepaid services offered by the Group in terms of scope and nature of service, tariffs and value adding capability and settlement. As of 30 June 2000, the Target Companies had an aggregate of approximately 1.4 million subscribers for their prepaid services, representing approximately 10.0% of the total subscriber base of the Target Companies as of that date. The following table sets forth the total number of prepaid subscribers of the Target Companies as of 30 June 2000:

	As of 30 June 2000							
	Beijing	Shanghai	Tianjin	Hebei	Liaoning	Shandong	Guangxi	Total
Prepaid subscribers (in thousands)	192	305	40	289	325	194	19	1,363
As a percentage of all subscribers (%)	9.6	15.0	4.9	14.3	11.5	7.0	1.6	10.0

Tariffs

The Target Companies have tariff structures for their services that are similar to those of the Group. The Group and the Target Companies are subject to the same regulatory framework with respect to tariffs.

The following table summarizes some of the current basic charges for the Target Companies' full service packages:

	Beijing	Shanghai	Tianjin	Hebei (in RMB)	Liaoning	Shandong	Guangxi
Contract subscribers							
Connection fee(1)	500	500	500	500	500	100	500
Monthly fee(2)	50	50	50	50	50	50	50
Base usage charge(2) (per minute)	0.40	0.40	0.40	0.40	0.40	0.40	0.40
Domestic roaming charge (per minute)	0.60	0.60	0.60	0.60	0.60	0.60	0.6
Prepaid subscribers							
Base usage charge (per minute)	0.60	0.60	0.60	0.60	0.60	0.60	0.60
Domestic roaming charge (per minute)	0.80	0.80	0.80	0.80	0.80	0.80	0.80

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(1) The Target Companies offer different service packages with different connection fee rates. From time to time and in their respective geographical regions, the Target Companies may also offer promotional connection fee rates, which could be substantially lower than the upper limit indicated in the table.

(2) The Target Companies also offer certain specialized packages, in particular TACS network packages that offer local access only service, which have lower monthly fees and base usage charges than those indicated above.

In addition, the Target Companies also charge long distance rates where applicable.

Connection fees charged by the Target Companies have been substantially reduced in the past three years, accompanying a reduction in the guidance prices for connection fees over that period as mobile operations in these geographical regions developed. However, the Directors believe that while connection fee reductions may reduce revenue in the short term, they may help expand the subscriber base of the Target Companies and result in increased total subscriber usage, thereby contributing to revenue growth in the long term. Connection fees have become an increasingly less important source of the Target Companies' revenue. The Directors expect that their importance will continue to decline.

The Target Companies do not charge connection fees and monthly fees for their prepaid services.

In order to develop their WAP services, those companies also plan to charge a preferential usage fee for their WAP services at RMB 0.15 per minute (up to RMB 30 per month for the first 500 minutes in a month). This preferential usage fee rate will be effective from October 21, 2000 to May 20, 2001.

Interconnection

As with the Group's existing networks, the networks of each of the Target Companies interconnect with CTC's public fixed line network. Each of the Target Companies has an interconnection agreement with the relevant subsidiary of CTC that operates the fixed line network in its region. The economic terms of these agreements, including interconnection revenue sharing and settlement, are substantially similar to those that apply to the existing subsidiaries of the Company.

On 5 May 2000, the Company entered into an inter-provincial interconnection agreement with CMCC, which applies to its six existing operating subsidiaries. The Company has entered into a supplemental agreement with CMCC to provide that its interconnection agreement with CMCC will, subject to completion of the Acquisition and Hong Kong regulatory and independent shareholders' approval, be extended to cover the Target Companies. See "Letter from the Chairman — Connected Transactions — Interconnection Arrangement".

Roaming

Each of the Target Companies provides roaming capabilities to its subscribers. Their GSM and TACS networks offer roaming capabilities throughout mainland China. In addition, their GSM networks offer roaming capabilities in 56 countries and regions around the world. The Company has entered into a supplemental agreement with CMCC to provide that its existing roaming arrangements with CMCC for domestic and international roaming will, subject to completion of the Acquisition and Hong Kong regulatory and independent shareholders' approval, be extended to cover the Target Companies. See "Letter from the Chairman — Connected Transactions — Roaming Arrangement".

Value Added Services and New Services

Each of the Target Companies offers a number of optional value added services and services based on new technology which are similar to those offered by the operating subsidiaries of the Company to their subscribers. These services include wireless data, IP telephony and "172" ISP services.

Customer Service, Billing and Credit Control

The after-sales customer support service centers of the Target Companies offer 24-hour service hotlines in their service areas, which provide customers with billing and service information, as well as receive customer reports of network problems.

The Target Companies do not require subscribers to pay a deposit before the initiation of local mobile services. Each of the Target Companies has implemented subscriber registration procedures, such as identity checks for individual customers and background checks for corporate customers, to assist in credit control. Direct debit services are available in each geographic region. Accounts are required to be settled on a monthly basis, and a late payment fee is imposed on each subscriber whose account is not paid by the monthly due date.

Service Distribution and Marketing

Distribution Channels. The Target Companies market their mobile services through an extensive network of authorized third-party dealers and through their own retail outlets. As of 30 June 2000, the Target Companies had 8,495 authorized third-party dealers and owned and operated 970 retail outlets, as set forth in the following table.

	Beijing	Shanghai	Tianjin	Hebei	Liaoning	Shandong	Guangxi
Authorized third-party dealers	363	857	148	1,293	871	4,574	389
Owned and operated retail outlets	5	35	12	233	70	270	345
Total	368	892	160	1,526	941	4,844	734

The authorized dealers market and sell mobile services for the Target Companies at prices determined by the Target Companies. In connection with these sales, the dealers pay to the Target Companies all related connection fees and other miscellaneous fees payable upon initial connection. The Target Companies in turn pay the dealers a fee of RMB 150 to RMB 300 per new contract subscriber acquired, as well as a commission for each prepaid card sold.

Brand Name. The Target Companies market their services under the "CHINA MOBILE" brand name, which is the marketing name used throughout mainland China by CMCC. The Company has entered into a licence agreement with CMCC for the use of the "CHINA MOBILE" logo in the markets where the Group currently operates. The Company has entered into a supplemental agreement with CMCC to extend the arrangement under the licence agreement to the Target Companies subject to completion of the Acquisition and Hong Kong regulatory and independent shareholders' approvals. See "Letter from the Chairman — Connected Transactions — Licensing of Trademark".

Cellular Networks

The following table sets forth certain selected information regarding the GSM and TACS networks for each of the Target Companies as of 30 June 2000:

	Beijing	Shanghai	Tianjin	Hebei	Liaoning	Shandong	Guangxi	Total
Subscribers (in thousands)								
GSM	1,979	1,886	791	1,712	2,713	2,380	813	12,273
TACS	15	142	33	309	105	410	356	1,370
Total	1,994	2,028	824	2,021	2,818	2,790	1,169	13,643
Voice channels (in thousands)								
GSM	79	69	41	96	202	134	47	668
TACS	3	11	3	11	6	21	10	65
Total	82	80	44	107	208	155	57	733
Mobile switching centers								
GSM	15	21	9	40	51	44	11	191
TACS	1	7	2	11	14	15	10	60
Total	16	28	11	51	65	59	21	251
Base station controllers(1)								
GSM	88	84	27	69	111	36	18	433
Base transceiver stations								
GSM	1,255	830	495	1,598	3,012	2,814	1,120	11,124
TACS	67	311	66	492	212	585	487	2,220
Total	1,322	1,141	561	2,090	3,224	3,399	1,607	13,344

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(1) In a TACS system, the base transceiver stations are connected directly to the mobile switching centers. Accordingly, TACS networks do not utilize any base station controllers.

Similar to the existing subsidiaries of the Company, the Target Companies are also migrating their TACS subscribers to their GSM networks.

The TACS networks of the Target Companies use equipment primarily supplied by Ericsson and Motorola, while their GSM networks use equipment primarily supplied by Motorola, Nokia, Siemens, Alcatel and Ericsson.

Capital Expenditures

If the Acquisition is completed, the Company estimates that the Target Companies will require an aggregate of approximately RMB 49.7 billion for capital expenditures from 2000 through the end of 2002 for the development, optimization and expansion of their GSM networks and the development and trial of new technology based services.

The following sets forth the planned total capital expenditure requirements of the Target Companies for the periods indicated. Actual future capital expenditures may differ from the amounts indicated below.

	(RMB in billions)	(US$ in billions)
2000	14.8	1.8
2001	16.7	2.0
2002	18.2	2.2
Total ...	49.7	6.0

Spectrum

The Target Companies have each been approved by the MII to use 24 MHz of spectrum in the 900 MHz frequency band to operate their cellular networks.

Each of the Target Companies has also obtained permission from the MII to use 10 MHz of spectrum in the 1800 MHz frequency band. They have each used this spectrum to introduce Digital Cellular System1800 systems to expand the capacity of their GSM networks by adding cell sites in certain areas with a high density of cellular subscribers.

Transmission Infrastructure

The Target Companies lease intra-provincial and local transmission lines from CTC's subsidiaries that operate the fixed line networks in their respective regions, and pay to them fees based on tariff schedules stipulated by the relevant regulatory authorities after adjusting for the discount that the Target Companies are entitled to.

With respect to inter-provincial transmission lines, the Company has entered into a supplemental agreement with CMCC to extend the Company's agreement with CMCC entered into in May 2000 to the Target Companies subject to completion of the Acquisition and Hong Kong regulatory and independent shareholders' approvals. See "Letter from the Chairman — Connected Transactions — Sharing of Inter-provincial Transmission Line Leasing Fees".

Competition

Unicom operates, directly or through its subsidiaries, in the provinces, municipalities and autonomous region in which the Target Companies operate. The Chinese government has permitted Unicom to lower its mobile service tariffs by up to 10% below the government guidance rates (or up to 20% below the government guidance rates in areas where the Group offers service packages that provide local access only services on analog network, which packages have lower tariff rates compared to the standard tariff rates for services offered on GSM networks by the Group. As of 30 June 2000, Beijing Mobile, Shanghai Mobile, Tianjin Mobile, Hebei Mobile, Liaoning Mobile, Shandong Mobile and Guangxi Mobile had estimated market shares in their regions of 80.0%, 78.8%, 83.7%, 83.3%, 75.4%, 77.3% and 95.5%, respectively. The Target Companies are facing increasing competition from Unicom. Unicom's new subscribers represent a significant portion of the number of total new subscribers in some of these regions. However, given the relatively low cellular penetration rates in these geographical areas, the Directors believe that there is substantial growth potential for mobile services in general in these markets. In addition, the Directors believe that the Target Companies have significant competitive advantages in terms of the quality of their cellular networks, their financial resources, the experience and quality of their management and employees, their widely-recognized brand name and logo, their broad distribution networks and focus on customer services and their extensive range of value added services.

Employees

The following table sets forth information regarding employees of the Target Companies as of 30 June 2000.

	Beijing	Shanghai	Tianjin	Hebei	Liaoning	Shandong	Guangxi
Management	392	278	265	506	549	789	221
Technical and engineering...	437	643	334	700	1,569	1,023	539
Sales and marketing............	398	1,277	417	1,816	1,066	1,898	585
Financial and accounting.....	77	42	56	76	139	275	104
Others..............................	256	140	140	364	117	238	351
Total.............................	1,560	2,380	1,212	3,462	3,440	4,223	1,800

Properties

The Target Companies own certain buildings and real properties, which are used for offices, administrative centers, retail outlets, base stations and other technical facilities, and other ancillary buildings. Chesterton Petty, an independent valuer, has valued the interest of the Target Companies in these properties as of 30 June 2000 at approximately RMB 4,680 million (equivalent to approximately HK$4,407 million). The Target Companies also collectively lease approximately 9,666 offices, administrative centers, retail outlets and technical facilities. In addition, the Target Companies lease from other subsidiaries of CMCC, or otherwise have the right to use, various properties for cell sites and switching equipment.

Legal Proceedings

None of the Target Companies is involved in or threatened with any litigation, arbitration or administrative proceedings relating to claims which, if the Acquisition is completed, could have a material adverse effect on the Group's financial condition and results of operations taken as a whole.

The following is the text of a report, prepared for the purpose of inclusion in this circular, received from the independent reporting accountants, KPMG, Certified Public Accountants, Hong Kong. As described in the section headed "Documents available for inspection" in Appendix IX, a copy of the following accountants' report is available for inspection.

KPMG LOGO
8th Floor
Prince's Building
10 Chater Road
Hong Kong

16 October 2000

The Directors
China Mobile (Hong Kong) Limited
60/F The Center
99 Queen's Road Central
Central
Hong Kong

Dear Sirs,

We set out below our report on the combined financial information relating to Beijing Mobile Communication Company Limited ("Beijing Mobile"), Shanghai Mobile Communication Company Limited ("Shanghai Mobile"), Tianjin Mobile Communication Company Limited ("Tianjin Mobile"), Hebei Mobile Communication Company Limited ("Hebei Mobile"), Liaoning Mobile Communication Company Limited ("Liaoning Mobile"), Shandong Mobile Communication Company Limited ("Shandong Mobile") and Guangxi Mobile Communication Company Limited ("Guangxi Mobile") for each of the three years ended 31 December 1999 and the six months ended 30 June 2000 (the "relevant period") for inclusion in the shareholders' circular of China Mobile (Hong Kong) Limited ("the Company") dated 16 October 2000 (the "circular").

Beijing Mobile, Shanghai Mobile, Tianjin Mobile, Hebei Mobile, Liaoning Mobile, Shandong Mobile and Guangxi Mobile are principally engaged in the provision of cellular telephone and related services in Beijing, Shanghai and Tianjin municipalities, Hebei, Liaoning and Shandong provinces and Guangxi autonomous region of the People's Republic of China ("PRC") respectively and market their services under the "CHINA MOBILE" logo, which is a registered trademark owned by the China Mobile Communications Corporation ("China Mobile"), a state-owned company incorporated in the PRC.

Beijing Mobile, Shanghai Mobile, Tianjin Mobile, Hebei Mobile, Liaoning Mobile, Shandong Mobile and Guangxi Mobile were incorporated in the PRC on 26 July 2000, 4 August 2000, 24 July 2000, 31 July 2000, 7 August 2000, 7 August 2000 and 3 August 2000, respectively. References to the "Target Group" are to these companies, which have been formed to hold the cellular service operations in Beijing, Shanghai and Tianjin municipalities, Hebei, Liaoning and Shandong provinces and Guangxi autonomous region, or in respect of references to any time prior to the incorporation of these companies, the cellular telecommunications businesses in Beijing, Shanghai and Tianjin municipalities, Hebei, Liaoning and Shandong provinces and Guangxi autonomous region ultimately acquired by the Company pursuant to the Acquisition.

The cellular service operations in Beijing, Shanghai and Tianjin municipalities, Hebei, Liaoning and Shandong provinces and Guangxi autonomous region were operated and controlled by China Mobile. China Mobile was established in July 1999, pursuant to the PRC State Council's approval in February 1999 to restructure the telecommunications industry in the PRC, as a state-owned company to hold the mobile communications assets and operate mobile telecommunications networks nationwide. Previously, the Target Group's Total Access Communications Systems ("TACS") and Global System for Mobile Communications ("GSM") cellular networks in Beijing, Shanghai, Tianjin, Hebei, Liaoning, Shandong and Guangxi were owned and operated directly by the Beijing Telecommunications Administrations ("TA"), the Shanghai Posts and Telecommunications Administrations ("PTA"), the Tianjin PTA, the Hebei PTA, the Liaoning PTA, the Shandong PTA and the Guangxi PTA ("the relevant PTAs") respectively, and ultimately under the control of the PRC Ministry of Information Industry ("MII").

Prior to the Acquisition, the equity interests of Beijing Mobile, Shanghai Mobile, Tianjin Mobile, Hebei Mobile, Liaoning Mobile, Shandong Mobile and Guangxi Mobile were transferred to Beijing Mobile (BVI) Limited ("Beijing Mobile BVI"), Shanghai Mobile

(BVI) Limited ("Shanghai Mobile BVI"), Tianjin Mobile (BVI) Limited ("Tianjin Mobile BVI"), Hebei Mobile (BVI) Limited ("Hebei Mobile BVI"), Liaoning Mobile (BVI) Limited ("Liaoning Mobile BVI"), Shandong Mobile (BVI) Limited ("Shandong Mobile BVI") and Guangxi Mobile (BVI) Limited ("Guangxi Mobile BVI"), companies incorporated with limited liability in the British Virgin Islands, respectively.

Pursuant to the Acquisition Agreement, as described more fully in the section headed "The Acquisition" in the Letter from the Chairman contained in the circular, the Company will acquire the entire share capital of Beijing Mobile BVI, Shanghai Mobile BVI, Tianjin Mobile BVI, Hebei Mobile BVI, Liaoning Mobile BVI, Shandong Mobile BVI and Guangxi Mobile BVI. Following the acquisition, Beijing Mobile, Shanghai Mobile, Tianjin Mobile, Hebei Mobile, Liaoning Mobile, Shandong Mobile and Guangxi Mobile will become wholly foreign-owned enterprises.

No financial statements have been prepared for Beijing Mobile, Shanghai Mobile, Tianjin Mobile, Hebei Mobile, Liaoning Mobile, Shandong Mobile and Guangxi Mobile since the date of their incorporation. For the purpose of this report, we have audited the financial statements of the cellular service operations in Beijing, Shanghai and Tianjin municipalities, Hebei, Liaoning and Shandong provinces and Guangxi autonomous region now comprising the Target Group for the relevant period to 30 June 2000 in accordance with Auditing Standards and Guidelines issued by the Hong Kong Society of Accountants. We have not audited any financial statements of the Target Group in respect of any period subsequent to 30 June 2000.

We have prepared this report on the basis set out in Section 1 below in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" issued by the Hong Kong Society of Accountants.

The directors of the Company are responsible for the preparation of the Summaries in Sections 1 to 8 below, including the combined results of the Target Group for the relevant period and of the combined net assets of the Target Group as at 30 June 2000 (the "Summaries") set out in this report, which have been prepared based on the audited financial statements of the cellular service operations in Beijing, Shanghai and Tianjin municipalities, Hebei, Liaoning and Shandong provinces and Guangxi autonomous region now comprising the Target Group on the basis set out in Section 1 below, after making such adjustments as are appropriate. The directors of the Company are responsible for preparing the Summaries which give a true and fair view. In preparing the Summaries which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion on the Summaries.

In our opinion, for the purpose of this report, and on the basis of preparation set out in Section 1 below, no adjustments are considered necessary and the Summaries set out below together with the notes thereto give a true and fair view of the combined results of the Target Group for each of the three years ended 31 December 1999 and the six months ended 30 June 2000 and of the combined net assets of the Target Group as at 30 June 2000.

1 Basis of preparation

The summaries of the combined results of the Target Group for the relevant period have been prepared as if the current structure had been in existence throughout the relevant period. The summary of the combined net assets of the Target Group as at 30 June 2000 has been prepared to present the assets and liabilities of the Target Group as if the current structure had been in existence as at that date. The measurement basis used in the preparation of the combined financial information is historical cost modified by the revaluation of fixed assets, as explained in the accounting policies set out below. All significant intercompany transactions and balances have been eliminated on combination.

2 Principal accounting policies

The Summaries have been prepared in accordance with the accounting policies set out below. These accounting policies conform with all applicable Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Listing Rules of the Stock Exchange of Hong Kong Limited as applicable to Accountants' Reports included in Listing Documents.

(a) Fixed assets and depreciation

(i) Fixed assets are stated at cost/revalued amount less accumulated depreciation. The circumstances and basis under which the revalued amount is arrived at are set out in Section 4(a).

(ii) The cost of fixed assets comprises the purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the fixed asset has been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to the combined results in the period in which they are incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of the fixed asset.

(iii) Gains or losses arising from the retirement or disposal of fixed assets are determined as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised as income or expense in the combined results on the date of retirement or disposal.

(iv) The carrying amount of fixed assets carried at depreciated cost is reviewed periodically in order to assess whether the recoverable amount has declined below the carrying amount. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The amount of the reduction is recognised as an expense in the combined results. In determining the recoverable amount, expected future cash flows generated by the fixed assets are discounted to their present values.

A subsequent increase in the recoverable amount of an asset carried at depreciated cost is written back to the combined results when the circumstances and events that led to the write-down or write-off cease to exist. The amount written back is reduced by the amount that would have been recognised as depreciation had the write-down or write-off not occurred. No amounts were written back for the periods presented.

(v) Depreciation is calculated to write off the cost, or revalued amount where appropriate, of fixed assets on a straight-line basis over their estimated useful lives, to residual values, as follows:

	Depreciable life	Residual value
Land use rights............................	Over the period of grant	—
Buildings....................................	8-35 years	3%
Telecommunication transceivers, switching centres and other network equipment	7 years	3%
Office equipment, furniture and fixtures and others.....................	4-18 years	3%

(b) Leased assets

Where assets are acquired under finance leases, the amounts representing the outright purchase price, which approximate the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost of the assets in equal annual amounts over the shorter of the period of the leases or the estimated useful lives of the assets as set out in Section 2(a) above. Finance charges implicit in the lease payments are charged to the combined results over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

(c) Construction in progress

Construction in progress is stated at cost. Cost comprises direct costs of construction as well as interest expense and exchange differences capitalised during the periods of construction and installation. Capitalisation of these costs ceases and the construction in progress is transferred to fixed assets when substantially all the activities necessary to prepare the assets for their intended use are completed. No depreciation is provided in respect of construction in progress until it is completed and ready for its intended use.

(d) Investment securities

Investments held on a continuing basis for an identified long-term purpose are classified as "investment securities". Investment securities are stated in the combined balance sheet at cost less any provisions for diminution in value.

(e) Inventories

Inventories, which consist primarily of handsets, SIM cards and accessories, are stated at the lower of cost and net realisable value. Cost represents purchase cost of goods calculated using the weighted average cost method. Net realisable value is determined by reference to the sales proceeds of items sold in the ordinary course of business after the balance sheet date or to management's estimates based on prevailing market conditions.

When inventories are sold, the carrying amount of those inventories is recognised as a deduction of other income due to its insignificance. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs. No amounts were written back for the periods presented.

(f) Borrowing costs

Borrowing costs are expensed in the combined results in the period in which they are incurred, except to the extent that such costs are capitalised as being directly attributable to the acquisition or construction of an asset which necessarily takes a substantial period of time to get ready for its intended use.

(g) Revenue recognition

Revenue is recognised when it is probable that the economic benefits will accrue to the Target Group and when the revenue can be measured reliably on the following bases:

(i) usage fees are recognised as revenue when the service is rendered;

(ii) monthly fees are recognised as revenue in the month during which the service is rendered;

(iii) connection fees are recognised as revenue when received;

(iv) revenue from prepaid card sales is recognised when the cellular service is rendered;

(v) interest income is recognised on a time proportion basis on the principal outstanding and at the rate applicable; and

(vi) sales of handsets and SIM cards are recognised on delivery of goods to the buyer. Such revenue, net of cost of goods sold, is included in other income due to its insignificance.

(h) Allowance for doubtful accounts

An allowance for doubtful accounts is provided based upon evaluation of the recoverability of the receivables at the balance sheet date.

(i) Translation of foreign currencies

The functional currency of the Target Group's operations is the Renminbi. Foreign currency transactions are recorded at the applicable rates of exchange prevailing on the transaction dates. Monetary assets and liabilities denominated in currencies other than the functional currency are translated at the exchange rates ruling at the balance sheet date. Exchange differences attributable to the translation of borrowings denominated in currencies other than the functional currency and used for financing the construction of fixed assets, are included in the cost of the related construction in progress. Exchange differences capitalised to construction in progress are immaterial for the periods presented. Other exchange gains and losses are recognised as income or expense in the combined results.

(j) Deferred taxation

Deferred taxation is provided under the liability method in respect of the tax effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which are expected with reasonable probability to crystallise in the foreseeable future. Future deferred tax benefits are not recognised unless their realisation is assured beyond reasonable doubt.

(k) Retirement benefits

Contributions to retirement schemes are charged to the combined results as and when incurred (see Section 3(j)).

(l) Operating leases

Rental payable under operating leases are accounted for in the combined results on a straight-line basis over the periods of the respective leases.

(m) Related parties

For the purposes of these Summaries, parties are considered to be related to the Target Group if the Target Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Target Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

(n) Cash equivalents

Cash equivalents are short-term, highly liquid investments which are readily convertible into known amounts of cash without notice and which were within three months of maturity when acquired.

3 Combined results

The following is a summary of the combined results of the Target Group for each of the three years ended 31 December 1999 and the six months ended 30 June 2000, prepared on the basis set out in Section 1 above:

	Note	Year ended 31 December 1997 RMB million	1998 RMB million	1999 RMB million	Six months ended 30 June 2000 RMB million
Operating revenue (Turnover)	(a)				
Usage fees		6,815	11,278	16,285	10,218
Monthly fees		1,609	3,051	4,564	2,780
Connection fees		3,277	2,793	2,113	548
Other operating revenue		1,276	1,737	3,422	2,160
Total operating revenue		12,977	18,859	26,384	15,706
Operating expenses					
Leased lines		2,191	3,763	3,309	1,532
Interconnection		1,850	2,753	4,867	2,749
Depreciation		1,822	3,073	4,793	2,652
Personnel		276	415	546	326
Other operating expenses	(b)	2,054	3,404	4,349	2,697
Total operating expenses		8,193	13,408	17,864	9,956
Profit from operations		4,784	5,451	8,520	5,750
Write-down and write-off of TACS network equipment	(c)	—	—	(4,508)	—
Other income/(expenses)	(d)	(86)	(115)	9	50
Non-operating income/(expenses)	(e)	77	68	123	52
Finance costs	(f)	(123)	(181)	(638)	(396)
Profit from ordinary activities before taxation	(f)	4,652	5,223	3,506	5,456
Income tax	(g)	(316)	(640)	(824)	(1,002)
Net profit		4,336	4,583	2,682	4,454

(a) Operating revenue (Turnover)

The principal activities of the Target Group are the provision of cellular telephone and related services in Beijing, Shanghai and Tianjin municipalities, Hebei, Liaoning and Shandong provinces and Guangxi autonomous region of the PRC.

Operating revenue primarily represents usage fees, monthly fees and connection fees for the use of the Target Group's cellular telephone networks, net of PRC business tax and government surcharges, and central irrigation construction levy. Business tax and government surcharges are charged at approximately 3.3% to 3.65% of the corresponding revenue, and central irrigation construction levy was charged at approximately 3% of certain connection and surcharge revenue.

Other operating revenue mainly represents telephone number selection fees, charges for value added services, interconnection revenue and roaming in fees. Roaming in fees are received from China Mobile (previously the MII) in respect of calls made by non-subscribers using the Target Group's cellular telecommunications networks. All settlements of inter-provincial roaming and corresponding interconnection revenues are made through China Mobile (previously the MII).

(b) Other operating expenses

Other operating expenses consist of selling and promotion expenses, operating lease charges, provision for doubtful accounts, offices expenses, utilities charges, travelling expenses, entertainment expenses, spectrum charges, insurance expenses, consumables and supplies, debt collection fees and other miscellaneous expenses.

(c) Write-down and write-off of TACS network equipment

	Year ended 31 December			Six months ended 30 June
	1997	**1998**	**1999**	**2000**
	RMB million	**RMB million**	**RMB million**	**RMB million**
Write-down of TACS network equipment (i)	—	—	4,482	—
Write-off of TACS network equipment (ii)	—	—	26	—
	—	—	4,508	—

TACS represents Total Assess Communication System, a European standard for analogue mobile telephone transmissions in the 800 and 900 MHz frequency bands.

(i) In light of the gradual opening of the telecommunications market in the PRC and the rapid change of digital technology, the Target Group reviewed the carrying value of all TACS network and related equipment in 1999. Based on the estimated recoverable value of these assets, a write-down of RMB 4,482 million has been made for the year ended 31 December 1999.

(ii) This represents the write-off of certain TACS network equipment which has been removed from service.

(d) Other income/(expenses)

Other income/(expenses) primarily consists of gross margin from sales of cellular telephone SIM cards and handsets.

	Year ended 31 December			Six months ended 30 June
	1997	**1998**	**1999**	**2000**
	RMB million	**RMB million**	**RMB million**	**RMB million**
Sales of SIM cards and handsets	1,896	1,313	577	323
Cost of SIM cards and handsets	(1,982)	(1,428)	(568)	(273)
	(86)	(115)	9	50

(e) Non-operating income/(expenses)

Non-operating income/(expenses) consists of:

	Year ended 31 December			Six months ended 30 June
	1997	**1998**	**1999**	**2000**
	RMB million	**RMB million**	**RMB million**	**RMB million**
Interest income	11	9	36	39
Exchange loss	(1)	(1)	(1)	(1)
Loss on sale of fixed				

assets	(1)	(8)	(13)	(51)
Penalty income on overdue accounts	79	79	70	56
Others	(11)	(11)	31	9
	77	68	123	52

(f) Profit from ordinary activities before taxation

Profit from ordinary activities before taxation is arrived at after charging/(crediting):

(i) Finance costs

	Year ended 31 December			Six months ended 30 June
	1997	**1998**	**1999**	**2000**
	RMB million	**RMB million**	**RMB million**	**RMB million**
Interest on bank advances and other borrowings repayable within five years	152	228	693	384
Interest on bank advances and other borrowings repayable after five years	28	24	25	9
Interest on other loans	12	46	33	9
Finance charges on obligations under finance leases	73	140	262	108
Total borrowings costs	265	438	1,013	510
Less: Amount capitalised as construction in progress (Note)	(142)	(257)	(375)	(114)
	123	181	638	396

Note: Borrowing costs have been capitalised at the following rates per annum:

Year ended 31 December			Six months ended 30 June
1997	**1998**	**1999**	**2000**
6.30% to 11.70%	5.94% to 12.00%	5.94% to 11.70%	5.88% to 7.29%

(ii) Other items

	Year ended 31 December			Six months ended 30 June
	1997	**1998**	**1999**	**2000**
	RMB million	**RMB million**	**RMB million**	**RMB million**
Depreciation				
- owned assets	1,716	2,615	3,777	2,031
- assets held under finance leases	106	458	1,016	621
Operating lease charges in respect of				
- Properties	136	207	322	220
- Others	76	73	73	30
Contribution to retirement schemes	36	45	63	36
Provision for doubtful accounts	469	1,021	971	434
Provision for obsolete inventories	42	21	27	18
Auditors' remuneration	—	—	—	—
Amortisation of deferred revenue	—	—	—	(286)

(g) Income tax

Income tax in the combined results represents:

Six months

	Year ended 31 December			ended 30 June
	1997	1998	1999	2000
	RMB million	**RMB million**	**RMB million**	**RMB million**
Provision for PRC income tax	329	645	1,252	1,001
Deferred tax assets (Section 4(c))......................................	(13)	(5)	(428)	1
	316	640	824	1,002

The Target Group is subject to the statutory income tax rate of 33% for each of the years ended 31 December 1997, 1998 and 1999 and for the six months ended 30 June 2000.

The provision for income tax differs from the amount computed by applying the PRC statutory income tax rate of 33% to profit from ordinary activities before taxation for the following reasons:

	Year ended 31 December			Six months ended 30 June
	1997	**1998**	**1999**	**2000**
	RMB million	**RMB million**	**RMB million**	**RMB million**
Expected PRC taxation at statutory tax rates................	1,535	1,724	1,158	1,801
Non-taxable items				
- Connection fees................	(1,081)	(922)	(697)	(181)
- Surcharge	(89)	(169)	(262)	(129)
- Others	—	—	(6)	(1)
Non-deductible expenses........	3	8	16	3
Non-recognition of deferred taxes				
- Non-recognition of net operating losses	36	81	7	27
- Generation of timing difference........................	(84)	(73)	835	(506)
- Reversal of timing difference........................	(4)	(9)	(223)	(45)
Others	—	—	(4)	33
Income tax...........................	316	640	824	1,002

Connection fee revenue and certain surcharge revenue of Beijing Mobile, Shanghai Mobile, Tianjin Mobile, Hebei Mobile, Liaoning Mobile, Shandong Mobile and Guangxi Mobile will be taxable at the income tax rate of 33% when they are registered as wholly foreign-owned enterprises.

(h) Directors' remuneration

(i) The number of directors whose remuneration from the Target Group falls within the following bands is set out below:

	Year ended 31 December			Six months ended 30 June
	1997	**1998**	**1999**	**2000**
RMB Nil-RMB 1,000,000...	—	—	—	—

		Year ended 31 December			Six months ended 30 June
		1997	**1998**	**1999**	**2000**
		RMB million	**RMB million**	**RMB million**	**RMB million**
(ii)	Fees	—	—	—	—
(iii)	Salaries, allowance and benefits in kind	—	—	—	—
(iv)	Retirement benefits	—	—	—	—
(v)	Bonuses	—	—	—	—

There was no arrangement under which a director waived or agreed to waive any remuneration during each of the relevant periods.

(i) Senior management remuneration

(i) The remuneration of employees who were not directors during the relevant period and who were amongst the five highest paid employees of the Target Group, were within the following bands:

	Year ended 31 December			Six months ended 30 June
	1997	1998	1999	2000
RMB Nil-RMB1,000,000	5	5	5	5

		Year ended 31 December			Six months ended 30 June
		1997	1998	1999	2000
		RMB million	RMB million	RMB million	RMB million
(ii)	Salaries, allowance and benefits in kind	—	—	—	—
(iii)	Retirement benefits	—	—	—	—
(iv)	Bonuses	—	1	1	—

(j) Employee and retirement benefits

The employees of the Target Group participate in defined benefit retirement plans managed by the local government authorities whereby the Target Group is required to contribute to the schemes at a fixed rate of the employees' salary costs. The Target Group has no obligation for the payment of retirement and other post-retirement benefits of staff other than the contributions described above.

Pursuant to PRC regulation, the Target Group is required to provide staff quarters to eligible employees and their immediate families. The Target Group has established separate employee housing reform schemes in order to comply with regulations at the provincial level. Under such schemes, the Target Group is required to either purchase or build housing which is to be sold or rented to eligible employees. Prior to the Acquisition, housing was provided directly by the relevant PTAs except Liaoning Mobile. The cost of the subsidy incurred by Liaoning Mobile for each of the three years ended 31 December 1999 and the six months ended 30 June 2000 were RMB NIL, RMB 40 million, RMB 21 million and RMB 14 million, respectively. The previous costs incurred by the relevant PTAs for each of the three years ended 31 December 1999 and the six months ended 30 June 2000 which have not been charged to the Target Group were RMB 41 million, RMB 301 million, RMB 170 million and RMB 84 million respectively. Subsequent to 30 June 2000, the housing program previously in place has been terminated.

(k) Related party transactions

The following summarises the related party transactions entered into by the Target Group during the relevant period.

The operations of the Target Group are subject to extensive regulation by the PRC government. The MII, pursuant to the authority delegated to it by the PRC State Council, directly or indirectly regulates licensing, competition, interconnection, technology and equipment standards, and other aspects of the PRC telecommunications industry. The MII, together with other PRC government entities, also regulates tariff policy, foreign investment and spectrum allocation and spectrum usage fees. Specifically, the Target Group's tariffs are subject to regulation by various Government authorities, including the State Development Planning Commission ("SDPC"), the MII, the relevant PTAs and the relevant provincial price regulatory authorities. Connection fees charged by the Target Group are based on a guidance price range set jointly by the MII and SDPC, with each actual fee determined by the Target Group in consultation with the relevant provincial price regulatory authorities. In general, the Target Group's basic usage charges and domestic roaming usage charges are set by the MII and SDPC. International roaming charges are determined pursuant to agreements formed between the Directorate General of Telecommunications ("the DGT") or China Mobile and other cellular operators. In May 2000, the Chinese government substantially completed the restructuring of the telecommunications industry in the PRC. As a result, the MII ceased to have controlling interests in China Mobile and China Telecommunications Corporation ("CTC"), and no longer exercises control over the telecommunications operations in the PRC, but continues in its capacity as the industry regulator. CTC is a state-owned company established to hold and operate the fixed line telephone and data communications services in the PRC. Accordingly, the MII, the PTAs, CTC and entities under the control of the CTC since its formation are considered to be no longer related parties of the Target Group and the transactions entered into with these entities are therefore not related party transactions.

The principal recurring and non-recurring related party transactions, which were entered into by the Target Group with the MII, the PTAs, CTC or entities under the control of the CTC prior to May 2000 and with China Mobile or its subsidiaries, are as follows:

	Year ended 31 December			Six months ended 30 June
Note	1997	1998	1999	2000
	RMB million	RMB million	RMB million	RMB million

Recurring transactions					
Interconnection revenue	(i)	318	488	1,003	649
Interconnection charges	(ii)	1,247	1,781	3,340	1,521
Leased line charges	(iii)	2,191	3,763	3,309	1,194
Roaming revenue	(iv)	703	963	1,625	906
Roaming expenses......................	(v)	603	972	1,527	874
Spectrum fees...........................	(vi)	8	10	14	8
Operating lease charges	(vii)	65	95	155	76
Sales commission.......................	(viii)	52	2	14	6
Debt collection service fees.........	(viii)	4	6	11	7
Billing service fees.....................	(viii)	5	9	14	4
Equipment maintenance service fees...	(ix)	—	—	2	3
Rental charges of synchronized clock ports..............................	(x)	—	—	2	2
Interest paid/payable..................	(xi)	—	3	5	—

Notes:

(i) Interconnection revenue represents the amounts received or receivable from the relevant PTAs or China Mobile in respect of long distance calls made by non-subscribers and from the relevant PTAs in respect of calls which interconnect with the fixed line networks in Beijing, Shanghai, Tianjin, Hebei, Liaoning, Shandong and Guangxi. Prior to 1 April 1999, interconnection charges receivable from the relevant PTAs were not reflected as interconnection revenue by the Target Group except for Beijing Mobile and Liaoning Mobile. Pursuant to the interconnection agreements, with effect from 1 April 1999, the Target Group records the amounts receivable from the relevant PTAs for inbound calls which originate from the fixed line networks or other cellular telephone operators and terminate on the Target Group's networks as interconnection revenue.

(ii) Interconnection charges represent the amounts paid or payable to the relevant PTAs or China Mobile in respect of long distance calls made by the Target Group's subscribers roaming outside their respective registered provinces or autonomous region and to the relevant PTAs in respect of calls which interconnect with the fixed line networks or other cellular telephone operators in Beijing, Shanghai, Tianjin, Hebel, Liaoning, Shandong and Guangxi. Prior to 1 April 1999, interconnection charges payable to the relevant PTAs were not reflected as interconnection charges of the Target Group except for Beijing Mobile and Liaoning Mobile. Pursuant to the interconnection agreements, with effect from 1 April 1999, the Target Group records the amounts payable by the Target Group for outbound calls from the subscribers which terminate on the fixed line network or other cellular telephone operators as interconnection charges.

(iii) Leased line charges represent expenses paid or payable to the relevant PTAs or China Mobile for the use of leased lines between the base transceiver stations, base station controllers, base stations, fixed line network connectors, long distance network connectors and main switches.

(iv) A cellular telephone user using roaming services is charged at the respective roaming usage rate for roaming in calls, in addition to applicable long distance charges. Roaming revenue represents domestic and international roaming in usage charges from non-subscribers received or receivable from the relevant domestic and international cellular telephone operators through China Mobile (previously the MII). With effect from 1 April 1999, all settlements of inter-provincial roaming and corresponding interconnection revenues are made through China Mobile (previously the MII).

(v) A cellular telephone user using roaming services is charged at the respective roaming usage rate for roaming out calls, in addition to applicable long distance charges. Roaming expenses represent the amount of domestic and international roaming out charges received or receivable from subscribers which is to be remitted to the relevant domestic and international cellular telephone operators for their share of the roaming revenue through China Mobile. With effect from 1 April 1999, all settlements of inter-provincial roaming and corresponding interconnection expenses are made through China Mobile (previously the MII).

(vi) Spectrum fees represent the spectrum usage fees paid or payable to the MII through China Mobile for the usage of the frequency bands allocated to the Target Group.

(vii) Operating lease charges represent the rental paid or payable to the relevant PTAs for operating leases in respect of land and buildings and others.

(viii) Sales commission represents the amounts paid or payable to the relevant PTAs for their marketing of the cellular services in the relevant provinces/autonomous region/ municipalities.

Debt collection service fees represent the amounts paid or payable to the relevant PTAs for their provision of debt collection services to the Target Group.

Billing service fees represent the amounts paid or payable to the relevant PTAs for their provision of the billing services to the Target Group.

(ix) Equipment maintenance service fees represent the amount paid or payable to the relevant PTAs for their provision of the maintenance services to the Target Group.

(x) Rental charges of synchronised clock ports represent expenses paid or payable to the relevant PTAs for leasing of synchronised clock ports by the Target Group.

(xi) Interest paid/payable represents the interest incurred on loans borrowed from relevant PTAs.

The directors of Beijing Mobile, Shanghai Mobile, Tianjin Mobile, Hebei Mobile, Liaoning Mobile, Shandong Mobile and Guangxi Mobile are of the opinion that the above transactions with related parties were conducted on normal commercial terms and have confirmed that the above transactions will continue in the future after the Acquisition.

	Year ended 31 December			Six months ended 30 June
	1997	1998	1999	2000
	RMB million	RMB million	RMB million	RMB million
Non-recurring transactions				
Capital contribution(i)	2,246	218	604	278
Distributions(ii)	457	1,292	849	1,297
Purchase of mobile phones and equipment	183	304	—	—

(i) Capital contributions represent capital contributions in the form of cash received from the relevant PTAs or China Mobile.

(ii) Distributions represent cash payments by the Target Group to the relevant PTAs or China Mobile.

(l) Reserves

Movements in reserves of the Target Group during the relevant period were as follows:

	Year ended 31 December			Six months ended 30 June
	1997	1998	1999	2000
	RMB million	RMB million	RMB million	RMB million
(i) Revaluation reserves				
Balance brought forward	—	—	—	—
Revaluation surplus	—	—	—	4,823
Balance carried forward	—	—	—	4,823
(ii) Capital reserve				
Balance brought forward	—	—	—	—
Capital reserve arising on acquisition of a subsidiary	—	—	—	29
Balance carried forward	—	—	—	29
(iii) Retained profits				
Balance brought forward	1,273	5,152	8,443	10,276
Transfer from combined results	4,336	4,583	2,682	4,454
Distribution to owner	(457)	(1,292)	(849)	(1,297)
Balance carried forward	5,152	8,443	10,276	13,433

(m) Dividends

No dividends have been declared or paid by Beijing Mobile, Shanghai Mobile, Tianjin Mobile, Hebei Mobile, Liaoning Mobile, Shandong Mobile and Guangxi Mobile, since their incorporation.

4 Net assets

The following is a summary of the combined net assets of the Target Group as at 30 June 2000, prepared on the basis set out in Section 1 above.

	Note	RMB million
Non-current assets		
Fixed assets	(a)	37,252
Construction in progress		4,856
Investment securities	(b)	35
Deferred tax assets	(c)	451
Current assets		
Inventories		143
Amounts due from CTC	(d)	783
Accounts receivable		2,823
Other receivables		354
Prepaid expenses and other current assets		519
Deposits with banks		75
Cash and cash equivalents		6,467
		11,164
Current liabilities		
Bank and other loans	(e)	3,727
Current instalments of obligations under finance leases	(f)	1,613
Amounts due to ultimate holding company	(g)	64
Amounts due to CTC	(d)	2,700
Accounts payable		2,788
Accrued expenses and other payables		2,508
		13,400
Net current liabilities		(2,236)
Total assets less current liabilities		40,358
Non-current liabilities		
Bank and other loans	(e)	(8,850)
Obligations under finance leases, excluding current instalments	(f)	(1,937)
Deferred revenue	(h)	(254)
Net assets		29,317

Notes:

(a) Fixed assets

	At valuation RMB million
Land use rights and buildings	3,515
Telecommunication transceivers, switching centres and other network equipment	32,951
Office equipment, furniture and fixtures and others	786
	37,252

The analysis of net book value of land use rights and buildings is as follows:

	RMB million
Long leases	578
Medium-term leases	2,937
	3,515

All of the Target Group's buildings are located outside Hong Kong.

In connection with the Acquisition and pursuant to an approval document dated 28 August 2000 issued by the Ministry of Finance, the fixed assets of the Target Group as at 30 June 2000 were valued by China Assets Appraisal Corporation Ltd. ("CAAC") on a depreciated replacement cost basis. The value of fixed assets of the Target Group has been determined at RMB 37,252 million. The surplus on revaluation of approximately RMB 4,823 million has been incorporated in the combined net assets of the Target Group as at 30 June 2000.

The Target Group's land and buildings were also valued separately by Chesterton Petty Limited as at 30 June 2000, independent qualified valuers in Hong Kong, at approximately the same amount as the CAAC valuation.

Other than revaluation carried out in compliance with relevant PRC rules and regulations, the Target Group has no plan to revalue its fixed assets on a regular basis.

The effect of the above revaluation is to increase annual depreciation charges by approximately RMB 814 million for future periods commencing on 1 July 2000. Had the fixed assets been stated at cost less accumulated depreciation, the net book value of fixed assets of the Target Group as at 30 June 2000 would have been RMB 32,429 million, made up as follows:

	Net book value RMB million
Land use rights and buildings	2,197
Telecommunication transceivers, switching centers and other network equipment	29,468
Office equipment, furniture and fixtures and others	764
	32,429

The net book value of fixed assets includes an amount of RMB 7,507 million in respect of assets held under finance leases.

(b) Investment securities

	30 June 2000 RMB million
Unlisted equity securities in the PRC, at cost	35

(c) Deferred tax assets

Movements on deferred tax assets comprise:

	RMB million
Balance at 1 January 2000	452
Transferred to combined results (Section 3(g))	(1)
Balance at 30 June 2000	451

Deferred tax assets of the Target Group provided for are as follows:

	30 June 2000 RMB million
Provision for obsolete inventories	21
Write-down and write-off of TACS network equipment	430
	451

Deferred tax assets not provided for are as follows:

	30 June 2000 RMB million
Provision for doubtful accounts	777

As described in Section 4(a), in connection with the Acquisition, the fixed assets of Beijing Mobile, Shanghai Mobile, Tianjin Mobile, Hebei Mobile, Liaoning Mobile, Shandong Mobile and Guangxi Mobile have been revalued at 30 June 2000. As a result of such valuation, the fixed assets basis differences that gave rise to the potential deferred tax liabilities were eliminated (RMB 1,809 million in total as at 30 June 2000). Additionally, the tax losses carried forward were eliminated (RMB 72 million as at 30 June 2000).

(d) Amounts due from/to CTC

Amounts due from/to CTC are unsecured, non-interest bearing, repayable on demand and arose in the ordinary course of business. (see Section 3(k)).

(e) Bank and other loans

(1) Short-term

	30 June 2000 RMB million
Bank loans	1,938
Current portion of long-term bank and other loans	1,789
	3,727

As at 30 June 2000, certain short term loans were guaranteed by the following parties:

	RMB million
Tianjin PTA	15
Hebei PTA	93
Liaoning PTA	400
Shandong PTA	13
	521

The Target Group's borrowings under short-term loans are used primarily to finance construction projects and generally consist of unsecured loans and are repayable in full on respective due dates with interest rates ranging from 5.56% to 9.00% at 30 June 2000. The Target Group's weighted average interest rate on short-term loans was 6.05% at 30 June 2000.

(2) Long-term

Details of interest rates and maturity dates of long-term bank and other loans as at 30 June 2000 are as follows:

	Interest rate and final maturity	RMB million
Renminbi denominated bank loans:		
For construction of Telecommunications Network	Fixed interest rates ranging from 5.88% to 11.7% per annum with maturities through 2004	6,978
For construction of Telecommunications Network	Floating interest rates of 5.94% per annum as at 30 June 2000 with maturities through 2003	2,515
US dollar denominated bank loans:		
For construction of telecommunications network	Fixed interest rates ranging from 5.25% to 9.90% per annum with maturities through 2005	372
Renminbi denominated loans from related parties:		
For construction of telecommunications network	Fixed interest rates ranging from 7.11% to 9.36% per annum with maturities through 2000	6
US dollar denominated other loans:		
For construction of telecommunications network	Majority at fixed interest rate of 6.36% per annum as at 30 June 2000 with maturities through 2000	43
For construction of telecommunications network	Floating interest rate of LIBOR plus 1.5% per annum as at 30 June 2000 with maturities through 2002	152
Renminbi denominated bank loans:		
For general purposes	Fixed interest rates ranging from 5.94% to 8.53% per annum with maturities through 2001	573
Total long-term loans		10,639
Less: Current portion		(1,789)
		8,850

(i) At 30 June 2000, LIBOR was approximately 6.65%.

(ii) As at 30 June 2000, certain long-term loans were guaranteed by the following parties:

	RMB million
Beijing TA	250

Hebei PTA........	1,102
Liaoning PTA ...	3,186
Shandong PTA..	320
	4,858

The Target Group's long-term bank and other loans were repayable as follows:

	RMB million
Balance due:	
On demand or within one year	1,789
In the second year	2,617
After two years but within five years.....	6,202
After five years..................................	31
	10,639

(f) Obligations under finance leases

As at 30 June 2000, the Target Group had obligations under finance leases repayable as follows:

	RMB million
Within one year...	1,752
In the second year..	1,401
After two years but within five years..............................	613
	3,766
Less: Finance charges relating to future periods...............	(216)
	3,550
Less: Current instalments of obligations under finance leases...	(1,613)
	1,937

As at 30 June 2000, certain finance leases are guaranteed by the following parties:

	RMB million
Hebei PTA.......	59
Liaoning PTA ..	308
	367

(g) Amounts due to ultimate holding company

Amounts due to ultimate holding company are unsecured, non-interest bearing, repayable on demand and arose in the ordinary course of business. (See Section 3(k)).

(h) Deferred revenue

Deferred revenue includes the prepaid services fee received from subscribers which is recognised as income when the cellular telephone services are rendered upon actual usage by subscribers.

	30 June 2000 RMB million
Additions during the period...............	540
Recognised in the combined results....	(286)
Balance as at 30 June 2000	254

(i) Distributable reserve

As at 30 June 2000, Beijing Mobile, Shanghai Mobile, Tianjin Mobile, Hebei Mobile, Liaoning Mobile, Shandong Mobile and Guangxi Mobile had not been incorporated and hence there was no reserve available for distribution.

(j) Operating lease commitments

As at 30 June 2000, the Target Group had commitments under operating leases to make payments in the following year as follows:

Land and buildings	Leased lines	Others	Total

	RMB million	RMB million	RMB million	RMB million
Leased expiring in:				
July to December 2000....	20	309	5	334
2001.............................	12	1,688	9	1,709
2002.............................	22	—	1	23
2003.............................	4	—	—	4
2004.............................	6	—	—	6
2005.............................	15	—	1	16
Thereafter	24	—	26	50
	103	1,997	42	2,142

(k) Capital commitments

As at 30 June 2000, the Target Group had capital commitments as follows:

	Land and buildings	Telecommunications equipment	Total
	RMB million	RMB million	RMB million
Authorised and contracted for.........	742	3,712	4,454
Authorised but not contracted for	560	2,718	3,278
	1,302	6,430	7,732

(l) Contingent liabilities

As at 30 June 2000, guarantees given to banks in respect of banking facilities granted to related parties and third parties were RMB 13 million and RMB 378 million respectively.

5 Ultimate holding company

The directors consider the ultimate holding company of Beijing Mobile, Shanghai Mobile, Tianjin Mobile, Hebei Mobile, Liaoning Mobile, Shandong Mobile and Guangxi Mobile to be China Mobile Communications Corporation, incorporated in the PRC.

6 Subsequent events

No material events occurred in respect of the Target Group subsequent to 30 June 2000.

7 Directors' remuneration

Save as disclosed herein, no remuneration has been paid or is payable in respect of the relevant period by the Target Group, to the directors of the Target Group.

Under the arrangement presently in force, the estimated aggregate amount of emoluments of the Target Group's directors payable for the year ending 31 December 2000 is approximately RMB 2 million.

8 Subsequent financial statement

No audited financial statements have been prepared by the Target Group in respect of any period subsequent to 30 June 2000.

Yours faithfully
KPMG
Certified Public Accountants

The information set out in this Appendix does not form part of the accountants' report ("Accountants' Report") prepared by KPMG, Certified Public Accountants, Hong Kong, the independent reporting accountants of the Target Group, as set out in Appendix III, and is included for information purposes only.

A) Historical Financial Information of the Target Group

Set out below is a summary of additional financial information extracted from the audited combined financial statements of the Target Group as disclosed in the Company's preliminary prospectus for the Share Offering and the Convertible Note Offering. These combined financial statements were prepared by using the same basis of preparation as set out in Section 1 of the Accountants' Report. The following financial information should be read in conjunction with the Accountants' Report as set out in Appendix III.

Combined Statements of Recognised Gains and Losses

	Year ended 31 December			Six months ended 30 June
	1997	1998	1999	2000
	RMB million	RMB million	RMB million	RMB million
Net profit for the year/period......................	4,336	4,583	2,682	4,454
Surplus on revaluation of fixed assets......................	—	—	—	4,823
Capital reserve arising on acquisition of a subsidiary........................	—	—	—	29
	4,336	4,583	2,682	9,306

Combined Balance Sheets

	31 December		30 June
	1998	1999	2000
	RMB million	RMB million	RMB million
Non-current assets			
Fixed assets	24,069	29,999	37,252
Construction in progress	7,570	5,060	4,856
Investment securities	51	88	35
Deferred tax assets	24	452	451
Current assets			
Inventories	305	152	143
Amounts due from ultimate holding company	7	450	—
Amounts due from related parties	315	1,302	—
Amounts due from CTC	—	—	783
Accounts receivable	2,267	2,685	2,823
Other receivables	338	406	354
Prepaid expenses and other current assets	288	451	519
Deposits with banks	—	25	75
Cash and cash equivalents	557	4,641	6,467
	4,077	10,112	11,164
Current liabilities			
Bank and other loans	3,427	4,828	3,727
Current instalments of obligations under finance leases	1,565	1,685	1,613
Amounts due to ultimate holding company	—	—	64
Amounts due to related parties	513	1,947	—
Amounts due to CTC	—	—	2,700
Accounts payable	2,785	3,272	2,788
Accrued expenses and other payables	998	1,950	2,508
	9,288	13,682	13,400
Net current liabilities	(5,211)	(3,570)	(2,236)
Total assets less current liabilities	26,503	32,029	40,358
Non-current liabilities			
Bank and other loans	(4,354)	(8,857)	(8,850)
Obligations under finance leases, excluding current instalments	(3,556)	(2,142)	(1,937)
Deferred revenue	—	—	(254)
NET ASSETS	18,593	21,030	29,317
OWNER'S EQUITY	18,593	21,030	29,317

Combined Statements of Cash Flows

	Note	Year ended 31 December 1997 RMB million	1998 RMB million	1999 RMB million	Six months ended 30 June 2000 RMB million
Net cash inflows from operating activities	(a)	5,813	7,810	13,428	10,823
Returns on investments and servicing of finance					
Interest received		11	9	36	39
Interest paid (including interest element of finance leases)		(230)	(444)	(956)	(524)
Distributions to owner		(457)	(1,292)	(849)	(1,297)
Net cash outflow from returns on investments and servicing of finance		(676)	(1,727)	(1,769)	(1,782)
Taxation					
PRC income tax paid		(329)	(645)	(871)	(799)
Tax paid		(329)	(645)	(871)	(799)
Investing activities					
Capital expenditures		(6,346)	(9,868)	(11,385)	(4,580)
Purchase of investment securities		(7)	—	—	—
Proceeds from disposal of investment securities		—	1	—	—
Proceeds from sale of fixed assets		1	3	9	12
Net inflow of cash and cash equivalents in respect of the acquisition of a subsidiary	(d)	—	—	—	4
Increase in deposits with banks		—	—	(25)	(60)
Maturity of deposits with banks		—	—	—	10
Net cash outflow from investing activities		(6,352)	(9,864)	(11,401)	(4,614)
Net cash (outflow)/inflow before financing activities		(1,544)	(4,426)	(613)	3,628
Financing activities					
Repayment of principal under finance leases	(b)	(293)	(759)	(1,811)	(942)
Proceeds from bank and other loans	(b)	392	7,212	10,482	1,911
Repayments of bank and other loans	(b)	(985)	(2,082)	(4,578)	(3,049)
Proceeds from capital contribution		2,246	218	604	278
Net cash inflow/(outflow) from financing activities		1,360	4,589	4,697	(1,802)
(Decrease)/increase in cash and cash equivalents		(184)	163	4,084	1,826
Cash and cash equivalents at beginning of year/period		578	394	557	4,641
Cash and cash equivalents at end of year/period		394	557	4,641	6,467
Analysis of the balances of cash and cash equivalents					
Deposits with banks with maturity period within three months when placed		—	—	4	—
Cash and bank balances		394	557	4,637	6,467
		394	557	4,641	6,467

Notes to Combined Statements of Cash Flows

(a) The reconciliation of profit from ordinary activities before taxation to net cash inflows from operating activities is as follows:

	Year ended 31 December			Six months ended 30 June
	1997	1998	1999	2000
	RMB million	RMB million	RMB million	RMB million
Profit from ordinary activities before taxation	4,652	5,223	3,506	5,456
Depreciation of fixed assets	1,822	3,073	4,793	2,652
Write-down and write-off of TACS network equipment	—	—	4,508	—
Provision for doubtful accounts	469	1,021	971	434
Loss on sale of fixed assets	1	8	13	51
Interest income	(11)	(9)	(36)	(39)
Interest expense	123	181	638	396
Unrealized exchange loss, net	—	—	—	15
Increase in accounts receivable	(1,096)	(1,707)	(1,389)	(572)
Decrease/(increase) in other receivables	156	(178)	(68)	193
(Increase)/decrease in inventories	(21)	44	153	9
Increase in prepaid expenses and other current assets	(61)	(186)	(163)	(68)
Decrease/(increase) in amounts due from ultimate holding company	10	(16)	(824)	312
(Increase)/decrease in amounts due from related parties	(130)	(13)	(987)	440
Increase/(decrease) in accounts payable	84	41	21	(35)
Increase in amounts due to related parties	2	78	1,398	782
(Decrease)/increase in accrued expenses and other payables	(187)	250	894	543
Increase in deferred revenue	—	—	—	254
Net cash inflows from operating activities	5,813	7,810	13,428	10,823

(b) Analysis of changes in financing during the years:

	Bank and other loans	Obligations under finance leases
	RMB million	RMB million
Balance at 1 January 1997	2,453	227
Proceeds from bank and other loans	392	—
Inception of finance lease contracts (Note (e))	—	2,128
Repayments of bank and other loans	(985)	—
Repayments of principal under finance leases	—	(293)
Payables for additions of construction in progress	487	—
Balance at 31 December 1997	2,347	2,062
Balance at 1 January 1998	2,347	2,062
Proceeds from bank and other loans	7,212	—
Inception of finance lease contracts (Note (e))	—	3,818
Repayments of bank and other loans	(2,082)	—
Repayments of principal under finance leases	—	(759)
Payables for additions of construction in progress	304	—
Balance at 31 December 1998	7,781	5,121
Balance at 1 January 1999	7,781	5,121
Proceeds from bank and other loans	10,482	—
Inception of finance lease contracts (Note (e))	—	517
Repayments of bank and other loans	(4,578)	—
Repayments of principal under finance leases	—	(1,811)
Balance at 31 December 1999	13,685	3,827

Analysis of changes in financing during the period:

	Bank and	Obligations under

	other loans	finance leases
	RMB million	RMB million
Balance at 1 January 2000	13,685	3,827
Acquired on acquisition of subsidiary	15	—
Proceeds from bank and other loans	1,911	—
Inception of finance lease contracts (Note (e))	—	665
Repayments of bank and other loans	(3,049)	—
Repayments of principal under finance leases	—	(942)
Effect of foreign exchange rates	15	—
Balance at 30 June 2000	12,577	3,550

(c) Acquisition of a subsidiary

	Six months ended 30 June 2000
	RMB million
Net assets acquired:	
Cash and bank balances	4
Other receivables	62
Fixed assets	34
Bank and other loans	(15)
Accrued expenses and other payables	(3)
	82
Capital reserve arising on acquisition	(29)
Amount previously recognised whilst held as investment securities up to the date of acquisition	(53)
Satisfied by: cash	Nil

(d) Analysis of net inflow of cash and cash equivalents in respect of the acquisition of a subsidiary

	Six months ended 30 June 2000
	RMB million
Cash and bank balances acquired	4

(e) Significant non-cash transactions:

The Target Group incurred payables of RMB 4,181 million, RMB 7,289 million and RMB 3,864 million from equipment suppliers for additions of construction in progress during the years ended 31 December 1997, 1998 and 1999 respectively.

The Target Group also acquired equipment of RMB 2,128 million, RMB 3,818 million and RMB 517 million under finance leases during the years ended 31 December 1997, 1998 and 1999 respectively.

The Target Group incurred payables of RMB 3,447 million from equipment suppliers for additions of construction in progress during the six months ended 30 June 2000.

The Target Group also acquired equipment of RMB 665 million under finance leases during the six months ended 30 June 2000.

During the six months ended 30 June 2000, the balances of amounts due from/to the PTAs and CTC since its formation were reclassified from amounts due from/to related parties to amounts due from/to CTC. (See Section 3(k) of Appendix III)

B) Introduction to Unaudited Pro Forma Combined Financial Information of the Target Group

In connection with the proposed Acquisition, the Target Group's fixed assets were revalued as at 30 June 2000 and connection fee revenue and certain surcharge revenue, previously not taxable under PRC regulations, will be subject to enterprise income tax at a 33% rate when the Target Companies are registered as wholly foreign-owned enterprises.

The accompanying Unaudited Pro Forma Combined Profit and Loss Account of the Target Group for the year ended 31 December 1999 and for the six-month period ended 30 June 2000 have been adjusted to give effect to the above as if they had been consummated on 1 January 1999.

The Unaudited Pro Forma Combined Profit and Loss Accounts of the Target Group is based upon the historical combined financial statements of the Target Group after giving effect to Pro Forma adjustments described in the accompanying notes.

The Unaudited Pro Forma Combined Financial Information of the Target Group does not purport to represent what the results of operations of the Target Group would actually have been if the events described above had in fact occurred at the beginning of 1999, or any other date, or to project the combined net profit of the Target Group for any future period. The adjustments are based on currently available information and certain estimates and assumptions. However, management believes that these assumptions provide a reasonable basis for presenting the significant effects of the events as contemplated and that the Pro Forma adjustments give effect to those assumptions and are properly applied in the Pro Forma Combined Financial Information.

The Unaudited Pro Forma Combined Profit and Loss Account of the Target Group should be read in conjunction with the Accountants' Report set out in Appendix III. The following illustrative Pro Forma Combined Profit and Loss Accounts of the Target Group and the accompanying notes are extracted from the Company's preliminary prospectus for the Share Offering and the Convertible Note Offering.

Unaudited Pro Forma Combined Profit and Loss Account of the Target Group
For the six-month period ended 30 June 2000

	Target Group historical RMB million	Pro Forma adjustments RMB million	Note	Adjusted balance RMB million
Operating revenue				
Usage fees	10,218			10,218
Monthly fees	2,780			2,780
Connection fees	548			548
Other operating revenue	2,160			2,160
Total operating revenue	15,706			15,706
Operating expenses				
Leased lines	1,532			1,532
Interconnection	2,749			2,749
Depreciation	2,652	305	(a)	2,957
Personnel	326			326
Other operating expenses	2,697			2,697
Total operating expenses	9,956			10,261
Profit from operations	5,750			5,445
Other income	50			50
Non-operating income/(expenses)	52			52
Finance costs	(396)			(396)
Profit from ordinary activities before taxation	5,456			5,151
		101	(b)	
Income tax	(1,002)	(310)	(c)	(1,211)
Net profit	4,454			3,940

See accompany notes to Unaudited Pro Forma Combined Profit and Loss Account of the Target Group.

Unaudited Pro Forma Combined Profit and Loss Account of the Target Group
For the year ended 31 December 1999

	Target Group historical RMB million	Pro Forma adjustments RMB million	Note	Adjusted balance RMB million
Operating revenue				
Usage fees	16,285			16,285
Monthly fees	4,564			4,564
Connection fees	2,113			2,113
Other operating revenue	3,422			3,422
Total operating revenue	26,384			26,384
Operating expenses				
Leased lines	3,309			3,309
Interconnection	4,867			4,867
Depreciation	4,793	518	(a)	5,311
Personnel	546			546
Other operating expenses	4,349			4,349
Total operating expenses	17,864			18,382
Profit from operations	8,520			8,002
Write-down and write-off of TACS network equipment	(4,508)			(4,508)
Other income	9			9
Non-operating income/(expenses)	123			123
Finance costs	(638)			(638)
Profit from ordinary activities before taxation	3,506			2,988
		171	(b)	
Income tax	(824)	(959)	(c)	(1,612)
Net profit	2,682			1,376

Notes to Unaudited Pro Forma Combined Profit and Loss Account of the Target Group

1. Description of Pro Forma Adjustments

(a) The Target Group's fixed assets were revalued as at 30 June 2000, resulting in a revaluation surplus recorded on such date. The adjustment records the additional depreciation resulting from the revaluation of the fixed assets as if the revaluation surplus had been recorded on 1 January 1999.

(b) The adjustment records the tax effect of (a).

(c) Previously, the connection fee revenue and certain surcharge revenue of the Target Group were not subject to enterprise income tax and, accordingly, no tax expense was included in the determination of the historical results of operations for the year ended 31 December 1999 and for the six-month period ended 30 June 2000. Upon the completion of the registration of the Target Companies as wholly foreign-owned enterprises, in accordance with the Ministry of Finance ruling, such revenue will be taxable at an enterprise income tax rate of 33%. The adjustment records the applicable additional tax expense as if such revenue was taxable since 1 January 1999.

Set out below are extracts of the audited financial statements of the Group for the period from 3 September 1997 (date of incorporation) to 31 December 1997, the years ended 31 December 1998 and 1999 together with notes thereto and extracts of the interim report of the Group and the financial statements of the Group for the six months ended 30 June 2000 as disclosed in the Company's preliminary prospectus for the Share Offering and the Convertible Note Offering.

1. Extracts of the audited financial statements of the Group

Consolidated Profit and Loss Accounts

	Note	1999	1998	Period from 3 September 1997 (date of incorporation) to 31 December 1997
		RMB million	RMB million	RMB million
Operating revenue (Turnover)	2			
Usage fees		25,812	16,346	2,760
Monthly fees		4,981	4,347	771
Connection fees		4,319	3,323	851
Other operating revenue		3,511	2,329	314
		38,623	26,345	4,696
Operating expenses				
Leased lines		3,723	3,917	792
Interconnection		6,453	4,752	714
Depreciation		7,411	4,598	854
Personnel		2,256	1,595	209
Other operating expenses	3	5,140	3,548	681
		24,983	18,410	3,250
Profit from operations		13,640	7,935	1,446
Write-down and write-off of TACS network equipment	4	(8,242)	(282)	—
Other income	5	552	336	7
Non-operating income/ (expenses)	6	70	(51)	(72)
Interest income	7	767	1,609	600
Finance costs	8	(343)	(160)	(38)
Profit from ordinary activities before taxation	8	6,444	9,387	1,943
Income tax	11(a)	(1,647)	(2,486)	(428)
Profit from ordinary activities after taxation		4,797	6,901	1,515
Minority interests		—	(1)	(1)
Profit attributable to shareholders		4,797	6,900	1,514
Appropriations				
Transfer to general reserve		—	—	(72)
Transfer to PRC statutory reserves	29	(3,524)	(2,092)	(111)
Retained profits for the year		1,273	4,808	1,331
Earnings per share				
Basic	13(a)	RMB 40 cents	RMB 59 cents	RMB 17 cents
Diluted	13(b)	RMB 40 cents	RMB 59 cents	

Consolidated Statement of Recognised Gains and Losses

	Note	1999 RMB million	1998 RMB million	Period from 3 September 1997 (date of incorporation) to 31 December 1997 RMB million
Net profit for the year/period............		4,797	6,900	1,514
(Elimination of goodwill against reserve)/capital reserve arising on the acquisition of subsidiaries..........	29	(42,440)	(15,622)	1,132
		(37,643)	(8,722)	2,646

Consolidated Balance Sheet

	Note	1999 RMB million	1998 RMB million
Non-current assets			
Fixed assets	14	42,699	33,986
Construction in progress	15	6,735	7,339
Interest in associates	17	46	30
Deferred tax assets	18	2,306	152
Deferred expenses	19	51	—
Current assets			
Inventories		207	101
Amount due from ultimate holding company	20	92	—
Amounts due from related parties	21	1,700	287
Accounts receivable		4,957	2,482
Other receivables		549	326
Prepaid expenses and other current assets		517	1,046
Deposits with banks		8,227	1,311
Cash and cash equivalents	22	19,349	17,481
		35,598	23,034
Current liabilities			
Bank and other loans	23(a)	4,351	5,337
Bills payable		1,779	—
Current instalments of obligations under finance lease	24	68	—
Amount due to ultimate holding company	20	664	—
Amounts due to related parties	21	1,696	596
Accounts payable		6,026	5,963
Accrued expenses and other payables		4,115	2,756
Taxation	11(b)	2,868	1,299
		21,567	15,951
Net current assets		14,031	7,083
Total assets less current liabilities		65,868	48,590
Non-current liabilities			
Bank and other loans	23(b)	(2,225)	(991)
Obligations under finance lease, excluding current instalments	24	(107)	—
Deferred revenue	25	(1,492)	(1,757)
Fixed rate notes	26	(4,952)	—
Minority interests		—	(15)
NET ASSETS		57,092	45,827
CAPITAL AND RESERVES			
Share capital	27	1,467	1,261
Reserves	29	55,625	44,566
		57,092	45,827

Consolidated Cash Flow Statement

	Note	1999	1998
		RMB million	RMB million
Net cash inflow from operating activities	(a)	21,662	13,567
Returns on investments and servicing of finance			
Interest received		934	1,815
Interest paid		(445)	(352)
Net cash inflow from returns on investments and servicing of finance		489	1,463
Taxation			
Hong Kong profits tax refunded/(paid)		1	(11)
PRC income tax paid		(2,479)	(1,575)
Tax paid		(2,478)	(1,586)
Investing activities			
Payment for acquisition of minority interests		(15)	—
Payment for acquisition of subsidiaries (net of cash and cash equivalents acquired)	(c) and (d)	(18,187)	(24,114)
Capital expenditures		(11,708)	(11,040)
Proceeds from disposal of fixed assets		709	36
Decrease in amounts due from related parties		—	72
Increase in deposits with banks		(6,916)	(1,311)
Net cash outflow from investing activities		(36,117)	(36,357)
Net cash outflow before financing activities		(16,444)	(22,913)
Financing activities			
Proceeds from issue of shares, net of expenses	(e)	16,223	—
New bank and other loans	(e)	6,868	3,754
Repayments of bank and other loans	(e)	(9,653)	(3,207)
Proceeds from issue of fixed rates notes, net of discount	(e)	4,952	—
Expenses on issue of fixed rate notes		(53)	—
Decrease in amounts due to related parties	(e)	—	(222)
Net cash inflow from financing activities		18,337	325
Increase/(decrease) in cash and cash equivalents		1,893	(22,588)
Effect of changes in foreign exchange rates		(25)	(1)
Cash and cash equivalents at beginning of year		17,481	40,070
Cash and cash equivalents at end of year	(b)	19,349	17,481

Notes to the Consolidated Cash Flow Statement

(a) Reconciliation of profit from ordinary activities before taxation to net cash inflow from operating activities

	1999 RMB million	1998 RMB million
Profit from ordinary activities before taxation	6,444	9,387
Depreciation of fixed assets	7,411	4,598
Write-down and write-off of TACS network equipment	8,242	282
Loss on disposal of other fixed assets	1	59
Provision for doubtful accounts	771	558
Amortisation of deferred expenses	2	—
Interest income	(767)	(1,609)
Interest and finance lease charges	343	160
Unrealized exchange loss, net	25	1
(Increase)/decrease in inventories	(43)	49
Decrease in amount due from ultimate holding company	14	—
Increase in amounts due from related parties	(127)	(55)
Increase in accounts receivable	(2,167)	(1,080)
(Increase)/decrease in other receivables	(245)	392
Decrease/(increase) in prepaid expenses and other current assets	781	(932)
Decrease in amounts due to intermediate holding company	—	(31)
Increase in amount due to ultimate holding company	329	—
Increase in amounts due to related parties	426	579
Decrease in accounts payable	(36)	(117)
Increase in accrued expenses and other payables	523	922
(Decrease)/increase in deferred revenue	(265)	404
Net cash inflow from operating activities	21,662	13,567

(b) Analysis of the balances of cash and cash equivalents

	1999 RMB million	1998 RMB million
Deposits with banks with maturity period within three months when placed	6,986	7,538
Cash and bank balances	12,363	9,943
	19,349	17,481

(c) Acquisition of subsidiaries

	1999 RMB million	1998 RMB million
Net assets acquired:		
Fixed assets	11,186	7,443
Construction in progress	1,060	1,488
Interest in an associate	16	—
Deferred tax assets	3	1
Inventories	63	73
Amount due from ultimate holding company	106	—
Amounts due from related parties	1,286	233
Accounts receivable	1,079	367
Other receivables	145	137
Prepaid expenses and other current assets	181	9
Cash and bank balances	2,081	6
Bank and other loans	(1,267)	(683)
Bills payable	(310)	—
Amount due to ultimate holding company	(335)	—
Amounts due to related parties	(674)	(4)
Accounts payable	(1,121)	(333)
Accrued expenses and other payables	(796)	(158)
Taxation	(249)	—
Long-term bank and other loans	(1,766)	(81)
Obligation under finance lease	(175)	—
	10,513	8,498
Goodwill arising on acquisition	42,440	15,622
	52,953	24,120
Satisfied by: Cash paid	20,268	24,120
Issue of ordinary shares	32,685	—
	52,953	24,120

The subsidiaries acquired during the year ended 31 December 1999 contributed RMB 1,439,000,000 to the Group's net operating cash flows, paid RMB 44,000,000 in respect of the net returns on investments and servicing of finance, and utilised RMB 657,000,000 for investing activities and RMB 717,000,000 for financing activities.

The subsidiaries acquired during the year ended 31 December 1998 contributed RMB 1,340,000,000 to the Group's net operating cash flows, paid RMB 44,000,000 in respect of the net returns on investments and servicing of finance, utilised RMB 2,533,000,000 for investing activities and contributed RMB 2,208,000,000 for financing activities.

(d) Analysis of net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries

	1999 RMB million	1998 RMB million
Cash consideration	20,268	24,120
Cash and bank balances acquired	(2,081)	(6)
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	18,187	24,114

(e) Analysis of changes in financing during the year

	Bank and other loans RMB million	Amounts due to related parties RMB million
Balance at 1 January 1998	5,017	222
Acquired on acquisition of subsidiaries	764	4
	5,781	226
Changes in financing:		
Cash flows from financing	3,754	(222)
Repayments of bank and other loans	(3,207)	—
	6,328	4
Operating activities:		
Payables for additions of construction in progress	—	13
Increase in amounts due to related parties included under operating activities	—	579
Balance at 31 December 1998	6,328	596

	Share capital (including share premium) RMB million	Bank and other loans RMB million	Fixed rates notes RMB million
Balance at 1 January 1999	51,904	6,328	—
Acquired on acquisition of subsidiaries	—	3,033	—
	51,904	9,361	—
Changes in financing:			
Cash flows from financing	16,223	6,868	4,952
Repayments of bank and other loans	—	(9,653)	—
	68,127	6,576	4,952
Non-cash transaction:			
Issue of shares as consideration for acquisition of subsidiaries	32,685	—	—
Balance at 31 December 1999	100,812	6,576	4,952

(f) Significant non-cash transactions

The Group incurred payables of RMB 3,374,000,000 and RMB 1,486,000,000 to equipment suppliers and banks respectively for additions of construction in progress during the year ended 31 December 1999.

The Group incurred payables of RMB 3,977,000,000 and RMB 13,000,000 to equipment suppliers and related parties respectively for additions of construction in progress during the year ended 31 December 1998.

In November 1999, the Group issued new shares to China Mobile Hong Kong (BVI) Limited ("CMHK (BVI)") at HK$30,684,000,000 (RMB equivalent of 32,685,000,000) as part of the consideration for the acquisition of Fujian Mobile (BVI) Limited ("Fujian Mobile BVI"), Henan Mobile (BVI) Limited ("Henan Mobile BVI") and Hainan Mobile (BVI) Limited ("Hainan Mobile BVI").

Notes to the Accounts

1. PRINCIPAL ACCOUNTING POLICIES

(a) Statement of compliance

These accounts have been prepared in accordance with all applicable Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. A summary of the principal accounting policies adopted by the Group is set out below.

(b) Basis of preparation of the accounts

The measurement basis used in the preparation of the accounts is historical cost.

(c) Basis of consolidation

(i) The consolidated accounts include the accounts of the Company and all of its subsidiaries made up to 31 December 1999. The results of subsidiaries acquired during the year are included in the consolidated profit and loss account from the date of their acquisition. All material intercompany transactions and balances are eliminated on consolidation.

(ii) Goodwill arising on the acquisition of subsidiaries, being the excess of the cost of investments in these companies over the fair value of the Group's share of the separable net assets acquired, is eliminated against reserves immediately on acquisition. The excess of the Group's share of the fair value of the separable net assets of subsidiaries acquired over the cost is credited to capital reserve.

On disposal of a subsidiary during the year, any attributable amount of purchased goodwill which has previously been dealt with as a movement on group reserves is included in the calculation of the profit or loss on disposal.

(d) Investments in subsidiaries

A subsidiary is a company in which the Group, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or controls the composition of the board of directors.

(e) Associates

An associate is a company in which the Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

The Group's share of the post-acquisition results of its associates for the year is not considered material and therefore is not included in the consolidated profit and loss account. In the consolidated balance sheet, interest in associates is stated at cost less any provisions for diminution in value which is other than temporary as determined by the directors for each associate individually. Any such provisions are recognised as an expense in the profit and loss account.

(f) Fixed assets and depreciation

(i) Fixed assets are stated at cost less accumulated depreciation. The circumstances and basis under which the cost is arrived at are set out in details in Note 14 to the accounts.

(ii) The cost of fixed assets comprises the purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the fixed asset has been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to the profit and loss account in the period in which they are incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of the fixed asset.

(iii) Gains or losses arising from the retirement or disposal of fixed assets are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the profit and loss account on the date of retirement or disposal.

(iv) The carrying amount of fixed assets carried at depreciated cost is reviewed periodically in order to assess whether the recoverable amount has declined below the carrying amount. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The amount of the reduction is recognised as an expense in the profit and loss account. In determining the recoverable amount, expected future cash flows generated by the fixed assets are discounted to their present values.

A subsequent increase in the recoverable amount of an asset carried at depreciated cost is written back to the profit and loss account when the circumstances and events that led to the write-down or write-off cease to exist. The amount written back is reduced by the amount that would have been recognised as depreciation had the write-down or write-off not occurred.

(v) Depreciation is calculated to write-off the cost of fixed assets on a straight-line basis over their estimated useful lives, to residual values, as follows:

	Depreciable life	Residual value
Land use rights............................	Over the period of grant	—
Buildings.....................................	8-35 years	3%
Telecommunications transceivers, switching centres and other network equipment.....................	7 years	3%
Office equipment, furniture and fixtures and others......................	4-18 years	3%

(g) Leased assets

Where assets are acquired under finance leases, the amounts representing the outright purchase price, which approximate the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance lease. Depreciation is provided at rates which write off the cost of the assets in equal annual amounts over the shorter of the period of the leases or the estimated useful lives of the assets as set out in note 1(f) above. Finance charges implicit in the lease payments are charged to the profit and loss account over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

(h) Construction in progress

Construction in progress is stated at cost. Cost comprises direct costs of construction as well as interest expense and exchange differences capitalised during the periods of construction and installation. Capitalisation of these costs ceases and the construction in progress is transferred to fixed assets when substantially all the activities necessary to prepare the assets for their intended use are completed. No depreciation is provided in respect of construction in progress until it is completed and ready for its intended use.

(i) Inventories

Inventories, which consist primarily of handsets, SIM cards and accessories, are stated at the lower of cost and net realisable value. Cost represents purchase cost of goods calculated using the weighted average cost method. Net realisable value is determined by reference to the sales proceeds of items sold in the ordinary course of business after the balance sheet date or to management's estimates based on prevailing market conditions.

When inventories are sold, the carrying amount of those inventories is recognised as a deduction of other income due to its insignificance. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(j) Deferred revenue

Deferred revenue from assignment of rights to income from subscribers with distributors of telecommunications services is stated in the balance sheet at the amount of consideration received according to the relevant assignment contracts less income recognised in the profit and loss account up to the balance sheet date.

Income is deferred and recognised on a straight-line basis over the relevant assignment period. For assignment contracts which the distributors surrender for early cancellation, the balance of the Group's deferred revenue in respect of those contracts is recognised as non-operating income in the profit and loss account when the assignment contracts are cancelled.

(k) Fixed rate notes

Fixed rate notes are stated on the balance sheet at face value, less unamortised discount arising on issue of notes. The discount is amortised on a straight-line basis over the period from the date of issue to the date of maturity.

(l) Deferred expenses

Deferred expenses comprise incidental costs incurred in relation to the issue of the Company's fixed rate notes and are amortised on a straight-line basis over the period from the date of issue to the date of maturity. In the event that the notes are redeemed prior to the maturity date, the unamortised expenses are charged immediately to the profit and loss account.

(m) Borrowing costs

Borrowing costs are expensed in the profit and loss account in the period in which they are incurred, except to the extent that such costs are capitalised as being directly attributable to the acquisition or construction of an asset which necessarily takes a substantial period of time to get ready for its intended use.

(n) Revenue recognition

Revenue is recognised when it is probable that the economic benefits will accrue to the Group and when the revenue can be measured reliably on the following bases:

(i) usage fees are recognised as revenue when the service is rendered;

(ii) monthly fees are recognised as revenue in the month during which the service is rendered;

(iii) connection fees are recognised as revenue when received;

(iv) deferred revenue from assignment of rights to income from subscribers is recognised on a straight-line basis over the duration of the assignment period;

(v) interest income is recognised on a time proportion basis on the principal outstanding and at the rate applicable; and

(vi) sale of SIM cards and handsets are recognised on delivery of goods to the buyer. Such revenue, net of cost of goods sold, is included in other income due to its insignificance.

(o) Allowance for doubtful accounts

An allowance for doubtful accounts is provided based upon evaluation of the recoverability of the receivables at the balance sheet date.

(p) Translation of foreign currencies

Foreign currency transactions during the year are translated into Renminbi at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Renminbi at the exchange rates ruling at the balance sheet date. Exchange differences attributable to the translation of borrowings denominated in foreign currencies and used for financing the construction of fixed assets, are included in the cost of the related construction in progress. Exchange differences capitalised to construction in progress are immaterial for the periods presented. Other exchange gains and losses are recognised in the profit and loss account.

(q) Deferred taxation

Deferred taxation is provided under the liability method in respect of the tax effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which are expected with reasonable probability to crystallise in the foreseeable future. Future deferred tax benefits are not recognised unless their realisation is assured beyond reasonable doubt.

(r) Retirement benefits

The employees of the subsidiaries participate in defined benefit retirement plans managed by the local government authorities whereby the subsidiaries are required to contribute to the schemes at fixed rates of the employees' salary costs. The subsidiaries have no obligation for the payment of retirement and other post-retirement benefits of staff other than the contributions described above.

(s) Operating leases

Rental payable under operating lease are accounted for in the profit and loss account on a straight-line basis over the periods of the respective leases.

(t) Related parties

For the purposes of these accounts, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

(u) Cash equivalents

Cash equivalents are short-term, highly liquid investments which are readily convertible into known amounts of cash without notice and which are within three months of maturity when acquired. For the purposes of the cash flow statement, cash equivalents would also include advances from banks repayable within three months from the date of the advance.

2. TURNOVER

The principal activities of the Group are the provision of cellular telephone and related services in Guangdong, Zhejiang, Jiangsu, Fujian, Henan and Hainan provinces of the People's Republic of China. The principal activity of the Company is investment holding.

Turnover primarily represents usage fees, monthly fees and connection fees for the use of the Group's cellular telephone networks, net of PRC business tax and government surcharges and central irrigation construction levy. Business tax and government surcharges are charged at approximately 3.3 to 3.65 per cent of the corresponding revenue and central irrigation construction levy was charged at approximately 3 per cent of certain connection and surcharge revenue.

Other operating revenue mainly represents telephone number selection fees, charges for value added services, interconnection revenue and roaming in fees. Roaming in fees are received from China Mobile Communications Corporation ("China Mobile") or the MII in respect of calls made by non-subscribers using the Group's cellular telecommunications networks.

3. OTHER OPERATING EXPENSES

Other operating expenses primarily represents selling and promotion expenses, provision for doubtful accounts, operating lease charges, maintenance charges, debt collection fees, spectrum charges and other miscellaneous expenses.

4. WRITE-DOWN AND WRITE-OFF OF TACS NETWORK EQUIPMENT

	1999 RMB million	1998 RMB million	Period from 3 September 1997 (date of incorporation) to 31 December 1997 RMB million
Write-down of TACS network equipment(a)	6,720	282	—
Write-off of TACS network equipment(b).........	1,522	—	—
	8,242	282	—

TACS represents Total Assess Communication System, a European standard for analog mobile telephone transmissions in the 800 and 900 MHz frequency bands.

(a) In light of the gradual opening of the telecommunications market in the PRC and the rapid change of technology, the Group has reviewed the carrying value of all TACS network and related equipment at 31 December 1999. Based on the estimated recoverable value of these assets, a write-down of RMB6,720 million has been made in the current year.

(b) This represents the write-off of certain TACS network equipment which have been removed from service.

5. OTHER INCOME

Other income primarily consists of the gross margin from sales of cellular telephone SIM cards and handsets.

	1999 RMB million	1998 RMB million	Period from 3 September 1997 (date of incorporation) to 31 December 1997 RMB million
Sales of SIM cards and handsets....	1,242	1,134	260
Cost of SIM cards and handsets.....	(690)	(798)	(253)
	552	336	7

6. NON-OPERATING INCOME/(EXPENSES)

	1999 RMB million	1998 RMB million	Period from 3 September 1997 (date of incorporation) to 31 December 1997 RMB million
Exchange (loss)/gain	(9)	19	(58)
Loss on disposal of fixed assets...........	(1)	(59)	(13)
Penalty income on overdue accounts....	72	64	24
Others..	8	(75)	(25)
	70	(51)	(72)

7. INTEREST INCOME

Interest income earned by the Group amounted to RMB 767,000,000 (1998: RMB 1,609,000,000; 1997: RMB 600,000,000), of which RMB 410,000,000 (1998: RMB 1,426,000,000; 1997: RMB 571,000,000) relates to the interest income earned by the Company. Interest income was classified as an exceptional item in the accounts for the year ended 31 December 1998.

8. PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

Profit from ordinary activities before taxation is arrived at after charging/(crediting):

(a) Finance costs

	1999 RMB million	1998 RMB million	Period from 3 September 1997 (date of incorporation) to 31 December 1997 RMB million
Interest on bank advances and other borrowings repayable within five years................................	395	125	11
Interest on other loans...	90	182	82
Finance charges on obligations under finance lease..	1	—	—
Total borrowings costs...	486	307	93
Less: Amount capitalised as construction in progress *(Note)*	(143)	(147)	(55)
	343	160	38

Note: Borrowing costs have been capitalised at a rate of 5.58 per cent to 7.56 per cent (1998: 5.81 per cent to 9.50 per cent; 1997: 7.50

per cent to 11.03 per cent) per annum for construction in progress.

(b) Other Items

	1999	1998	Period from 3 September 1997 (date of incorporation) to 31 December 1997
	RMB million	RMB million	RMB million
Depreciation			
— owned assets	7,400	4,598	854
— assets held under finance leases	11	—	—
Amortisation of deferred expenses	2	—	—
Operating lease charges in respect of			
— properties	373	261	61
— others	163	40	6
Contribution to retirement scheme	251	209	27
Provision for doubtful accounts	771	558	140
Provision for obsolete inventories	4	8	3
Auditors' remuneration	16	13	11
Amortisation of deferred revenue from assignment of rights to income from subscribers	(313)	(285)	(50)

9. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	1999	1998	Period from 3 September 1997 (date of incorporation) to 31 December 1997
	RMB million	RMB million	RMB million
Fees	2	2	—
Salaries, allowances and benefits in kind	9	10	3
	11	12	3

Included in the directors' remuneration were fees of RMB 384,000 (1998: RMB 385,000; 1997: RMB 129,000) paid to the independent non-executive directors during the year.

In addition to the above emoluments, certain directors were granted share options under the Company's share option scheme. The details of these benefits in kind are disclosed under the paragraph "Directors' rights to acquire shares" in the report of the directors.

The number of directors whose remuneration from the Group falls within the following bands is set out below:

	1999	1998	Period from 3 September 1997 (date of incorporation) to 31 December 1997
HK$ equivalent			
Nil to 1,000,000	15	8	10
2,000,001 to 2,500,000	3	4	—

10. FIVE HIGHEST PAID INDIVIDUALS

Of the five highest paid individuals in this year, three (1998: four; 1997: four) are directors of the Company and their remuneration has been included in Note 9 above. The remuneration of each of the remaining two highest paid individuals falls within the band from HK$ 1,000,000 up to HK$ 1,500,000 and their aggregate remuneration is as follows:

	1999	1998	Period from 3 September 1997 (date of incorporation) to 31 December 1997
	RMB million	RMB million	RMB million
Salaries, allowances and benefits in kind	3	1	—

During the year, no emoluments were paid by the Group to the five highest paid individuals, including directors, as an inducement to join or upon joining the Group or as compensation for loss of office.

11. INCOME TAX

(a) Income tax in the consolidated profit and loss account represents:

	1999 RMB million	1998 RMB million	Period from 3 September 1997 (date of incorporation) to 31 December 1997 RMB million
Provision for Hong Kong profits tax for the year	—	3	8
Over-provision in respect of Hong Kong profits tax for prior year	(2)	—	—
	(2)	3	8
Under-provision in respect of PRC income tax for prior year	24	—	—
Provision for PRC income tax on the estimated taxable profits for the year	3,776	2,609	422
	3,798	2,612	430
Deferred tax assets (Note 18(a))	(2,151)	(126)	(2)
	1,647	2,486	428

(i) No provision has been made for Hong Kong profits tax as there was no estimated assessable profits for the year ended 31 December 1999.

(ii) Pursuant to the income tax rules and regulations of the PRC, the Group's subsidiaries in the PRC are subject to the statutory income tax rate of 33 per cent for the year ended 31 December 1999, except Hainan Mobile Communication Company Limited ("Hainan Mobile") at a tax rate of 15 per cent. According to notices from the PRC Ministry of Finance, connection fees and certain surcharges, which were previously not subject to income tax, are subject to an income tax rate of 33 per cent with effect from 1 January 2000 for Fujian Mobile Communication Company Limited ("Fujian Mobile") and 27 January 2000 for Henan Mobile Communication Company Limited ("Henan Mobile") and 15 per cent with effect from 19 January 2000 for Hainan Mobile.

(b) Taxation in the balance sheets represents:

	1999 RMB million	1998 RMB million
Provision for Hong Kong profits tax for the year	—	3
Provision for PRC income tax for the year	3,776	2,609
Balance of PRC income tax payable relating to prior year	556	43
Hong Kong provisional profits tax paid	—	(2)
PRC income tax paid	(1,464)	(1,354)
	2,868	1,299

12. DIVIDENDS

The board of directors of the Company does not recommend the payment of any dividends for the year ended 31 December 1999 (1998 and 1997: RMB Nil).

13. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share for the year is based on the profit attributable to shareholders of RMB 4,797,000,000 (1998: RMB 6,900,000,000; 1997: RMB 1,514,000,000) and the weighted average number of 12,069,107,688 shares (1998: 11,780,788,000 shares; 1997: 8,802,944,500 shares) in issue during the year.

(b) Diluted earnings per share

The calculation of diluted earnings per share for the year is based on the profit attributable to shareholders of RMB 4,797,000,000 (1998: RMB 6,900,000,000) and the weighted average number of 12,072,382,655 shares (1998: 11,782,520,775 shares) after adjusting for the effects of all dilutive potential ordinary shares. All dilutive potential ordinary shares arise from the share options granted to the directors under the share option scheme which, if converted to ordinary shares, would decrease profit attributable to shareholders per share.

(c) Reconciliations

	1999 Number of shares	1998 Number of shares	1997 Number of shares
Weighted average number of ordinary shares used in calculating basic earnings per share	12,069,107,688	11,780,788,000	8,802,944,500
Deemed issue of ordinary shares for no consideration.......................................	3,274,967	1,732,775	
Weighted average number of ordinary shares used in calculating diluted earnings per share	12,072,382,655	11,782,520,775	

14. FIXED ASSETS

	Land use rights and buildings RMB million	Telecommunications transceivers, switching centres and other network equipment RMB million	Office equipment, furniture and fixtures and others RMB million	Total RMB million
Cost:				
At 1 January 1999........................	1,761	38,320	843	40,924
Acquired on acquisition of subsidiaries...............................	162	11,553	245	11,960
Additions...................................	297	1,166	252	1,715
Transferred from construction in progress....................................	1,320	10,325	530	12,175
Disposals....................................	(662)	(47)	(73)	(782)
Assets written-off.........................	—	(3,144)	—	(3,144)
At 31 December 1999..................	2,878	58,173	1,797	62,848
Accumulated depreciation:				
At 1 January 1999........................	68	6,694	176	6,938
Acquired on acquisition of subsidiaries...............................	2	749	23	774
Charge for the year......................	99	6,992	320	7,411
Additional provision....................	—	6,720	—	6,720
Written back on disposals.............	(22)	(47)	(3)	(72)
Assets written-off.........................	—	(1,622)	—	(1,622)
At 31 December 1999..................	147	19,486	516	20,149
Net book value:				
At 31 December 1999..................	2,731	38,687	1,281	42,699
At 31 December 1998..................	1,693	31,626	667	33,986

(a) The analysis of net book value of land use rights and buildings is as follows:

	1999 RMB million	1998 RMB million
Long leases.............	81	56
Medium-term leases..	2,650	1,637
	2,731	1,693

All of the Group's buildings are located outside Hong Kong.

(b) The net book value of fixed assets of the Group includes an amount of RMB 431,000,000 (1998: Nil) in respect of assets held under finance lease.

As part of the Group restructuring in 1997, the cellular telephone businesses of Guangdong Mobile Communication Company Limited ("Guangdong Mobile") and Zhejiang Mobile Communication Company Limited ("Zhejiang Mobile") together with the relevant assets and liabilities were injected into the Group. Pursuant to the ordinary resolutions passed by the Company's shareholders on 3 June 1998 and 11 November 1999, the Group acquired the cellular telephone businesses of Jiangsu Mobile Communication Company Limited ("Jiangsu Mobile"), Fujian Mobile, Henan Mobile and Hainan Mobile, together with their relevant assets and liabilities, respectively.

As required by the relevant PRC rules and regulations, a valuation of the assets and liabilities of Guangdong Mobile and Zhejiang

Mobile injected into the Group was carried out at 31 May 1997 and valuations of the assets and liabilities of Jiangsu Mobile, and Henan Mobile, Fujian Mobile and Hainan Mobile acquired by the Group were carried out at 31 December 1997 and 30 June 1999, respectively. These valuations were approved by the Ministry of Finance on 5 September 1997, 7 April 1998 and 27 September 1999, respectively and the injected/acquired assets and liabilities were reflected in the accounts on this basis. These valuations were each regarded as an one-off exercise which established the deemed cost of the fixed assets injected into/acquired by the Group.

The effect of the above valuations on the fixed assets is to increase the depreciation charges reflected in the consolidated profit and loss account for the year ended 31 December 1999 by approximately RMB 1,014,000,000 (1998: approximately RMB 926,000,000).

15. CONSTRUCTION IN PROGRESS

Construction in progress comprises expenditure incurred on the network expansion projects, construction of office buildings and construction of staff quarters not yet completed at 31 December 1999.

16. INVESTMENTS IN SUBSIDIARIES

Details of the subsidiaries are as follows:

Name of company	Place of incorporation and operation	Particulars of issued and paid up capital	Attributable interest held by the Group: Held by the Company	Attributable interest held by the Group: Held by subsidiary	Principal activity
Guangdong Mobile	PRC	RMB 5,594,840,700	100%	—	Cellular telephone operator
Zhejiang Mobile	PRC	RMB 2,117,790,000	100%	—	Cellular telephone operator
Jiangsu Mobile BVI	BVI	1 share at HK$1	100%	—	Investment holding company
Jiangsu Mobile	PRC	RMB 2,800,000,000	—	100%	Cellular telephone operator
Fujian Mobile BVI	BVI	1 share at HK$1	100%	—	Investment holding company
Fujian Mobile	PRC	RMB 5,247,488,000	—	100%	Cellular telephone operator
Henan Mobile BVI	BVI	1 share at HK$1	100%	—	Investment holding company
Henan Mobile	PRC	RMB 4,367,733,000	—	100%	Cellular telephone operator
Hainan Mobile BVI	BVI	1 share at HK$1	100%	—	Investment holding company
Hainan Mobile	PRC	RMB 643,000,000	—	100%	Cellular telephone operator

17. INTEREST IN ASSOCIATES

	1999 RMB million	1998 RMB million
Unlisted shares, at cost	37	21
Capital contributions, at cost ...	9	9
	46	30

Details of the associates, all of which are unlisted corporate entities, are as follows:

Name of associate	Place of incorporation and operation	Attributable interest held by the Group	Principal activity
China Motion United Telecom Limited.................................	Hong Kong	30%	Provision of telecommunication services
Shenzhen China Motion Telecom United Limited..........	PRC	30%	Provision of telecommunication services
Fujian Nokia Mobile Communication Technology Company Limited...................	PRC	50%	Network planning and optimising

construction-testing and supervising, technology support, development and training of Nokia GSM 900/1800 Mobile Communication System

18. DEFERRED TAX ASSETS

(a) Movements on deferred taxation comprise:

	1999 RMB million	1998 RMB million
Balance at 1 January	152	24
Acquired on acquisition of subsidiaries	3	2
Transfer from the profit and loss account *(Note 11(a))*	2,151	126
Balance at 31 December	2,306	152

(b) Deferred tax assets of the Group provided for are as follows:

	1999 RMB million	1998 RMB million
Provision for obsolete inventories	51	26
Write-down of fixed assets relating to TACS network	2,182	44
Amortisation of deferred revenue	73	82
	2,306	152

(c) Deferred tax asset of the Group not provided for is as follows:

	1999 RMB million	1998 RMB million
Provision for doubtful accounts	402	283

19. DEFERRED EXPENSES

	1999 RMB million	1998 RMB million
Additions during the year	53	—
Less: Amortisation for the year	(2)	—
Balance at 31 December	51	—

20. AMOUNTS DUE FROM/TO ULTIMATE HOLDING COMPANY

Amounts due from/to ultimate holding company are unsecured, non-interest bearing, repayable on demand and arose in the ordinary course of business.

21. AMOUNTS DUE FROM/TO RELATED PARTIES

Amounts due from/to related parties are unsecured, non-interest bearing, repayable on demand and arose in the ordinary course of business.

22. CASH AND CASH EQUIVALENTS

	1999 RMB million	1998 RMB million
Deposits with banks	6,986	7,538
Cash at banks and in hand	12,363	9,943
	19,349	17,481

23. BANK AND OTHER LOANS

(a) Short-term

	1999	1998

	RMB million	RMB million
Bank loans	3,957	4,112
Current portion of long-term bank and other loans *(Note 23(b) and (c))*	394	1,225
	4,351	5,337

Included in the short-term loans is an amount of RMB 100,000,000 (1998: Nil) which is secured by cash at bank amounting to RMB 100,000,000 (1998: Nil). All other short-term loans are unsecured.

(b) Long-term

	1999 RMB million	1998 RMB million
Bank loans	1,836	345
Loans from related parties	—	800
Other loans	783	1,071
	2,619	2,216
Less: Current portion *(Note 23(a))*	(394)	(1,225)
	2,225	991

All of the above long-term loans are unsecured.

Other loans bear interest at various rates between 5.7 per cent to 7.6 per cent (1998: 6.4 per cent to 7.5 per cent) with maturities in 2000 to 2004.

(c) The Group's long-term bank and other loans are repayable as follows:

At 31 December 1999:

	Bank Loans RMB million	Other loans RMB million	Total RMB million
On demand or within one year *(Note 23(a))*	213	181	394
After one year but within two years	795	181	976
After two years but within five years	828	421	1,249
	1,623	602	2,225
	1,836	783	2,619

At 31 December 1998:

	Bank Loans RMB million	Other loans RMB million	Total RMB million
On demand or within one year *(Note 23(a))*	138	1,087	1,225
After one year but within two years	104	181	285
After two years but within five years	103	520	623
After five years	—	83	83
	207	784	991
	345	1,871	2,216

24. OBLIGATIONS UNDER FINANCE LEASE

As at 31 December 1999, the Group had obligations under finance lease repayable as follows:

	1999 RMB million	1998 RMB million
Within one year	78	—
In the second year	73	—
After two years but within five years	35	—
	186	—
Less: Finance charges relating to future periods	(11)	—
	175	—
Less: Amount due within one year	(68)	—
	107	—

25. DEFERRED REVENUE

Deferred revenue from assignment of rights to income from subscribers represents the unamortised portion of proceeds received by Guangdong Mobile from certain distributors of telecommunications services pursuant to agreements under which Guangdong Mobile sold certain mobile phone numbers to these distributors at RMB 9,167 each, in return for assigning to such distributors the rights to certain revenue such as usage fees, monthly fees, connection fees, telephone number selection fees and 50 per cent value-added services fees from those subscribers over a period of seven years. The distributors have no recourse to the Group under the relevant agreements and the Group maintains no credit risk from such subscribers during the seven-year period. The proceeds received by Guangdong Mobile have been accounted for as deferred revenue and are amortised over a period of seven years. After the expiration of the relevant agreements, the rights to income from these subscribers will revert to the Group.

	1999 RMB million	1998 RMB million
Balance at 1 January	1,757	1,353
Additions	48	689
Recognised in profit and loss account	(313)	(285)
Balance at 31 December	1,492	1,757

26. FIXED RATE NOTES

	1999 RMB million	1998 RMB million
US dollar 7.875% fixed rate notes due 2004	4,952	—

On 2 November 1999, the Company issued unsecured fixed rates notes (the "notes") with a principal amount of US$600,000,000 due on 2 November 2004. The notes bear interest at the rate of 7.875 per cent per annum and such interest is payable semi-annually on 2 May and 2 November of each year, commencing 2 May 2000.

27. SHARE CAPITAL

Authorised:

	1999 HK$ million	1998 HK$ million
16,000,000,000 ordinary shares of HK$0.1 each	1,600	1,600

Issued and fully paid:

	1999		1998	
	No. of Shares	HK$ million	No. of Shares	HK$ million
At 1 January	11,780,788,000	1,178	11,780,788,000	1,178
Issue of new shares to the professional and institutional investors	644,804,000	65	—	—
Issue of consideration shares for acquisition of subsidiaries	1,273,195,021	127	—	—
Shares issued under share option scheme *(Note 28)*	7,500,000	1	—	—
At 31 December	13,706,287,021	1,371	11,780,788,000	1,178
RMB million equivalent		1,467		1,261

Pursuant to ordinary resolutions passed at directors' meetings held on 1 November 1999 and 3 November 1999 respectively, the Company issued 560,700,000 and 84,104,000 ordinary shares of HK$0.1 each to professional and institutional investors, at a consideration of HK$24.1 per share, for financing the acquisition of Fujian Mobile BVI, Henan Mobile BVI and Hainan Mobile BVI.

Pursuant to an ordinary resolution passed at an extraordinary general meeting held on 11 November 1999, 1,273,195,021 ordinary shares of HK$0.1 each were issued and credited as fully paid to CMHK(BVI), at a consideration of HK$24.1 per share as part of the consideration for the acquisition of Fujian Mobile BVI, Henan Mobile BVI and Hainan Mobile BVI.

28. SHARE OPTION SCHEME

On 8 October 1997, the Company adopted a share option scheme pursuant to which the directors of the Company may, at their discretion, invite employees, including executive directors, of the Company or any of its subsidiaries, to take up options to subscribe for shares up to a maximum aggregate number of shares equal to 10 per cent of the total issued share capital of the Company. According to the share option scheme, the consideration payable by a participant for the grant of an option under the share option scheme will be HK$1.00. The price of a share payable by a participant upon the exercise of an option will be determined by the directors of the Company at their discretion, except that such price may not be set below a minimum price which is the higher of:

(i) the nominal value of a share; and

(ii) 80 per cent of the average of the closing prices of shares on The Stock Exchange of Hong Kong Limited on the five trading days immediately preceding the date of grant of the option.

The period during which an option may be exercised will be determined by the directors at their discretion, except that no option may be exercised later than 10 years after the adoption date of the scheme.

On 9 March 1998 and 26 November 1999, a total number of share options of 20,200,000 were granted under the share option scheme to certain directors of the Company. During the year, options were exercised to subscribe to 7,500,000 ordinary shares of HK$0.1 each at a consideration of HK$11.1 per share.

At 31 December 1999 and 1998, the outstanding options were as follows:

Date options granted	Period during which options exercisable	Exercise price	Number of options outstanding at the period end
At 31 December 1999			
9 March 1998................	9 March 1998 to 8 March 2006	HK$11.1	4,500,000
26 November 1999	26 November 1999 to 7 October 2007	HK$33.91	4,100,000
26 November 1999	26 November 2002 to 7 October 2007	HK$33.91	4,100,000
At 31 December 1998			
9 March 1998................	9 March 1998 to 8 March 2006	HK$11.1	12,000,000

29. RESERVES

	Share premium RMB million	Capital reserve/ (goodwill) RMB million	General reserve RMB million	PRC statutory reserves RMB million	Retained profits RMB million	Total RMB million
At 1 January 1998.............	50,643	1,132	72	111	1,330	53,288
Goodwill arising on acquisition of subsidiaries.....................	—	(15,622)	—	—	—	(15,622)
Net profit for the year.........	—	—	—	—	6,900	6,900
Transfer to PRC statutory reserves, net of minority interests' share..............................	—	—	—	2,092	(2,092)	—
At 31 December 1998	50,643	(14,490)	72	2,203	6,138	44,566
At 1 January 1999.............	50,643	(14,490)	72	2,203	6,138	44,566
Issue of new shares to professional and institutional investors *(Note 27)*.........................	16,484	—	—	—	—	16,484
Issue of consideration shares for acquisition of subsidiaries *(Note 27)*	32,549	—	—	—	—	32,549
Expenses incurred in connection with the						

issue of new shares to professional and institutional investors *(Note 27)*.........................	(419)	—	—	—	—	(419)
Goodwill arising on acquisition of subsidiaries......................	—	(42,440)	—	—	—	(42,440)
Shares issued under share option scheme *(Note 28)*	88	—	—	—	—	88
Net profit for the year.........	—	—	—	—	4,797	4,797
Transfer to PRC statutory reserves...........................	—	—	—	3,524	(3,524)	—
At 31 December 1999	99,345	(56,930)	72	5,727	7,411	55,625

Share premium

The application of the share premium account is governed by Section 48B of the Hong Kong Companies Ordinance.

PRC statutory reserves

PRC statutory reserves include general reserve, enterprise expansion fund, statutory surplus reserve and statutory public welfare fund.

At 31 December 1999, Guangdong Mobile, Zhejiang Mobile, Jiangsu Mobile and Fujian Mobile are wholly-foreign owned enterprises. In accordance with Accounting Regulations for PRC Enterprises with Foreign Investment, they are required to transfer at least 10 per cent of their profit after taxation, as determined under accounting principles generally accepted in the PRC ("PRC GAAP") to the general reserve until the balance of the general reserve is equal to 50 per cent of their registered capital. Moreover, they are required to transfer a certain percentage of their profit after taxation, as determined under PRC GAAP, to the enterprise expansion fund. During the year, appropriations were made by each of the above subsidiaries to the general reserve and the enterprise expansion fund at 10 per cent and 30 per cent, respectively, of their profit after taxation determined under PRC GAAP.

The general reserve can be used to make good losses and to increase the capital of the subsidiaries while the enterprise expansion fund can be used to increase the capital of the subsidiaries, to acquire fixed assets and to increase current assets.

As Henan Mobile and Hainan Mobile were only registered as wholly-foreign owned enterprises on 27 January 2000 and 19 January 2000, respectively, they are not required to make the above transfers for the year ended 31 December 1999. According to their Articles of Association and Regulations on Posts and Telecommunications Enterprises, Henan Mobile and Hainan Mobile are required to transfer a certain percentage of profit after taxation, as determined under PRC GAAP, to the statutory surplus reserve and statutory public welfare fund. During the year, appropriations were made by Henan Mobile and Hainan Mobile to the statutory surplus reserve and the statutory public welfare fund at 10 per cent and 9 per cent, respectively, of their profit after taxation determined under PRC GAAP.

Statutory surplus reserve can be used to make good previous years' losses, if any, and may be converted into paid-up capital, provided that the balance after such conversion is not less than 25 per cent of the registered capital of the subsidiaries. Statutory public welfare fund can only be utilised on capital items for the collective benefits of the employees such as the construction of staff quarters and other staff welfare facilities. This reserve is non-distributable other than in liquidation.

At 31 December 1999, the balances of the general reserve, enterprise expansion fund, statutory surplus reserve and statutory public welfare fund were RMB 1,400,000,000 (1998: RMB 523,000,000), RMB 4,198,000,000 (1998: RMB 1,569,000,000), RMB 83,000,000 (1998: RMB 74,000,000) and RMB 46,000,000 (1998: RMB 37,000,000) respectively.

30. CONNECTED AND RELATED PARTY TRANSACTIONS

(a) The Group's operations are subject to extensive regulation by the PRC government. The Ministry of Information Industry ("MII"), pursuant to the authority delegated to it by the PRC State Council, directly or indirectly regulates licensing, competition, interconnection, technology and equipment standards, and other aspects of the PRC telecommunications industry. The MII, together with other PRC government entities, also regulates tariff policy, foreign investment and spectrum allocation and spectrum usage fees. Specifically, the Group's tariffs are subject to the regulation by various Government authorities, including the State Development

Planning Commission ("SDPC"), the MII, the Provincial Posts and Telecommunications Administrations ("PTAs") and the relevant provincial price regulatory authorities. Connection fees charged by the Group are based on a guidance price range set jointly by the MII and SDPC, with each actual fee determined by the Group in consultation with the relevant provincial price regulatory authorities. In general, the Group's base usage charges and domestic roaming usage charges are set by the MII and SDPC. International roaming charges are determined pursuant to agreements formed between the Directorate General of Telecommunications (the "DGT") or China Mobile and other cellular operators. The principal connected and related party transactions, which were entered into with the MII and other entities under the control of MII, are as follows:

	Note	1999	1998
		RMB million	RMB million
Interconnection revenue	(i)	1,242	752
Interconnection charges	(ii)	5,275	3,925
Leased line charges	(iii)	3,723	3,917
Roaming revenue	(iv)	1,497	1,053
Roaming expenses	(v)	1,178	827
Spectrum fees	(vi)	12	12
Operating lease charges	(vii)	280	227
Sales commission	(viii)	378	264
Debt collection service fees	(viii)	143	133
Billing service fees	(viii)	2	1
Equipment maintenance service fees	(ix)	—	—
Rental charges of synchronised clock ports	(x)	2	—

Notes:

(i) Interconnection revenue represents the amounts received or receivable from the Guangdong PTA, the Zhejiang PTA, the Jiangsu PTA, the Fujian PTA, the Henan PTA and the Hainan PTA ("the relevant PTAs") in respect of calls made between the Group's cellular networks, the fixed line networks in Guangdong, Zhejiang, Jiangsu, Fujian, Henan and Hainan provinces ("the relevant provinces") and other GSM network operators in other provinces in the PRC. Prior to 1 October 1999, no interconnection revenue was received by the Group in respect of inter-provincial outbound calls made from the fixed line networks in the relevant provinces to other GSM networks in other provinces in the PRC. Pursuant to the interconnection agreement dated 8 October 1999 and with effect from 1 October 1999, the Group records the amounts receivable from the relevant PTAs for inter-provincial outbound calls originating from the fixed line networks in the relevant provinces, which terminate on GSM networks in other provinces in the PRC as interconnection revenue.

(ii) Interconnection charges represent the amounts paid or payable to China Mobile or the relevant PTAs in respect of calls made between the Group's cellular networks, the fixed line networks in the relevant provinces and other GSM network operators in other provinces in the PRC. Prior to 1 October 1999, no interconnection charges were paid/payable in respect of inter-provincial outbound calls made from the fixed line networks in the relevant provinces to other GSM networks in other provinces in the PRC. Pursuant to the interconnection agreement dated 8 October 1999 and with effect from 1 October 1999, the Group records the amounts payable to China Mobile for inter-provincial outbound calls originating from the fixed line networks in the relevant provinces, which terminate on other GSM networks in other provinces in the PRC as interconnection charges.

(iii) Leased line charges represent expenses paid or payable to the relevant PTAs for the use of leased lines between the base transceiver stations, base station controllers, base stations, fixed line network connectors, long distance network connectors and main switches.

(iv) A cellular telephone user using roaming services is charged at the respective roaming usage rate for roaming in calls, in addition to applicable long distance charges. Roaming revenue represents domestic and international roaming in usage charges from non-subscribers received or receivable from the relevant domestic and international cellular telephone operators through the MII or China Mobile. With effect from 1 April 1999, all settlements of inter-provincial roaming and corresponding interconnection revenues are made through China Mobile instead of the MII.

(v) A cellular telephone user using roaming services is charged at the respective roaming usage rate for roaming out calls, in addition to applicable long distance charges. Roaming expenses represent the amount of domestic and international roaming out usage charges received or receivable from subscribers which is to be remitted to the relevant domestic and international cellular telephone operators for their share of the roaming revenue through the MII or China Mobile. With effect from 1 April 1999, all settlements of inter-provincial roaming and corresponding interconnection charges are made through China Mobile instead of the MII.

(vi) Spectrum fees represent the spectrum usage fees paid or payable to the MII through China Mobile for the usage of the frequency bands allocated to the Company's subsidiaries in the PRC.

(vii) Operating lease charges represent the rental paid or payable to the relevant PTAs for operating leases in respect of land and buildings and others.

(viii) With effect from 20 October 1997 for Guangdong Mobile and Zhejiang Mobile, 1 January 1998 for Jiangsu Mobile, 1 April 1999 for Fujian Mobile and Hainan Mobile, and 1 July 1999 for Henan Mobile, each of these subsidiaries entered into certain services agreements in respect of marketing services with authorised dealers, debt collection services and billing services with the relevant PTAs.

Sales commission represents the amounts paid or payable to the relevant PTAs for their marketing of the cellular services in the relevant provinces.

Debt collection service fees represent the amounts paid or payable to the relevant PTAs for their provision of debt collection services to the Company's subsidiaries.

Billing service fees represent the amounts paid or payable to the Fujian PTA and the Henan PTA for their provision of billing services to Fujian Mobile and Henan Mobile.

(ix) Equipment maintenance services fees represent the amount paid or payable to the Fujian PTA for its provision of the maintenance services to Fujian Mobile. No such expenses were incurred for the year ended 31 December 1999.

(x) Rental charges of synchronised clock ports represent expenses paid or payable to the relevant PTAs for leasing of synchronised clock ports by the Company's subsidiaries.

(b) Pursuant to an ordinary resolution passed by the Company's shareholders on 11 November 1999, the Company acquired the entire issued share capital of Fujian Mobile BVI, Henan Mobile BVI and Hainan Mobile BVI from CMHK(BVI), the immediate holding company of the Company, for a total consideration of HK$49,715,000,000 (RMB equivalent 52,953,000,000). The consideration was satisfied by a cash of HK$19,031,000,000 (RMB equivalent 20,268,000,000) and allotment of shares to CMHK(BVI) amounted to HK$30,684,000,000 (RMB equivalent 32,685,000,000). The only assets of each of Fujian Mobile BVI, Henan Mobile BVI and Hainan Mobile BVI are their interests in the entire equity of Fujian Mobile, Henan Mobile and Hainan Mobile, respectively.

Pursuant to an ordinary resolution passed by the Company's shareholders on 3 June 1998, the Company acquired the entire issued share capital of Jiangsu Mobile BVI from CMHK(BVI) for a total cash consideration of HK$22,475,000,000 (RMB equivalent 24,120,000,000). The only asset of Jiangsu Mobile BVI is its interest in the entire equity of Jiangsu Mobile.

31. COMMITMENTS

(a) Capital commitments

Capital commitments outstanding at 31 December 1999 not provided for in the accounts were as follows:

	1999 **RMB million**	**1998** **RMB million**
Commitments in respect of land and buildings		
— authorised and contracted for	161	77
— authorised but not contracted for	2,676	919
	2,837	996
Commitments in respect of telecommunications equipment		
— authorised and contracted for	7,328	3,089
— authorised but not contracted for	13,312	14,599
	20,640	17,688
Total commitments		
— authorised and contracted for	7,489	3,166
— authorised but not contracted for	15,988	15,518
	23,477	18,684

(b) Operating lease commitments

The Group had commitments under operating leases to make payments in the next year as follows:

At 31 December 1999:

	Land and buildings RMB million	Leased lines RMB million	Others RMB million	Total RMB million
Leases expiring:				
Within one year	134	976	1	1,111
After one year but within five years	60	901	301	1,262
After five years	221	2,010	40	2,271
	415	3,887	342	4,644

At 31 December 1998:

	Land and buildings RMB million	Leased lines RMB million	Others RMB million	Total RMB million
Leases expiring:				
Within one year	4	—	—	4
After one year but within five years	31	1,048	—	1,079
After five years	193	3,088	39	3,320
	228	4,136	39	4,403

32. COMPARATIVE FIGURES

The presentation and classification of items in the accounts have been changed due to the adoption of the requirements SSAP I (revised) "Presentation of financial statements". As a result, additional line items have been included on the face of the consolidated profit and loss account and the balance sheets as required by SSAP I (revised), such as finance costs and analysis of expenses. Comparative figures have been reclassified to conform with the current year's presentation.

33. ULTIMATE HOLDING COMPANY

The directors consider the ultimate holding company at 31 December 1999 to be China Mobile Communications Corporation, a company incorporated in the PRC.

2. Extracts of the interim report of the Group for the six months ended 30 June 2000 and the audited financial statements of the Group as disclosed in the Company's preliminary prospectus for the Share Offering and the Convertible Note Offering.

Interim results of the Group in respect of the six months ended 30 June 2000 and 1999 as disclosed in the interim report of the Group

	Note	Note (A) For the six months ended 30 June 2000 consolidated RMB million	Audited For the six months ended 30 June 1999 consolidated RMB million
Operating revenue (Turnover)	2		
Usage fees		20,143	11,012
Monthly fees		4,250	2,081
Connection fees		1,532	2,417
Other operating revenue	3	2,972	1,430
		28,897	16,940
Operating expenses			
Leased lines		2,714	2,014
Interconnection		3,604	2,775
Depreciation		4,165	3,297
Personnel		1,476	852
Other operating expenses		4,616	1,991
		16,575	10,929
Profit from operations		12,322	6,011

Write-down and write-off of TACS network equipment	4	—	(500)
Other income		330	270
Non-operating (expenses)/income		(12)	11
Interest income		437	289
Finance costs		(335)	(107)
Profit from ordinary activities before taxation		12,742	5,974
Income tax	5	(4,018)	(1,970)
Profit from ordinary activities after taxation		8,724	4,004
Earnings per share			
Basic	6(a)	RMB 64 cents	RMB 34 cents
Diluted	6(b)	RMB 64 cents	RMB 34 cents

(A) There is no difference between the unaudited and audited results of the Group in respect of the six months ended 30 June 2000 as disclosed in the interim report dated 31 August 2000 and the financial statements of the Group for the six months ended 30 June 2000 included in the Company's preliminary prospectus for the Share Offering and the Convertible Note Offering, respectively.

Notes:

(1) Basis of preparation

The consolidated results of the Group for the six months ended 30 June 2000 include the results of the Company and its subsidiaries in Guangdong, Zhejiang, Jiangsu, Fujian, Henan and Hainan provinces for the six months ended 30 June 2000.

The consolidated results of the Group for the six months ended 30 June 1999 include the results of the Company and its subsidiaries in Guangdong, Zhejiang and Jiangsu provinces for the six months ended 30 June 1999.

(2) Turnover

Turnover primarily represents usage fees, monthly fees and connection fees for the use of the Group's cellular telecommunications networks, net of the PRC business tax and government surcharges. Business tax and government surcharges are charged at approximately 3.3 per cent of the corresponding revenue.

(3) Other operating revenue

Other operating revenue mainly represents telephone number selection fees, charges for value-added services, interconnection revenue and roaming-in fees. Roaming-in fees are received from China Mobile in respect of calls made by non-subscribers using the Group's cellular telecommunications networks.

(4) Write-down and write-off of TACS network equipment

	Note (A) For the six months ended 30 June 2000 consolidated RMB million	Audited For the six months ended 30 June 1999 consolidated RMB million
Write-down of TACS network equipment(a)	—	471
Write-off of TACS network equipment(b)	—	29
	—	500

TACS represents Total Assess Communication System, a European standard for analog mobile telephone transmissions in the 800 and 900 MHz frequency bands.

(a) The Group has reviewed the carrying value of all TACS network and related equipment at 30 June 1999. Based on the estimated recoverable value of these assets, a write-down of RMB 471,000,000 has been made during the six months ended 30 June 1999.

(b) This represents the write-off of certain TACS network equipment which have been removed from service.

(5) Income tax

	Note (A) For the six months ended 30 June 2000 consolidated RMB million	Audited For the six months ended 30 June 1999 consolidated RMB million
Provision for Hong Kong profits tax for the period......................	—	—
Over-provision in respect of Hong Kong profits tax for prior period..	—	(1)
	—	(1)
Over-provision in respect of PRC income tax for prior period..	(23)	(13)
Provision for PRC income tax on the estimated taxable profits for the period...	3,673	2,145
	3,650	2,132
Deferred tax liabilities/(assets)..	368	(161)

	4,018	1,970

(i) No provision has been made for Hong Kong profits tax as there was no estimated assessable profits for the six months ended 30 June 2000.

(ii) Pursuant to the income tax rules and regulations of the PRC, the Group's subsidiaries in the PRC are subject to the statutory income tax rate of 33 per cent for the six months ended 30 June 2000, except Hainan Mobile Communication Company Limited ("Hainan Mobile") and certain branches of Guangdong Mobile Communication Company Limited which are subject to a tax rate of 15 per cent. According to notices from the PRC Ministry of Finance, connection fees and certain surcharges, which were previously not subject to income tax, are subject to an income tax rate of 33 per cent with effect from 1 January 2000 for Fujian Mobile Communication Company Limited and 27 January 2000 for Henan Mobile Communication Company Limited and 15 per cent with effect from 19 January 2000 for Hainan Mobile.

(6) Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share for the six months ended 30 June 2000 is based on the profit attributable to shareholders of RMB 8,724,000,000 (1999: RMB 4,004,000,000) and the weighted average number of 13,706,310,428 shares (1999: 11,782,884,685 shares) in issue during the six months ended 30 June 2000.

(b) Diluted earnings per share

The calculation of diluted earnings per share for the six months ended 30 June 2000 is based on the profit attributable to shareholders of RMB 8,724,000,000 (1999: RMB 4,004,000,000) and the weighted average number of 13,716,377,376 shares (1999: 11,785,447,499 shares) after adjusting for the effects of all dilutive potential ordinary shares. All dilutive potential ordinary shares arise from the share options granted under the share option scheme which, if converted to ordinary shares, would decrease profit attributable to shareholders per share.

(c) Reconciliations

	30 June 200 Number of shares	30 June 1999 Number of shares
Weighted average number of ordinary shares used in calculating basic earnings per share	13,706,310,428	11,782,884,685
Deemed issue of ordinary shares for no consideration...	10,066,948	2,562,814
Weighted average number of ordinary shares used in calculating diluted earnings per share..........................	13,716,377,376	11,785,447,499

Extracts of audited financial statement of the Group as disclosed in the Company's preliminary Prospectus for the Share Offering and Convertible Note Offering

Balance Sheet as at 30 June 2000

	30 June, 2000 RMB million
Non-current assets	
Fixed assets...	44,399
Construction in progress................................	7,919
Interest in associates...................................	46
Deferred tax assets......................................	1,938
Deferred expenses..	46
Current assets	
Inventories..	307
Amounts due from ultimate holding company................	234
Amounts due from CTC.....................................	506
Accounts receivable......................................	5,526
Other receivables..	1,038
Prepaid expenses and other current assets................	443
Deposits with banks......................................	14,455
Cash and cash equivalents................................	19,767

	42,276
Current liabilities	
Bank and other loans	2,615
Current instalments of obligations under finance leases	68
Amounts due to ultimate holding company	463
Amounts due to CTC	2,405
Accounts payable	5,142
Bills payable	1,212
Accrued expenses and other payables	6,417
Taxation	3,889
	22,211
Net current assets	20,065
Total assets less current liabilities	74,413
Non-current liabilities	
Bank and other loans	(1,982)
Obligations under finance leases, excluding current instalments	(68)
Deferred revenue	(1,583)
Fixed rates notes	(4,957)
NET ASSETS	65,823
SHAREHOLDERS' EQUITY	65,823

Cashflow statement for the six months ended 30 June 2000.

	Note	Six months ended 30 June 2000 RMB million
Net cash inflows from operating activities	(a)	19,566
Returns on investments and servicing of finance		
Interest received		500
Interest paid		(383)
Net cash inflow from returns on investments and servicing of finance		117
Taxation		
PRC income tax paid		(2,630)
Tax paid		(2,630)
Investing activities		
Capital expenditures		(8,498)
Proceeds from sale of fixed assets		102
Increase in deposits with banks		(6,228)
Net cash outflow from investing activities		(14,624)
Net cash inflow before financing activities		2,429
Financing activities		
Proceeds from issue of shares, net of expenses		7
Proceeds from bank and other loans	(b)	1,760
Repayments of bank and other loans	(b)	(3,739)
Repayments of obligation under finance lease	(b)	(39)
Net cash outflow from financing activities		(2,011)
Increase in cash and cash equivalents		418
Cash and cash equivalents at beginning of period		19,349
Cash and cash equivalents at end of period		19,767
Analysis of the balances of cash and cash equivalents		
Deposits with banks with maturity period within three months when placed		5,674
Cash and bank balances		14,093
		19,767

(a) The reconciliation of profit before tax and minority interests to net cash inflows from operating activities is as follows:

	Six months ended 30 June, 2000 RMB million
Profit from ordinary activities before taxation	12,742
Depreciation of fixed assets	4,165
Provision for doubtful accounts	647
Amortisation of deferred expenses	5
Loss on sale of fixed assets	24
Interest income	(437)
Interest expenses and interest elements of finance lease rental	335
Unrealized exchange loss, net	18

Increase in accounts receivable	(1,216)
Increase in other receivables	(150)
Increase in inventories	(100)
Increase in amount due from ultimate holding company	(142)
Decrease in prepaid expenses and other current assets	101
Decrease in amounts due from related parties	792
Decrease in accounts payable	(117)
Decrease in amount due to ultimate holding company	(201)
Increase in amounts due to related parties	1,391
Increase in accrued expenses and other payables	1,618
Increase in deferred revenue, net	91
Net cash inflows from operating activities	19,566

(*b*) *Analysis of changes in financing during the period:*

	Bank and other loans	Fixed rates notes	Obligation under finance lease
	RMB million	RMB million	RMB million
Balance at 1 January 2000	6,576	4,952	175
Proceeds from bank and other loans	1,760	—	—
Repayments of bank and other loans	(3,739)	—	—
Effect of foreign exchange rates	—	4	—
Amortization of discount arising on issuance of notes	—	1	—
Repayment of principal under finance lease payable	—	—	(39)
Balance at 30 June 2000	4,597	4,957	136

(*c*) *Significant non-cash transactions:*

The Group incurred payables of RMB 3,658 and RMB 888 to equipment suppliers and banks, respectively, for additions of construction in progress during the six months ended June 30, 2000.

During the six months ended June 30, 2000, the balances of amounts due from/to the PTAs and CTC were reclassified from amounts due from/to related parties to amounts due from/to CTC.

3. Indebtedness

At the close of business on 31 August 2000 being the latest practicable date for the purpose of this indebtedness statement, the Group had outstanding borrowings of approximately RMB 9,994 million in aggregate. These borrowings comprise secured bank loans of approximately RMB 100 million, unsecured bank loans of approximately RMB 2,853 million, other unsecured loans of approximately RMB 641 million, bills payable of approximately RMB 1,332 million, finance lease obligations of approximately RMB 101 million and unsecured fixed rate notes of approximately RMB 4,967 million.

Approximately RMB 720 million of the unsecured bank loans and approximately RMB 32 million of other unsecured loans are guaranteed by third parties.

Save as aforesaid and apart from intra-group liabilities, none of the companies in the Group had outstanding at the close of business on 31 August 2000 any mortgages, charges or debentures, loan capital, bank overdrafts, loans and other similar indebtedness, hire purchase commitments, liabilities under acceptances, guarantees or other material contingent liabilities.

1. Introduction to Unaudited Pro Forma Financial Information of the Combined Group

The accompanying Unaudited Pro Forma Profit and Loss Account for the year ended 31 December 1999 and for the six months ended 30 June 2000 of the Combined Group gives effect to the following transactions as if such transactions had taken place on 1 January 1999. A description of the transactions is as follows:

(i) Acquisition of the Beijing Mobile, Shanghai Mobile, Tianjin Mobile, Hebei Mobile, Liaoning Mobile, Shandong Mobile and Guangxi Mobile at a consideration of HK$256,021 million (equivalent to approximately RMB 271,856 million) in the form of cash and shares;

(ii) the issuance of shares by the Company to China Mobile Hong Kong (BVI) Limited, credited as fully paid, as part of the acquisition consideration;

(iii) the issuance of shares of the Company pursuant to an international offering resulting in gross cash proceeds of approximately RMB 54,426 million;

(iv) the issuance of convertible notes of the Company resulting in gross cash proceeds of approximately RMB 4,967 million; and

(v) raising of totaling RMB 12,500 million bank loans.

It is assumed that the above transactions would have given rise to interest expenses incurred attributable to the issuance of the convertible notes and the borrowing of bank loans, at an interest rate of 3.8125% per annum (being the mid point of a range from 2.875% to 4.750%, which range is shown for illustrative purpose only and is determined from recent market transactions), and 5.346% per annum for the RMB 7,500 million bank loan and 5.022% per annum for the RMB 5,000 million bank loan, respectively as if such issuance and the borrowing were consummated on 1 January 1999.

The accompanying Unaudited Pro Forma Balance Sheet of the Combined Group as at 30 June 2000 gives effect to the Acquisition and the financing transactions described above as if they had been consummated on 30 June 2000.

The Unaudited Pro Forma Financial Information of the Combined Group is based upon the historical combined financial statements of the Target Group and the consolidated financial statements of the Group after giving effect to Pro Forma adjustments described in the accompanying notes.

The Unaudited Pro Forma Financial Information of the Combined Group does not purport to represent what the results of operations of the Combined Group would actually have been if the events described above had in fact occurred at the beginning of 1999, or any other date, or to project the net profit of the Combined Group for any future period. However, no adjustment has been reflected in respect of the events that would affect the Target Group as described in Section B of Appendix IV of this circular.

The Unaudited Pro Forma Financial Information of the Combined Group should be read in conjunction with other financial information included elsewhere in this circular.

Unaudited Pro Forma Profit and Loss Account of the Combined Group
For the six-month period ended 30 June 2000

	Target Group historical RMB million	The Group historical RMB million	Pro Forma adjustments RMB million	Note	Adjusted balance RMB million
Operating revenue					
Usage fees	10,218	20,143			30,361
Monthly fees	2,780	4,250			7,030
Connection fees	548	1,532			2,080
Other operating revenue	2,160	2,972			5,132
	15,706	28,897			44,603
Operating expenses					
Leased lines	1,532	2,714			4,246
Interconnection	2,749	3,604			6,353
Depreciation	2,652	4,165			6,817
Personnel	326	1,476			1,802
Other operating expenses	2,697	4,616			7,313
	9,956	16,575			26,531
Profit from operations	5,750	12,322			18,072
Other income	50	330			380
Non-operating income/(expenses)	52	(12)			40
Interest income	—	437	(125)	(a)	312
Finance costs	(396)	(335)	(421)	(b)	(1,152)
Profit from ordinary activities before taxation	5,456	12,742			17,652
Income tax	(1,002)	(4,018)			(5,020)
Net profit	4,454	8,724			12,632
Basic and diluted earnings per share/ Pro forma share		RMB 0.64			RMB 0.70
Shares or Pro Forma shares utilised in basic calculations (millions)		13,706			17,953
Shares or Pro Forma shares utilised in diluted calculation (millions)		13,716			17,963

Unaudited Pro Forma Profit and Loss Account of the Combined Group
For the year ended 31 December 1999

	Target Group historical RMB million	The Group historical RMB million	Pro Forma adjustments RMB million	Note	Adjusted balance RMB million
Operating revenue					
Usage fees	16,285	25,812			42,097
Monthly fees	4,564	4,981			9,545
Connection fees	2,113	4,319			6,432
Other operating revenue	3,422	3,511			6,933
	26,384	38,623			65,007
Operating expenses					
Leased lines	3,309	3,723			7,032
Interconnection	4,867	6,453			11,320
Depreciation	4,793	7,411			12,204
Personnel	546	2,256			2,802
Other operating expenses	4,349	5,140			9,489
	17,864	24,983			42,847
Profit from operations	8,520	13,640			22,160
Write-down and write-off of TACS network equipment	(4,508)	(8,242)			(12,750)
Other income	9	552			561
Non-operating income/(expenses)	123	70			193
Interest income	—	767	(207)	(a)	560
Finance costs	(638)	(343)	(841)	(b)	(1,822)
Profit from ordinary activities before taxation	3,506	6,444			8,902
Income tax	(824)	(1,647)			(2,471)
Net profit	2,682	4,797			6,431
Basic and diluted earnings per share/Pro forma share		RMB 0.40			RMB 0.39
Shares or Pro Forma shares utilised in basic calculations (millions)		12,069			16,316
Shares or Pro Forma shares utilised in diluted calculation (millions)		12,072			16,319

Unaudited Pro Forma Balance Sheet of the Combined Group at 30 June 2000

	Target Group historical RMB million	The Group historical RMB million	Pro Forma adjustments RMB million	Note	Adjusted balance RMB million
Non-current assets					
Fixed assets	37,252	44,399			81,651
Construction in progress	4,856	7,919			12,775
Interest in associates	—	46			46
Investment securities	35	—			35
Deferred tax assets	451	1,938			2,389
Deferred expenses	—	46			46
Current assets					
Inventories	143	307			450
Amounts due from ultimate holding company	—	234			234
Amounts due from CTC	783	506			1,289
Accounts receivable	2,823	5,526			8,349
Other receivables	354	1,038			1,392
Prepaid expenses and other current assets	519	443			962
Deposits with banks	75	14,455			14,530
Cash and cash equivalents	6,467	19,767	(4,139)	(c)	22,095
	11,164	42,276			49,301
Current liabilities					
Bank and other loans	3,727	2,615	5,000	(d)	11,342
Current instalments of obligations under finance leases	1,613	68			1,681
Amounts due to ultimate holding company	64	463			527
Amounts due to CTC	2,700	2,405			5,105
Accounts payable	2,788	5,142			7,930
Bills payable	—	1,212			1,212
Accrued expenses and other payables	2,508	6,417			8,925
Taxation	—	3,889			3,889
	13,400	22,211			40,611
Net current (liabilities)/ assets	(2,236)	20,065			8,690
Total assets less current liabilities carried forward	40,358	74,413			105,632

	Target Group historical RMB million	The Group historical RMB million	Pro Forma adjustments RMB million	Note	Adjusted balance RMB million
Total assets less current liabilities brought forward	40,358	74,413			105,632
Non-current liabilities					
Bank and other loans	(8,850)	(1,982)	(7,500)	(d)	(18,332)
Obligations under finance leases, excluding current instalments	(1,937)	(68)			(2,005)
Deferred revenue	(254)	(1,583)			(1,837)
Fixed rates notes	—	(4,957)			(4,957)
Convertible notes	—	—	(4,967)	(d)	(4,967)
NET ASSETS	29,317	65,823			73,534
			250,250	(e)	
			(29,317)	(f)	
OWNERS' EQUITY	29,317	65,823	(242,539)	(g)	73,534

Notes to the Unaudited Pro Forma Financial Information of the Combined Group

(a) To adjust for reduction in the interest income for the cash portion of the purchase consideration to be taken from the internal resources of the Company as if the transaction had taken place on January 1, 1999. This interest income is not subject to income tax.

(b) To record the interest expense of the convertible notes and the RMB bank loans at interest rates of 3.8125% per annum (being the mid point of a range from 2.875% to 4.750%, which range is shown for illustrative purposes only, and is determined from recent market transactions) and 5.346% per annum for the RMB 7,500 million bank loan and 5.022% per annum for the RMB 5,000 million bank loan, respectively as if the issuance of convertible notes and the RMB bank loan borrowings were consummated on 1 January 1999. The interest expense of the convertible notes and the RMB bank loans are not deductible for income tax purposes.

(c) To record the cash portion of the purchase consideration for the Target Group to be taken from the internal resources of the Company as at 30 June 2000.

(d) To record the liability arising from the issuance of convertible notes and raising of the RMB bank loan for financing the Acquisition of the Target Group as at 30 June 2000.

(e) To record the additional share capital arising from the issuance of shares pursuant to an international offering and to China Mobile Hong Kong (BVI) Limited for financing the Acquisition of the Target Group as at 30 June 2000.

(f) To eliminate the owners' equity of the Target Group as of 30 June 2000.

(g) To record goodwill as a result of the acquisition of the Target Group as if the acquisition had taken place on 30 June 2000. The goodwill has been eliminated against reserves of the Company. Goodwill represents the difference between the purchase consideration of HK$256,021 million and the estimated fair value of the underlying net assets of the Target Group as of 30 June 2000.

2. Working capital

The Directors are of the opinion that after taking into account the proceeds from the Share Offering, the Convertible Note Offering and bank loans referred in the section headed "Financing of the Acquisition" in the Letter From the Chairman contained in this circular, the Combined Group will, following the completion of the Acquisition, have sufficient working capital for its present requirements in the absence of unforeseen material circumstances.

3. Indebtedness

At the close of business on 31 August 2000, being the latest practicable date for the purpose of this indebtedness statement, the Combined Group had outstanding borrowings of approximately RMB 25,661 million in aggregate. These borrowings comprise secured bank loans of approximately RMB 100 million, unsecured bank loans of approximately RMB 15,091 million, other unsecured loans of approximately RMB 814 million, bills payable of approximately RMB 1,358 million, finance lease obligations of approximately RMB 3,331 million and unsecured fixed rate notes of approximately RMB 4,967 million.

Approximately RMB 5,803 million of the unsecured bank loans, approximately RMB 184 million of other unsecured loans and approximately RMB 386 million of finance lease obligations are guaranteed by third parties.

As at 31 August 2000, the Combined Group had provided guarantees to banks in respect of banking facilities of approximately RMB 13 million granted to third parties.

Save as aforesaid and apart from intra-group liabilities, none of the companies in the Combined Group had outstanding at the close of business on 31 August 2000 any mortgages, charges or debentures, loan capital, bank overdrafts, loans and other similar indebtedness, hire purchase commitments, liabilities under acceptances, guarantees or other material contingent liabilities.

The forecast combined profit after taxation but before extraordinary items of the Target Companies for the year ending 31 December 2000 is set out in the section headed "Prospective Financial Information" in the Letter from the Chairman.

(A) Bases and Assumptions

The management of the Company and the Target Companies have prepared the forecast combined profit after taxation but before extraordinary items of the Target Companies for the year ending 31 December 2000. The management of the Company and the Target Companies are not currently aware of any extraordinary items which have arisen or are likely to arise in respect of the year ending 31 December 2000. The forecast is based on the audited combined results of the Target Group for the six months ended 30 June 2000 and a forecast for the remaining six months of the year ending 31 December 2000. The forecast has been prepared on a basis consistent in all material respects with the accounting policies currently adopted by the Target Companies as summarised in Appendix III on the following principal assumptions:

(1) there will be no material changes in existing political, legal, regulatory, fiscal or economic conditions in Hong Kong and the PRC;

(2) there will be no material changes in legislation or regulations governing the telecommunications industry in the PRC which would materially affect the business or operations of the Target Companies;

(3) inflation, interest rates and Renminbi exchange rates will not differ materially from those prevailing as at the date of this circular;

(4) there will be no material changes in the bases or rates of taxation appropriate to the Target Companies, except as otherwise disclosed in this circular;

(5) there will be no material breakdown or malfunctioning of the network infrastructure and equipment of the Target Companies; and

(6) there will be no material adverse change in the competitive position of any of the Target Companies.

(B) Letters

Set out below are the text of the letters received from the reporting accountants, KPMG, and from the Company's financial advisers in connection with the profit forecast and prepared for the purpose of inclusion in this circular.

KPMG LOGO
The Directors
China Mobile (Hong Kong) Limited
China International Capital
Corporation (Hong Kong) Limited
Goldman Sachs (Asia) L.L.C.

Dear Sirs

We have reviewed the accounting policies and calculations adopted in arriving at the forecast of the combined profit after taxation but before extraordinary items of Beijing Mobile Communication Company Limited ("Beijing Mobile"), Shanghai Mobile Communication Company Limited ("Shanghai Mobile"), Tianjin Mobile Communication Company Limited ("Tianjin Mobile"), Hebei Mobile Communication Company Limited ("Hebei Mobile"), Liaoning Mobile Communication Company Limited ("Liaoning Mobile"), Shandong Mobile Communication Company Limited ("Shandong Mobile") and Guangxi Mobile Communication Company Limited ("Guangxi Mobile") ("the Target Group") for the year ending 31 December 2000, for which the management of China Mobile (Hong Kong) Limited (the "Company") and Beijing Mobile, Shanghai Mobile, Tianjin Mobile, Hebei Mobile, Liaoning Mobile, Shandong Mobile and Guangxi Mobile are solely responsible, as set out in the circular dated 16 October 2000 issued by the Company. The forecast is based on the audited combined results of the Target Group for the six months ended 30 June 2000 and a forecast for the remaining six months of the year ending 31 December 2000.

In our opinion so far as the accounting policies and calculations are concerned, the forecast has been properly compiled on the bases and the assumptions made by the respective management of the Company and Beijing Mobile, Shanghai Mobile, Tianjin Mobile, Hebei Mobile, Liaoning Mobile, Shandong Mobile and Guangxi Mobile, as set out in Part A of Appendix VII of the above-mentioned circular and is presented on a basis consistent in all material respects with the accounting policies adopted by the Target Group as set out in our accountants' report dated 16 October 2000 the text of which is set out in Appendix III of the said circular.

8th Floor
Prince's Building
10 Chater Road
Hong Kong

16 October 2000

Yours faithfully
KPMG
Certified Public Accountants

China International Capital Corporation
(Hong Kong) Limited
Room 4302, 43rd Floor
Central Plaza
18 Harbour Road
Wanchai
Hong Kong

Goldman Sachs (Asia) L.L.C.
68th Floor
Cheung Kong Center
2 Queen's Road Central
Hong Kong

16 October 2000

The Directors
China Mobile (Hong Kong) Limited
60th Floor, The Center
99 Queen's Road Central
Hong Kong

Dear Sirs

We refer to the forecast of the combined profit after taxation but before extraordinary items of Beijing Mobile Communication Company Limited ("Beijing Mobile"), Shanghai Mobile Communication Company Limited ("Shanghai Mobile"), Tianjin Mobile Communication Company Limited ("Tianjin Mobile"), Hebei Mobile Communication Company Limited ("Hebei Mobile"), Liaoning Mobile Communication Company Limited ("Liaoning Mobile"), Shandong Mobile Communication Company Limited ("Shandong Mobile") and Guangxi Mobile Communication Company Limited ("Guangxi Mobile") for the year ending 31 December 2000 as set out in the circular issued by China Mobile (Hong Kong) Limited (the "Company"), dated 16 October 2000.

We have discussed with you the bases and assumptions upon which the profit forecast has been made. We have also considered the letter dated 16 October 2000 addressed to you and us from KPMG regarding the accounting policies and calculations upon which the forecast has been made.

On the basis of the assumptions made by the management of the Company and Beijing Mobile, Shanghai Mobile, Tianjin Mobile, Hebei Mobile, Liaoning Mobile, Shandong Mobile and Guangxi Mobile, respectively, and on the bases of the accounting policies and calculations reviewed by KPMG, we are of the opinion that the profit forecast, for which the management of the Company and Beijing Mobile, Shanghai Mobile, Tianjin Mobile, Hebei Mobile, Liaoning Mobile, Shandong Mobile and Guangxi Mobile are solely responsible, has been made after due and careful enquiry.

Yours faithfully,
For and on behalf of
CHINA INTERNATIONAL CAPITAL CORPORATION (HONG KONG) LIMITED
Bi Mingjian
Managing Director

Yours faithfully,
For and on behalf of
GOLDMAN SACHS (ASIA) L.L.C.
Bob Yang
Executive Director

Certain information extracted from the preliminary prospectus dated 11 October 2000 in respect of the Share Offering and the Convertible Note Offering is set out in this Appendix.

"PROSPECTUS SUMMARY

Introduction

We are the leading provider of mobile communications services in six provinces in China. We had approximately 23.9 million subscribers as of September 20, 2000. On October 4, 2000, we agreed to acquire from our immediate controlling shareholder, an indirect subsidiary of China Mobile Communications Corporation, the mobile communications businesses currently operated by China Mobile Communications Corporation in seven provinces, municipalities and autonomous region in China, subject to regulatory and independent shareholder approvals and other conditions. If the proposed acquisition is successfully completed:

- we will have a geographically contiguous market covering all of the coastal regions of mainland China;
- we will have approximately 55.9% of all cellular subscribers in mainland China;
- our service areas will cover approximately 48.0% of the total population in mainland China; and
- the cellular penetration rate in our combined market will be approximately 7.1%, which indicates room for significant future growth.

Our Operations

Our cellular networks are based primarily on the digital GSM technology. Our networks reach all cities and counties and most major roads and highways in the provinces in which we operate. Our networks are connected to China's national fixed line telephone networks and the other cellular networks of China Mobile Communications Corporation in the regions in which we do not currently operate.

The Acquisition

We have agreed to acquire from China Mobile Hong Kong (BVI) Limited, our immediate controlling shareholder, the entire interest of the mobile communications businesses currently operated by China Mobile Communications Corporation in Beijing, Shanghai, Tianjin, Hebei, Liaoning, Shandong and Guangxi. Each of these companies is the leading mobile communications services provider in its geographic region. Most of these regions are among the most developed and prosperous regions in China not yet serviced by us. As of September 20, 2000, these seven companies had a total of approximately 15.4 million subscribers.

The total purchase price is HK$256,021 million (US$32,840 million), to be paid by us with a combination of cash and new shares to be issued to China Mobile Hong Kong (BVI) Limited. We intend to finance the major part of the cash portion of the purchase price using the proceeds from the share offering and convertible note offering.

We will proceed with the acquisition only if the conditions set forth in the acquisition agreement are satisfied or waived. These conditions include the receipt of regulatory and independent shareholder approvals for the acquisition.

Our Business Strategy

We believe that the telecommunications market in mainland China will continue to expand rapidly. We are making this acquisition because it would enhance our growth profile and significantly expand our size and positioning in the market. Our business strategy has the following key elements:

- continue to actively grow our core mobile communications services by:

• maintaining focus on developing a high-quality subscriber base;

• broadening our subscriber base and increasing market penetration;

• focusing on integrating our businesses and realizing synergies to improve efficiency; and

• nurturing our human capital;

• pursue strategic expansion in the broader telecommunications market in mainland China and capturing new revenue streams; and

• continue to explore acquisition and other expansion opportunities.

Our Majority Shareholder

China Mobile Communications Corporation indirectly owns, and will continue to own immediately after the completion of the concurrent share offering, the convertible note offering and the acquisition, approximately 75% of our outstanding shares.

Our principal executive office is located at 60th Floor, The Center, 99 Queen's Road Central, Hong Kong, China and our telephone number at this address is (852) 3121-8888.

Summary Operating and Other Data

	As of or for the year ended December 31, 1997	1998	1999	As of or for the six months ended June 30, 2000
China Mobile (HK)				
Total population base (in millions)(1)	115	188	324	326(2)
Cellular penetration (%)(3)	3.0	3.7	5.5	8.0(2)
Subscribers (in thousands)				
Contract	3,405	6,531	15,621	19,142
Prepaid(4)	—	—	—	2,496
Total subscribers	3,405	6,531	15,621	21,638*
Market share (%)(3)	97.6	94.5	87.4	83.0
Average churn rate (%)(5)(6)	1.6	2.1	4.6	3.9
Average minutes of use per subscriber per month (7)	441	385	383	320
Average revenue per subscriber per month (RMB)(8)	474	450(9)	347(10)	261
Target companies				
Total population base (in millions)(1)	277	279	281	282(2)
Cellular penetration (%)(3)	1.4	2.5	4.2	6.1(2)
Subscribers (in thousands)				
Contract	3,699	6,471	10,121	12,280
Prepaid(4)	—	—	—	1,363
Total subscribers	3,699	6,471	10,121	13,643**
Market share (%)(3)	94.6	91.3	85.4	80.0
Average churn rate (%)(5)(6)	5.1	6.3	7.9	6.4
Average minutes of use per subscriber per month (7)	419	386	340	310
Average revenue per subscriber per month (RMB)(8)	387	309	270	224
China Mobile (HK) and target companies pro forma combined				
Combined total population base (in millions)(1)	392	467	605	607(2)
Cellular penetration (%)(3)	1.9	3.0	4.9	7.1(2)
Subscribers (in thousands)				
Contract	7,104	13,002	25,743	31,422
Prepaid(4)	—	—	—	3,858
Total subscribers	7,104	13,002	25,743	35,280***
Market share (%)(3)	95.9	92.9	86.6	81.8
Average churn rate (%)(5)(6)	3.4	4.2	5.9	4.9
Average minutes of use per subscriber per month (7)	429	386	366	316
Average revenue per subscriber per month (RMB)(8)	430	373(9)	310(10)	247

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* 23.9 million subscribers as of September 20, 2000.

** 15.4 million subscribers as of September 20, 2000.

*** 39.3 million subscribers as of September 20, 2000.

(1) *Source:* 1998 China Statistical Yearbook, 1999 China Statistical Yearbook and 2000 China Statistical Abstract.

(2) Estimate based on population as of December 31, 1999 as published in the 2000 China Statistical Abstract, and further assuming the same annual population growth rate in each province, municipality or autonomous region in 2000 as in 1999.

(3) Calculated based on our estimate of the total number of cellular subscribers.

(4) We and the companies that we have agreed to acquire began trial prepaid services in selected cities in the second half of 1999 and launched prepaid services on a full scale basis in the beginning of 2000.

(5) Measures the rate of subscriber disconnections from mobile telephone service, determined by dividing (A) the sum of voluntary and involuntary deactivations (excluding deactivations due to subscribers switching from one of our contract services to another) during the relevant period by (B) the average number of subscribers during the period (calculated as the average at the beginning and end of the year (in the case of 1997 and 1998) and at the beginning of the year and the end of each calendar month (in the case of 1999 and the six months ended June 30, 2000)). On this basis, our calculated churn rate will be affected by the number of voluntary and involuntary deactivations and the significant growth in our subscriber base. For ease of comparison, the calculation includes the relevant information of Jiangsu Mobile in respect of the full year of 1998 and the relevant information of Fujian Mobile, Henan Mobile and Hainan Mobile in respect of the full year of 1999.

(6) We began offering prepaid services in late 1999. Some of our subscribers have switched from our contract services to our prepaid services, which do not require subscriber registration. Since the exact number of such subscribers cannot be ascertained, the above churn rate accounts for them as churn subscribers, even though they remain our subscribers. Based on our own recent market surveys, we believe that if such subscribers were to be excluded from the churn rate calculation, our calculated churn rates would be lower than those shown in the schedule above.

(7) Calculated by (A) dividing the total minutes of usage during the relevant period by the average number of subscribers during the period (calculated in the same manner as described in note (5) above) and (B) dividing the result by the number of months in the period. For ease of comparison, the calculation includes the relevant information of Jiangsu Mobile in respect of the full year of 1998 and the relevant information of Fujian Mobile, Henan Mobile and Hainan Mobile in respect of the full year of 1999.

(8) Calculated by (A) dividing the operating revenue during the relevant period by the average number of subscribers during the period (calculated in the same manner as described in note (5) above) and (B) dividing the result by the number of months in the period.

(9) Excluding Jiangsu Mobile, because the operating revenues of Jiangsu Mobile are included in our financial results only from June 4, 1998, the date of its acquisition by us.

(10) Excluding Fujian Mobile, Henan Mobile and Hainan Mobile, because the operating revenues of Fujian Mobile, Henan Mobile and Hainan Mobile are included in our financial results only from November 12, 1999, the date of their acquisition by us.

Summary Historical Consolidated Financial Information

	As of or for the year ended December 31,						As of or for the six months ended June 30,		
	1995	**1996**	**1997**	**1998**	**1999**	**1999**	**1999**	**2000**	**2000**
	RMB	**RMB**	**RMB**	**RMB**	**RMB**	**US$**	**RMB**	**RMB**	**US$**
	(in millions, except per share information and share numbers)								
Income Statement Data: Hong Kong GAAP									
Operating revenue	7,598	10,367	15,488	26,345	38,623	4,666	16,940	28,897	3,[illegible]
Operating expenses	2,856	5,405	10,074	18,410	24,983	3,018	10,929	16,575	2,[illegible]
Operating profit	4,742	4,962	5,414	7,935	13,640	1,648	6,011	12,322	1,[illegible]
Write-down and write-off of TACS network equipment	—	—	—	282	8,242	996	500	—	
Profit before tax and minority interests.............	4,954	4,941	5,953	9,387	6,444	778	5,974	12,742	1,[illegible]
Income tax	286	428	991	2,486	1,647	199	1,970	4,018	[illegible]
Net profit(1)	4,668	4,509	4,955	6,900	4,797	579	4,004	8,724	1,[illegible]
Basic and diluted net profit per share(2)(3).......................		0.50	0.52	0.59	0.40	0.05	0.34	0.64	[illegible]
Shares utilized in basic calculation (in thousands)		9,010,000	9,534,365	11,780,788	12,069,108	12,069,108	11,782,885	13,706,310	13,706,[illegible]
Shares utilized in diluted calculation (in thousands)		9,010,000	9,534,365	11,782,521	12,072,383	12,072,383	11,785,447	13,716,377	13,716,[illegible]
Balance Sheet Data: Hong Kong GAAP									
Current assets									
Cash and cash Equivalents....................	3,128	2,976	40,071	17,481	19,349	2,337	17,557	19,767	2,[illegible]
Deposits with banks...........	—	—	—	1,311	8,227	994	5,234	14,455	1,[illegible]
Accounts receivable..........	807	1,087	1,592	2,482	4,957	599	3,244	5,526	[illegible]
Fixed assets......................	7,346	11,536	18,634	33,986	42,699	5,158	35,297	44,399	5,[illegible]
Total assets.......................	13,563	18,136	64,950	64,541	87,435	10,562	68,609	96,624	11,[illegible]
Total short-term debt(4)	513	1,504	2,148	5,337	4,419	534	4,995	2,683	[illegible]
Total long-term debt(5)	2,004	1,946	2,870	991	2,332	282	1,200	2,050	[illegible]
Fixed rate notes.................	—	—	—	—	4,952	598	—	4,957	[illegible]
Total liabilities..................	4,522	5,657	10,386	18,699	30,343	3,665	18,709	30,801	3,[illegible]
Shareholders' equity	9,041	12,471	54,550	45,827	57,092	6,897	49,900	65,823	7,[illegible]
Other Financial Data: Hong Kong GAAP									
Capital expenditures(6)................	2,653	5,511	5,807	11,040	11,708	1,414	4,591	8,498	1,[illegible]
Adjusted cash flow(7).........	4,450	4,213	8,203	13,444	19,673	2,377	8,582	17,053	2,[illegible]
Net cash inflow from operating activities	5,331	6,418	8,825	13,567	21,662	2,617	9,801	19,566	2,[illegible]
Net cash outflow from investing activities............	(3,169)	(5,264)	(5,327)	(36,357)	(36,117)	(4,363)	(8,438)	(14,624)	(1,[illegible]
Net cash inflow/(outflow) from financing activities..........................	(467)	899	34,218	325	18,337	2,215	(68)	(2,011)	([illegible]
Adjusted EBITDA(8)	5,707	6,436	8,180	12,869	21,603	2,609	9,578	16,817	2,[illegible]

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(1) After excluding the write-down and write-off of TACS network equipment and the related tax effect, net profit for the years ended December 31, 1998 and 1999 and the six months ended June 30, 1999 was RMB 7,088 million, RMB 10,320 million and RMB 4,339 million, respectively.

(2) The basic and diluted net profit per share ended December 31, 1996 and 1997 have been computed by dividing net profit by the weighted average number of shares outstanding as if 9,010,000,000 ordinary shares issued in the IPO restructuring were outstanding during these periods (in addition to shares actually issued, if any).

(3) The basic net profit per share for the years ended December 31, 1998 and 1999 have been computed by dividing net profit by the weighted average number of shares in issue during 1998 and 1999. The calculation of diluted net profit per share for the years

ended December 31, 1998 and 1999 have been compiled after adjusting for the effects of all dilutive potential ordinary shares.

All dilutive potential ordinary shares arise from the share options granted to our directors under our share option scheme which, if converted to ordinary shares, would decrease profit attributable to shareholders per share.

(4) Total short-term debt includes short-term bank and other loans, current portion of long-term bank and other loans and current installments of obligations under capital leases.

(5) Total long-term debt includes long-term bank and other loans and obligations under capital leases, net of current portion.

(6) Represents payments made for capital expenditures during the period.

(7) Represents net cash inflows from operating activities less net cash outflows (inflows) from returns on investments and servicing of finance and taxation.

(8) Adjusted EBITDA represents earnings before interest income, interest expense, income taxes, depreciation and amortization, non-operating income (expense) and write-down and write-off of fixed assets.

For the years ended December 31, 1995, 1996, 1997, 1998 and 1999, and the six months ended June 30, 1999 and 2000, non-operating income (expense) was RMB 125 million, RMB 97 million, RMB (27) million, RMB (51) million, RMB 70 million, RMB 11 million and RMB (12) million, respectively. Write-down and write-off of fixed assets for the years ended December 31, 1998 and 1999 and the six months ended June 30, 1999 was RMB 282 million, RMB 8,242 million, and RMB 500 million, respectively. There was no write-down and write-off of fixed assets in the six months ended June 30, 2000.

EBITDA is commonly used in the telecommunications industry to analyze companies on the basis of operating performance, leverage and liquidity. Adjusted EBITDA is not intended to represent cash flow for the period, nor has it been presented as an alternative to net profit as an indicator of operating performance. The items of net profit excluded from adjusted EBITDA are significant components in understanding and assessing our financial performance, and our computation of adjusted EBITDA may not be comparable to other similarly titled measures of other companies. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated statements of cash flows contained elsewhere in this prospectus.

Summary Historical Combined Financial Information of the Target Companies

	As of or for the year ended December 31,				As of or for the six months ended June 30,		
	1997	1998	1999	1999	1999	2000	2000
	RMB	RMB	RMB	US$	RMB	RMB	US$
	(in millions, except ratios)						
Income Statement Data:							
Hong Kong GAAP							
Operating revenue	12,977	18,859	26,384	3,187	11,827	15,706	1,897
Operating expenses	8,193	13,408	17,864	2,158	8,183	9,956	1,202
Operating profit	4,784	5,451	8,520	1,029	3,644	5,750	695
TACS write-down/write-off	—	—	4,508	545	—	—	—
Profit before tax	4,652	5,223	3,506	423	3,454	5,456	659
Income tax	316	640	824	100	595	1,002	121
Net profit(1)	4,336	4,583	2,682	323	2,859	4,454	538
Balance Sheet Data:							
Hong Kong GAAP							
Current assets							
Cash and cash equivalents		557	4,641	561		6,467	781
Accounts receivable		2,267	2,685	325		2,823	341
Fixed assets		24,069	29,999	3,624		37,252	4,500
Total assets		35,791	45,711	5,522		53,758	6,494
Total short-term debt(2)		4,992	6,513	787		5,340	645
Total long-term debt(3)		7,910	10,999	1,329		10,787	1,303
Total liabilities		17,198	24,681	2,982		24,441	2,952
Owner's equity		18,593	21,030	2,540		29,317	3,542
Other Financial Data:							
Hong Kong GAAP							
Capital expenditures(4)	6,346	9,868	11,385	1,375	5,180	4,580	553
Adjusted cash flow(5)	4,808	5,438	10,788	1,303	4,563	8,242	995
Net cash inflow from operating activities	5,813	7,810	13,428	1,622	6,245	10,823	1,307
Net cash outflow from investing activities	(6,352)	(9,864)	(11,401)	(1,377)	(5,179)	(4,614)	(557)
Net cash inflow/(outflow) from financing activities	1,360	4,589	4,697	567	3,393	(1,802)	(218)
Adjusted EBITDA(6)	6,520	8,409	13,322	1,609	5,804	8,452	1,021
Ratio of earnings to fixed charges	17.1	23.7	10.5	—	—	24.6	—

(1) After excluding the write-down and write-off of TACS network equipment and the related tax effect, net profit for the year ended December 31, 1999 was RMB 6,760 million.

(2) Total short-term debt includes short-term bank and other loans, current portion of long-term bank and other loans and current installments of obligations under capital leases.

(3) Total long-term debt includes long-term bank and other loans and obligations under capital leases, net of current portion.

(4) Represents payments made for capital expenditures during the period.

(5) Represents net cash inflows from operating activities less net cash outflows (inflows) from returns on investments and servicing of finance and taxation.

(6) Adjusted EBITDA represents earnings before interest income, interest expense, income taxes, depreciation and amortization, non-operating income (expense) and write-down and write-off of fixed assets. Non-operating income (expense) for the years ended December 31, 1997, 1998 and 1999, and the six months ended June 30, 1999 and 2000 was RMB 77 million, RMB 68 million, RMB 123 million, RMB 57 million and RMB 52 million, respectively. Write-down and write-off of fixed assets for the year ended December 31, 1999 was RMB 4,508 million. There was no write-down and write-off of fixed assets for the years ended December 31, 1997 and 1998 and the six months ended June 30, 1999 and 2000.

EBITDA is commonly used in the telecommunications industry to analyze companies on the basis of operating performance, leverage and liquidity. Adjusted EBITDA is not intended to represent cash flow for the period, nor has it been presented as an alternative to net profit as an indicator of operating performance. The items of net profit excluded from adjusted EBITDA are significant components in understanding and assessing the financial performance of the companies that we have agreed to acquire, and this computation of adjusted EBITDA may not be comparable to other similarly titled measures of other companies. You should also refer to the combined statements of cash flows of the companies that we have agreed to acquire contained elsewhere in this prospectus.

RISK FACTORS

Risks Relating to Our Company and the Telecommunications Industry in China

Extensive Government Regulation May Limit Our Flexibility to Respond to Market Conditions, Competition or Changes in Our Cost Structure

The Ministry of Information Industry regulates, among others, the following areas of the telecommunications industry under the leadership of the State Council:

- formulating and enforcing industry policy, standards and regulations;
- granting telecommunications licenses;
- formulating interconnection and settlement standards for implementation between telecommunications networks;
- together with other relevant regulatory authorities, formulating tariff and service charge standards for telecommunications services;
- supervising the operations of telecommunications service providers;
- maintaining fair and orderly market competition among telecommunications service providers; and
- allocating and administering public communications resources, such as radio frequencies, number resources, domain names and addresses of communications networks.

Other Chinese government authorities also take part in regulating tariff policies and foreign investment in the telecommunications industry. The regulatory framework within which we operate may limit our flexibility to respond to market conditions, competition or changes in our cost structure. In particular, future adverse changes in tariff policies and rates could immediately decrease our revenues.

We operate our businesses with approvals granted by the State Council and under licenses granted by the Ministry of Information Industry. If these approvals or licenses are revoked or suspended, we will be adversely affected.

We May Be Affected by Future Regulatory Changes

To provide a uniform regulatory framework for orderly development of the telecommunications industry, the Chinese government is currently preparing a draft telecommunications law. If and when the telecommunications law is adopted by the National People's Congress, it is expected to become the fundamental telecommunications statute and the legal basis for telecommunications regulations in mainland China. The State Council has recently promulgated a set of new telecommunications regulations. These regulations are substantially consistent with the existing rules and guidelines for the telecommunications industry, and are primarily intended to streamline and clarify the existing rules and guidelines. They apply in the interim period prior to the adoption of the telecommunications law. Although we expect that the telecommunications law will positively affect the overall development of the telecommunications industry in mainland China, we do not fully know what the nature and scope of the telecommunications law will be. The telecommunications law may contain provisions that could materially and adversely affect our business, financial condition and results of operations.

Competition from Other Mobile Communications Service Providers May Affect Our Subscriber Growth and Profitability by Causing the Rate of Our Subscriber Growth to Decline and Bringing about Decreases in Tariff Rates and Increases in Selling and Promotional Expenses

China United Telecommunications Corporation operates (directly or through its subsidiaries) in all of the provinces, municipalities and autonomous region in which we and the companies that we have agreed to acquire operate. The Chinese government encourages orderly competition in the telecommunications industry in mainland China. Towards this end, it has extended certain favorable regulatory policies to China Unicom in order to help it become a more viable competitor. In particular, the Chinese government has permitted China Unicom to lower its cellular service tariffs by up to 10% below the government guidance rates (or up to 20% below the government guidance rates in areas where we and the companies that we have agreed to acquire offer service packages that provide local access only services on analog networks, which packages have lower tariff rates compared to our standard tariff rates for services offered on GSM networks). Some of our subsidiaries and companies that we have agreed to acquire offer such local access only services over their TACS networks. We believe this policy has helped China Unicom capture a significant number of price-sensitive and low-usage cellular subscribers. As a result, China Unicom's market share has increased over the past few years. We could experience increased competition if the Chinese government takes other actions in the future to further enhance China Unicom's competitive position.

In addition to China Unicom, the State Council and the Ministry of Information Industry may approve additional mobile communications service providers in the future that may compete with us. We may also be subject to competition from providers of new telecommunications services as a result of technological development and the convergence of various telecommunications services.

China recently concluded bilateral negotiations of the major terms for its entry into the World Trade Organization with a number of countries, including the United States, and the European Union. As a result, we expect the Chinese government to gradually reduce current restrictions on foreign ownership in the telecommunications industry. This could lead to the eventual opening of the Chinese telecommunications market to foreign investors and operators, and could result in or accelerate the issuance of new mobile communications service licenses.

Increased competition from China Unicom and any introduction of new competitors through the issuance of additional mobile communications service licenses could adversely affect our financial results by, among other factors, causing the rate of our subscriber growth to decline and bringing about decreases in tariff rates and increases in selling and promotional expenses. This could have a material adverse effect on our results of operations.

We Are Controlled by China Mobile Communications Corporation, Which May Not Always Act in Your Best Interest

Immediately after the completion of the concurrent share and convertible note offerings and the payment of the share consideration in connection with the acquisition of the companies that we have agreed to acquire, China Mobile Communications Corporation will indirectly own an aggregate of approximately 75% of our shares. Accordingly, China Mobile Communications Corporation is, and will be, able to:

- nominate our entire board of directors and, in turn, indirectly influence the selection of our senior management;
- determine the timing and amount of our dividend payments; and
- otherwise control or influence actions that require the approval of our shareholders.

The interests of China Mobile Communications Corporation as our ultimate controlling person could conflict with the interests of our minority shareholders.

In addition, China Mobile Communications Corporation also provides our operating subsidiaries with services that are necessary for our business activities, including:

- interconnection arrangements with its other subsidiaries' cellular networks and roaming arrangements;
- the coordination of the provision of inter-provincial transmission leased lines from China Telecommunications Corporation to us; and
- billing processing for domestic and international roaming services.

The interests of China Mobile Communications Corporation as the provider of these services to our operating subsidiaries may conflict with our interests.

In connection with our proposed acquisition, we have obtained certain representations, warranties and indemnities from China Mobile Communications Corporation, including with respect to any undisclosed contingent liabilities of the companies that we have agreed to acquire. However, these may not be fully or effectively enforced against China Mobile Communications Corporation.

The Limited Spectrum Allocated to Us May Constrain Our Future Network Capacity Growth

A cellular network's capacity is to a certain extent limited by the amount of frequency spectrum available for it to use. Since the Ministry of Information Industry allocates frequency spectrum to mobile communications operators in mainland China, the capacity of our cellular network is limited by the amount of spectrum that the Ministry of Information Industry allocates to us. The Ministry of Information Industry has allocated 24 MHz in the 900 MHz frequency band and 10 MHz in the 1800 MHz frequency band to each of our operating subsidiaries and the companies that we have agreed to acquire.

We believe that our current spectrum allocation, and that of the companies that we have agreed to acquire, is sufficient for anticipated subscriber growth in the near term, but we and the companies that we have agreed to acquire may need additional spectrum to accommodate future subscriber growth or to develop cellular services using third generation wireless communications technologies. However, the Ministry of Information Industry may not allocate additional spectrum to us or the companies that we have agreed to acquire. Our network expansion plans and those of the companies that we have agreed to acquire may be affected if we or these companies are unable to obtain additional spectrum. This could in turn constrain our future network capacity growth and materially and adversely affect our business, financial condition and results of operations.

Changes to Our Interconnection and Leased Line Arrangements May Increase the Cost of Our Operation and Adversely Affect Our Profitability

Our mobile communications services depend, in large part, upon our interconnection arrangements. Currently, interconnection is necessary in the case of all local calls between our subscribers and subscribers of fixed line or other cellular networks. Interconnection and leased line arrangements are also necessary for domestic long distance calls and international calls. We have entered into interconnection and transmission line leasing agreements with the relevant fixed line operators and other subsidiaries of China Mobile Communications Corporation. The companies that we have agreed to acquire have also entered into similar agreements.

The terms of our interconnection arrangements and leased line arrangements have a material effect on our operating revenue and expenses. A material increase in the interconnection or leased line expenses we pay could have a material adverse effect on our results of operations. In addition, we will be materially and adversely affected if we cannot enter into future interconnection and leased line agreements on commercially acceptable terms.

We May Be Unable to Obtain Sufficient Financing to Fund Our Substantial Capital Requirements, Which Could Limit Our Growth Potential

We estimate that we will require approximately RMB 86.3 billion (US$10.4 billion) for capital expenditures from 2000 through the end of 2002 for a range of projects. We estimate that the companies that we have agreed to acquire will require approximately RMB 49.7 billion (US$6.0 billion) for capital expenditures from 2000 through the end of 2002 for a similar range of projects.

We believe that cash from operations, together with any necessary borrowings, will provide sufficient financial resources to meet our projected capital and other expenditure requirements. We currently plan to use the net proceeds from the concurrent share offering and convertible note offering described in this prospectus solely for the acquisition. If we have underestimated our capital requirements or overestimated our future cash flows, additional financing may be required. In addition, a significant feature of our business strategy is to continue exploring opportunities for strategic investments in the telecommunications industry in mainland China, which may require additional capital resources.

Financing may not be available to us on acceptable terms. In addition, any future issuance of our securities to foreign investors will require approval from the China Securities Regulatory Commission, the State Council, and other relevant government authorities. If adequate capital is not available, our business prospects could be adversely affected.

Changes in Technology May Render Our Current Technologies Obsolete or Require Us to Make Substantial Capital Investments

The telecommunications industry is subject to rapid and significant changes in technology. Accordingly, although we strive to keep our technology up to international standards, the mobile communications technologies currently employed by us may become obsolete or subject to competition from new technologies in the future. In addition, the cost of implementing new technologies, upgrading our networks or expanding capacity could be significant. In particular, in order for us to effectively respond to technological changes, including the introduction of third-generation wireless communications technologies, we may be required to make substantial capital expenditures in the near future. This will in turn depend upon our ability to obtain additional financing on commercially acceptable terms. The new technologies we implement, such as wireless data applications, may not generate an acceptable rate of return.

Failure to Capitalize on New Business Opportunities May Have an Adverse Effect on Our Growth Potential

We intend to pursue a number of new growth opportunities in the broader telecommunications industry, including wireless data. These opportunities involve new services for which there are no proven markets in mainland China. In addition, the ability to deploy and deliver these services depends, in many instances, on new and unproven technology. Our newly adopted wireless communications technology may not perform as expected, and that we will be able to successfully develop new technology to effectively and economically deliver these services, or that we will be able to compete successfully in the delivery of telecommunications services based on new technology.

Actual or Perceived Health Risks Could Lead to Decreased Mobile Communications Usage and Difficulties in Increasing Network Coverage

According to certain published reports, the electromagnetic signals from cellular handsets and transmission masts, which serve as antennae for transmitting radio signals, may pose health risks and interfere with the operation of electronic equipment. Although the findings in such reports are disputed, actual or perceived risks of using cellular communications devices or transmission masts could have an impact on cellular operators, including us. For example, we could encounter difficulties in obtaining sites for additional base transceiver stations required to expand our network coverage and experience reductions in our growth rate, subscriber base or average usage per subscriber.

Risks Relating to the Acquisition

We May Not Complete the Acquisition of the Companies that We Have Agreed to Acquire

We will only be able to acquire the companies that we have agreed to acquire if the conditions set forth in the acquisition agreement are satisfied or waived. In particular, we may proceed with the acquisition only if we obtain the approval of the relevant Chinese government authorities and our independent shareholders. However, we may not be able to obtain these approvals. We also have the right not to proceed with the acquisition if there is any material adverse change in the business of the companies that we have agreed to acquire. In addition, if our aggregate net proceeds from the concurrent share offering and the convertible note offering and the financing that we obtain from bank borrowings are less than the respective amounts we currently expect, we may not have sufficient funds to finance the acquisition unless we can obtain additional funds through other forms of external financing in addition to any available internal resources. If we are not able to or choose not to acquire the companies that we have agreed to acquire, the information regarding the companies that we have agreed to acquire and the pro forma information in this prospectus giving effect to the acquisition would not be relevant, and the proceeds of the offerings will not be applied towards their intended use. Our net profit per share and per ADS may also be significantly diluted following the offerings if we do not complete the acquisition.

We May Face Difficulties and Incur Additional Costs in Integrating the Acquired Operations with Our Existing Operations

Once we complete the acquisition, we will have to integrate the operations of the companies that we have agreed to acquire with our existing operations. We may experience difficulties in assimilating the operations, assets, systems, structure and personnel of previously separate operations into our existing operations.

Risks Relating to the Share Offering

The Trading Prices of Our Shares Could Fall During the Three-Day Period Between Pricing of the Ordinary Shares Offered in the Share Offering and the Commencement of Trading of these Shares on the Hong Kong Stock Exchange

The initial price to the public of the ADSs and ordinary shares sold in the share offering will be determined on the date of pricing. However, the ordinary shares will not commence trading on the Hong Kong Stock Exchange until they are delivered, which is expected to be three business days after the pricing date. As a result, investors will not be able to sell or otherwise deal in those shares for such three-day period. Accordingly, holders of those shares are subject to the risk that the trading prices of our shares could fall before trading in the ordinary shares offered in the share offering commences on the Hong Kong Stock Exchange.

Risks Relating to the Convertible Note Offering

We May Be Unable to Meet Our Payment Obligations Under the Convertible Notes if We Fail to Receive Dividends and Other Payments from Our Operating Subsidiaries

We are a holding company and all of our operations are conducted through our operating subsidiaries. We may not be able to meet our payment obligations in respect of the convertible notes if we fail to receive funds from our subsidiaries in the form of dividends or interest and principal payments on inter-company loans. There are currently no legal, regulatory or contractual restrictions on dividend payments by our subsidiaries. However, the ability of our subsidiaries to make dividend and other payments to us may be restricted by factors that include:

- change of applicable foreign exchange and other laws and regulations; and

- agreements to which our subsidiaries are or may become subject.

In particular, under Chinese law, our operating subsidiaries may only pay dividends after 10% of their net profit has been set aside as a statutory surplus reserve. Our operating subsidiaries are not required to set aside any of their net profit as part of the statutory surplus reserve if such reserve is at least 50% of their respective registered capital. In addition, distributions by our subsidiaries to us other than dividends may be subject to governmental approval and taxation.

Because we are a holding company, the convertible notes are structurally subordinated to all existing and future liabilities of our subsidiaries. The aggregate long-term and short-term debt (including bills payable) of our subsidiaries on our consolidated balance sheet as of June 30, 2000, was approximately RMB 5,945 million (US$718 million). The aggregate long-term and short-term debt (including bills payable) of the companies that we have agreed to acquire as of June 30, 2000 was approximately RMB 16,127 million (US$1,948 million). Our subsidiaries may incur substantial additional indebtedness in the future. If any of our subsidiaries is liquidated or restructured or becomes insolvent, it may not be able to make dividend or other payments to us. This would adversely affect our ability to meet our financial obligations, including our obligations under the convertible notes. In addition, our right to participate in any distribution of assets upon the liquidation, reorganization or insolvency of any of our subsidiaries will be subject to the claims of the subsidiary's creditors.

Risks Relating to Mainland China

Substantially all of our assets are located in mainland China and substantially all of our revenue is derived from our operations in mainland China. Accordingly, our financial condition and results of operations are subject to a significant degree to economic, political and legal developments in mainland China.

Adverse Changes in Economic Policies of the Chinese Government Could Have a Material Adverse Effect on the Overall Economic Growth of Mainland China, Which Could Reduce the Demand for Our Services and Adversely Affect Our Competitive Position

Since the late 1970s, the Chinese government has been reforming the Chinese economic system. These reforms have resulted in significant economic growth and social progress. Although we believe that economic reform and macroeconomic policies and measures adopted by the Chinese government will continue to have a positive effect on the economic development in mainland China and that we will continue to benefit from such policies and measures, these policies and measures may from time to time be modified or revised. Adverse changes in economic and social conditions in mainland China, in policies of the Chinese government or in laws and regulations in mainland China, if any, could have a material adverse effect on the overall economic growth of mainland China and investment in the telecommunications industry in mainland China. Such development could adversely affect our business, such as reducing the demand for our services and adversely affecting our competitive position.

We May Not Freely Convert Renminbi into Foreign Currency, Which Could Limit the Ability of Our Subsidiaries in Mainland China to Obtain Sufficient Foreign Exchange to Satisfy Their Foreign Exchange Requirements or Pay Dividends to Us

Substantially all of our revenues and operating expenses are denominated in Renminbi, while a portion of our capital expenditures and indebtedness are denominated in US dollars and other foreign currencies. The Renminbi is currently freely convertible under the "current account", which includes dividends, trade and service-related foreign exchange transactions, but not under the "capital account", which includes foreign direct investment, unless the prior approval of the State Administration for Foreign Exchange is obtained.

Our operating subsidiaries are foreign investment enterprises. Currently, they may purchase foreign exchange without the approval of the State Administration for Foreign Exchange for settlement of "current account transactions", including payment of dividends, by providing commercial documents evidencing these transactions. They may also retain foreign exchange in their current accounts (subject to a cap approved by the State Administration for Foreign Exchange) to satisfy foreign exchange liabilities or to pay dividends. In addition, if and when we acquire the companies that we have agreed to acquire as described in this prospectus, they will also become foreign investment enterprises and will be eligible for the same treatment that our current subsidiaries are receiving. However, the relevant Chinese government authorities may limit or eliminate our ability to purchase and retain foreign currencies in the future. Also, our subsidiaries incorporated in mainland China may not be able to obtain sufficient foreign exchange to satisfy their foreign exchange requirements or pay dividends to us for our use in making any future dividend payments or to satisfy other foreign exchange payment requirements. Foreign exchange transactions under the capital account are still subject to limitations and require approvals from the State Administration for Foreign Exchange. This could affect our subsidiaries' ability to obtain foreign exchange through debt or equity financing, including by means of loans or capital contributions from us.

Fluctuations in Exchange Rates Could Adversely Affect Our Financial Results

Substantially all of our operating revenue is denominated in Renminbi, while a portion of our capital expenditures and some of our financing expenses are denominated in US dollars. Because we may not be able to hedge effectively against Renminbi devaluations, future movements in the exchange rate of Renminbi and other currencies could have an adverse effect on our financial condition and results of operations.

The Chinese Legal System Embodies Uncertainties Which Could Limit the Legal Protections Available to You

The Chinese legal system is a civil law system based on written statutes. Unlike common law systems, it is a system in which decided legal cases have little precedential value. In 1979, the Chinese government began to promulgate a comprehensive system of laws and regulations governing economic matters in general. Legislation over the past 20 years has significantly enhanced the protections afforded to various forms of foreign investment in mainland China. Our existing subsidiaries are, and after the acquisition the companies that we have agreed to acquire will be, "wholly foreign-owned enterprises" which are enterprises incorporated in mainland China and wholly-owned by Hong Kong, Macau, Taiwan or foreign investors, and subject to the laws and regulations applicable to foreign investment in mainland China. However, these laws, regulations and legal requirements are relatively recent, and their interpretation and enforcement involve uncertainties, which could limit the legal protections available to foreign investors.

CAPITALIZATION

The following table sets forth our consolidated short-term debt and capitalization:

• as of June 30, 2000; and

• as adjusted to give effect to the following events as if they had occurred on June 30, 2000:

• our sale of 923,521,065 ordinary shares offered in the share offering;

• our sale of the US$600 million principal amount of convertible notes offered in the convertible note offering;

• the raising of a total of RMB 12,500 million (US$1,510 million) in bank loans;

• the application of total gross proceeds from the concurrent share offering and convertible note offering to the purchase price of the proposed acquisition; and

• the issuance of 3,322,840,736 ordinary shares to China Mobile Hong Kong (BVI) Limited as part of the purchase price of the proposed acquisition.

The numbers of shares to be issued in the share offering and as part of the purchase price of the acquisition are provided for illustrative purposes only and assume that the initial price to public will be HK$55.50 per share, the closing price of our shares on the Hong Kong Stock Exchange on October 10, 2000.

You should read this table together with our consolidated financial statements, the combined financial statements of the companies that we have agreed to acquire, and the pro forma financial statements included elsewhere in this prospectus.

	June 30, 2000			
	Actual RMB	As adjusted RMB	Actual US$	As adjusted US$
	(in millions)			
Short-term debt:				
Short-term bank and other loans	2,330	9,268	282	1,119
Current portion of long-term bank and other loans	285	2,074	34	251
Current installments of obligation under capital lease	68	1,681	8	203
Total short-term debt	2,683	13,023	324	1,573
Capitalization:				
Long-term bank and other loans, net of current portion	1,982	18,332	239	2,214
Obligations under capital lease — long term	68	2,005	8	242
7 7/8% Notes due 2004	4,957	4,957	599	599
Convertible notes	—	4,967	—	600
Shareholders' equity				
Ordinary shares, par value HK$0.10 per share: 16,000,000,000 shares authorized(1), 13,706,429,021 shares issued, fully paid and outstanding; 17,952,790,822 shares as adjusted	1,467	1,918	177	232
Reserves(2)	64,356	71,616	7,774	8,651
Total shareholders' equity	65,823	73,534	7,951	8,883
Total capitalization	72,830	103,795	8,797	12,538

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(1) Our board of directors has proposed, subject to approval by our shareholders, to increase our authorized share capital to HK$3,000,000,000 divided into 30,000,000,000 ordinary shares of HK$0.10 each.

(2) Includes the effect of eliminating the excess of the purchase price over the estimated fair value of the underlying net assets of the companies that we have agreed to acquire as of June 30, 2000 against reserves.

Except as disclosed in this prospectus, there has been no material change in our capitalization since June 30, 2000.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Operating Arrangements We Entered into in 1997, 1998 and 1999 Materially Impacted Our Financial Results

Our current corporate structure was established as a result of our IPO restructuring completed in September 1997, our acquisition of Jiangsu Mobile completed in June 1998 and our acquisition of Fujian Mobile, Henan Mobile and Hainan Mobile completed in November 1999. In connection with these transactions, we entered into various operating arrangements. These arrangements included:

- agreements with respect to interconnection revenue and costs;
- leased line agreements;
- property leasing agreements;
- service agreements with the relevant fixed line operator or other local service providers;
- a change in the tax treatment of connection fees and certain surcharge revenue for our services; and
- the revaluation of fixed assets of Guangdong Mobile and Zhejiang Mobile as of May 31, 1997, of Jiangsu Mobile as of December 31, 1997 and of Fujian Mobile, Henan Mobile and Hainan Mobile as of June 30, 1999.

In addition, in October 1999 we entered into an agreement with China Mobile Communications Corporation for inter-provincial interconnection and domestic and international roaming, which apply to all of our six subsidiaries, with effect from April 1, 1999. This agreement has been superseded by the interconnection and roaming agreement that we entered into with China Mobile Communications Corporation in May 2000, as described below.

Our financial results reflect the impact of the above arrangements as of the dates they became effective. These arrangements and changes have had a material impact on our overall results of operations. In particular, the implementation of the interconnection agreements in 1997, 1998 and 1999 led to significant increases in both operating revenue (in the form of usage fees and other operating revenues) and operating expenses (in the form of interconnection expenses). In addition, other operating expenses, including selling, general and administrative expenses, or SG&A, increased as a result of the implementation of agreements relating to billing and collection services and distribution and sales. Depreciation expense increased as a result of the revaluation of fixed assets, while income tax increased as a result of connection fees and certain surcharges becoming fully taxable following the IPO restructuring and the acquisitions.

Our New Operating Arrangements with China Mobile Communications Corporation Have Affected and May Continue to Affect Our Financial Results

In May 2000, we entered into two agreements with China Mobile Communications Corporation for

- inter-provincial interconnection and domestic and international roaming services; and
- sharing of inter-provincial leased line fees.

The agreements apply to our six operating subsidiaries with retroactive effect from April 1, 1999, except that with regard to Guangdong Mobile, Zhejiang Mobile and Jiangsu Mobile, the leased line fee sharing arrangement has retroactive effect from October 1, 1999.

Prior to these arrangements, we leased intra-provincial transmission lines to link our network to the fixed line network, but did not lease any inter-provincial transmission lines. Instead, we paid China Mobile Communications Corporation an inter-provincial interconnection fee. In accordance with these arrangements, we lease certain inter-provincial transmission lines. The rent payable by us is determined based on the standard leasing fee stipulated by the relevant regulatory authorities after adjusting for the discount that we are entitled to, and on the basis that the cellular network operators at both ends of the transmission lines will share the leasing fees equally. As a result, the new arrangements led to an increase in our transmission leasing expenses, but a reduction in our inter-provincial interconnection and roaming settlement expenses, which resulted in net savings in our operating expenses for the six months ended June 30, 2000. We expect that the reduction in interconnection and roaming costs will continue to exceed the increased transmission line leasing fees in 2000.

Geographical Breakdown of Our Operating Revenues By Province

Currently, we provide mobile communications services in Guangdong, Zhejiang, Jiangsu, Fujian, Henan and Hainan. Launched approximately five years earlier than our operations in other provinces, Guangdong Mobile has greater network capacity, serves more of our subscribers and accounts for a greater portion of our operating revenue, expenses and profit than our other operating subsidiaries.

The following charts show a percentage breakdown of our operating revenue for the six months ended June 30, 2000 by contribution from each subsidiary.

Percentage of our total operating revenue
by province for the six months ended June 30, 2000

LOGO

Results of Operations

The following table sets forth selected income statement data, expressed as percentages of operating revenue, for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	1997	1998	1999	1999	2000
Operating revenue:	100.0%	100.0%	100.0%	100.0%	100.0%
Usage fees	56.3	62.0	66.8	65.0	69.7
Monthly fees	17.4	16.5	12.9	12.3	14.7
Connection fees	20.5	12.6	11.2	14.3	5.3
Others	5.8	8.9	9.1	8.4	10.3
Operating expenses:					
Leased lines	20.2	14.9	9.6	11.9	9.4
Interconnection	7.8	18.0	16.7	16.4	12.5
Depreciation	17.3	17.5	19.2	19.4	14.4
Personnel	4.9	6.1	5.8	5.0	5.1
Other operating expenses	14.8	13.4	13.4	11.8	16.0
Total operating expenses	65.0	69.9	64.7	64.5	57.4
Operating profit	35.0	30.1	35.3	35.5	42.6
Write-down and write-off of TACS network equipment	—	(1.1)	(21.3)	(3.0)	—
Other income	0.5	1.3	1.4	1.6	1.1
Finance costs	(1.1)	(0.6)	(0.9)	(0.6)	(1.1)
Interest income	4.2	6.1	2.0	1.7	1.5
Non-operating income (expenses)	(0.2)	(0.2)	0.2	0.1	0
Profit before tax and minority Interests	38.4	35.6	16.7	35.2	44.1
Income tax	(6.4)	(9.4)	(4.3)	(11.6)	(13.9)
Net profit(1)	32.0%	26.2%	12.4%	23.6%	30.2%

———————

(1) Net profit margin before write-down and write-off of TACS network equipment was 26.9% and 26.7% for the years ended 1998 and 1999, respectively, and 25.6% for the six months ended June 30, 1999.

Six Months Ended June 30, 2000 Compared to Six Months Ended June 30, 1999

Operating Revenue. We derive operating revenue principally from usage fees, monthly fees, and one-time connection fees charged to new contract subscribers. Usage fees represent basic local usage fees for airtime and applicable domestic and international long distance charges received from subscribers for the use of our cellular networks and facilities, and fees in respect of roaming out calls made by our subscribers outside their registered service areas. We also derive revenue from other services, such as interconnection and certain value added services.

Operating revenue increased 70.6% from RMB 16,940 million in the six months ended June 30, 1999 to RMB 28,897 million in the same period in 2000. This increase was due primarily to increased usage by subscribers in Guangdong Mobile, Zhejiang Mobile and Jiangsu Mobile, and the inclusion of subscribers in Fujian Mobile, Henan Mobile and Hainan Mobile upon their acquisition by us in November 1999. Our total number of subscribers was 21.6 million as of June 30, 2000, compared to 8.8 million as of June 30, 1999. Excluding Fujian Mobile, Henan Mobile and Hainan Mobile, operating revenue increased 37.2% from RMB 16,940 million in the six months ended June 30, 1999 to RMB 23,237 million in the same period in 2000. Excluding connection fees, operating revenue increased 88.4% from RMB 14,523 million to RMB 27,365 million.

Usage Fees. Revenue from usage fees increased 82.9% from RMB 11,012 million in the six months ended June 30, 1999 to RMB 20,143 million in the same period in 2000. This increase was due primarily to the increase in total subscriber numbers and the expanded communications opportunities for subscribers as a result of the expansion and improvement of fixed line and cellular networks throughout mainland China. Excluding Fujian Mobile, Henan Mobile and Hainan Mobile, usage fees increased 45.9% from RMB 11,012 million to RMB 16,065 million.

Monthly Fees. Revenue from monthly fees increased 104.2% from RMB 2,081 million in the six months ended June 30, 1999 to RMB 4,250 million in the same period in 2000. This increase was mainly due to the increase in total subscriber numbers. Excluding Fujian Mobile, Henan Mobile and Hainan Mobile, monthly fees increased 58.2% from RMB 2,081 million to RMB 3,293 million.

Connection Fees. Revenue from connection fees decreased 36.6% from RMB 2,417 million in the six months ended June 30, 1999 to RMB 1,532 million in the same period in 2000. This decrease was mainly due to decreases in average connection fees charged to new subscribers, partially offset by the increase in total new subscribers, including subscribers of Fujian Mobile, Henan Mobile and Hainan Mobile. Excluding Fujian Mobile, Henan Mobile and Hainan Mobile, connection fees decreased 41.4% from RMB 2,417 million to RMB 1,417 million. We believe that connection fees for new subscribers will continue to decrease and will be eliminated in the near future, and that this will continue to help to expand our subscriber base and result in increased total subscriber usage of our services. As a percentage of operating revenue, connection fees decreased from 14.3% in the six months ended June 30, 1999 to 5.3% in the same period in 2000.

Other Operating Revenue. Other operating revenue increased 107.8% from RMB 1,430 million in the six months ended June 30, 1999 to RMB 2,972 million in the same period in 2000. Excluding Fujian Mobile, Henan Mobile and Hainan Mobile, other operating revenue increased by RMB 1,032 million, or 72.2%, from RMB 1,430 million in the six months ended June 30, 1999 to RMB 2,462 million in the same period in 2000. Of this increase, interconnection revenue accounted for 69.3%, revenue from value-added services accounted for 21.0% and incoming roaming revenue accounted for 9.7%.

Operating Expenses. Operating expenses principally include leased line expenses, interconnection expenses, depreciation expense relating to our cellular network and other fixed assets, personnel expenses and other operating expenses.

Operating expenses increased 51.7% from RMB 10,929 million in the six months ended June 30, 1999 to RMB 16,575 million in the same period in 2000. Excluding Fujian Mobile, Henan Mobile and Hainan Mobile, operating expenses increased 19.9% from RMB 10,929 million in the six months ended June 30, 1999 to RMB 13,099 million in the same period in 2000, mainly due to the increase in other operating expenses.

Leased Lines. Total leased line payments increased 34.8% from RMB 2,014 million in the six months ended June 30, 1999 to RMB 2,714 million in the same period in 2000. Excluding Fujian Mobile, Henan Mobile and Hainan Mobile, leased line payments increased 5.9% from RMB 2,014 million in the six months ended June 30, 1999 to RMB 2,132 million in the same period in 2000. This increase was mainly due to our leasing of inter-provincial transmission lines from China Mobile Communications Corporation under an inter-provincial leased line agreement with retroactive effect from April 1999, and the expansion of our network to include new coverage areas and increase network transmission capacity, offset in part by decreases in leased line tariffs. As a percentage of operating expenses, total leased line payments decreased from 18.4% in the six months ended June 30, 1999 to 16.4% in the same period in 2000, reflecting decreases in leased line tariffs as well as greater efficiency in our utilization of leased lines.

Interconnection. Interconnection expenses increased 29.9% from RMB 2,775 million in the six months ended June 30, 1999 to RMB 3,604 million in the same period in 2000. Excluding Fujian Mobile, Henan Mobile and Hainan Mobile, interconnection expenses increased 8.7% from RMB 2,775 million in the six months ended June 30, 1999 to RMB 3,016 million in the same period in 2000, primarily due to an increase in home-location roaming (roaming out) and inter-network traffic, offset in part by savings from our new inter-provincial interconnection agreement with China Mobile Communications Corporation. As a percentage of operating expenses, interconnection expenses decreased from 25.4% in the six months ended June 30, 1999 to 21.7% in the same period in 2000.

Depreciation. Depreciation expense increased 26.3% from RMB 3,297 million in the six months ended June 30, 1999 to RMB 4,165 million in the same period in 2000. Excluding Fujian Mobile, Henan Mobile and Hainan Mobile, depreciation expense decreased 10.3% from RMB 3,297 million in the six months ended June 30, 1999 to RMB 2,959 million in the same period in 2000. As a percentage of operating expenses, depreciation expense decreased from 30.2% in the six months ended June 30, 1999 to 25.1% in the same period in 2000. These decreases were due primarily to a reduction in the carrying costs of our fixed assets resulting from write-downs and write-offs of our TACS network equipment in 1999.

Personnel. Personnel expenses increased 73.2% from RMB 852 million in the six months ended June 30, 1999 to RMB 1,476 million in the same period in 2000. Excluding Fujian Mobile, Henan Mobile and Hainan Mobile, personnel expenses increased 38.1% from RMB 852 million in the six months ended June 30, 1999 to RMB 1,177 million in the same period in 2000. This increase was due largely to our implementation of a performance-based compensation scheme to encourage quality performance as well as to attract and retain talented employees. As a percentage of operating expenses, personnel expenses increased from 7.8% in the six months ended June 30, 1999 to 8.9% in the same period in 2000.

Other Operating Expenses. Other operating expenses increased 131.8% from RMB 1,991 million in the six months ended June 30, 1999 to RMB 4,616 million in the same period in 2000. Excluding Fujian Mobile, Henan Mobile and Hainan Mobile, other operating expenses increased 91.6% from RMB 1,991 million in the six months ended June 30, 1999 to RMB 3,815 million in the same period in 2000. This increase was primarily due to increased selling and promotion expenses and provisions for doubtful accounts. The increase in selling and promotion expenses was due largely to an increase in commission expenses as a result of subscriber growth and our implementation of more aggressive marketing and sales promotion strategies. The increase in provisions for doubtful accounts was due largely to a substantial increase in lower-usage subscribers, which affected the overall credit quality of our subscriber base. However, we believe that our ongoing efforts to strengthen our credit controls have enabled us to effectively control our level of doubtful accounts. As a percentage of operating expenses, other operating expenses increased from 18.2% in the six months ended June 30, 1999 to 27.8% in the same period in 2000.

Operating Profit. Operating profit increased 105.0% from RMB 6,011 million in the six months ended June 30, 1999 to RMB 12,322 million in the same period in 2000, and operating margin (operating profit as a percentage of operating revenue) increased from 35.5% to 42.6%. Excluding Fujian Mobile, Henan Mobile and Hainan Mobile, operating profit increased 68.7% from RMB 6,011 million in the six months ended June 30, 1999 to RMB 10,138 million in the same period in 2000, and operating margin increased from 35.5% to 43.6%. The increase in operating margin reflects more efficient network utilization as well as the benefits of economies of scale, as we experienced significant subscriber growth and total usage increase.

Adjusted EBITDA. Adjusted EBITDA represents earnings before interest income, interest expense, non-operating income (expenses), income taxes, depreciation and amortization and write-down and write-off of fixed assets. Adjusted EBITDA increased 75.6% from RMB 9,578 million in the six months ended June 30, 1999 to RMB 16,817 million in the same period in 2000. This increase was due primarily to the inclusion of the results of Fujian Mobile, Henan Mobile and Hainan Mobile in the results of the first six months of 2000, and the increase in operating revenue due to subscriber growth as well as our cost control efforts and the decreases in leased line tariffs. Adjusted EBITDA margin (adjusted EBITDA as a percentage of operating revenue) increased from 56.5% to 58.2%, reflecting improvements in our operating efficiency. Excluding Fujian Mobile, Henan Mobile and Hainan Mobile, adjusted EBITDA increased 39.4% from RMB 9,578 million in the six months ended June 30, 1999 to RMB 13,353 million in the same period in 2000 and adjusted EBITDA margin increased from 56.5% to 57.5%. While EBITDA is commonly used in the telecommunications industry worldwide as an indicator of operating performance, leverage and liquidity, it is not presented as a measure of performance in accordance with generally accepted accounting principles and should not be considered as representing net cash flows from operating activities.

Other Income. Other income, which primarily includes gross profit from sales of SIM cards and handsets, increased 22.2% from RMB 270 million in the six months ended June 30, 1999 to RMB 330 million in the same period in 2000. SIM card refers to Subscriber Identity Module card, which is an electronic card that is inserted into a handset and which contains the personal identification of the subscriber and identifies the network to which the subscriber belongs. Excluding Fujian Mobile, Henan Mobile and Hainan Mobile, other income decreased 4.4% from RMB 270 million to RMB 258 million. This decrease reflected primarily decreased sales of handsets, partially offset by increased sales of SIM cards resulting from an increase in subscribers to our GSM networks.

Interest Expense. Interest expense increased 213.1% from RMB 107 million in the six months ended June 30, 1999 to RMB 335 million in the same period in 2000. The increase was primarily due to the interest on the US$600 million five-year fixed rate notes issued in November 1999.

Interest Income. Interest income increased 51.2% from RMB 289 million in the six months ended June 30, 1999 to RMB 437 million in the same period in 2000 due to increases in our cash on hand generated from operations.

Profit Before Tax. Profit before tax increased 113.3% from RMB 5,974 million in the six months ended June 30, 1999 to RMB 12,742 million in the same period in 2000.

Taxation. We incurred an income tax expense of RMB 1,970 million in the six months ended June 30, 1999 and RMB 4,018 million in the same period in 2000, reflecting an effective tax rate of 33.0% and 31.5%, respectively. The lower effective tax rate in the first half of 2000 was primarily a result of the preferential tax rate in certain cities served by Guangdong Mobile and Hainan Mobile.

Net Profit. Net profit increased 117.9% from RMB 4,004 million in the six months ended June 30, 1999 to RMB 8,724 million in the same period in 2000. Net profit margin (net profit as a percentage of operating revenue) increased from 23.6% to 30.2%.

Liquidity and Capital Resources

Working Capital, Cash Flows and Financing

As of June 30, 2000, we had a working capital surplus (current assets minus current liabilities) of RMB 20,065 million and cash and cash equivalents of RMB 19,767 million, compared to RMB 14,031 million and RMB 19,349 million, respectively, as of December 31, 1999, and RMB 7,083 million and RMB 17,481 million, respectively, as of December 31, 1998. The increase in working capital and cash and cash equivalents in the first six months of 2000 was due primarily to increased net cash flow from operations in 2000.

As of December 31, 1998, December 31, 1999 and June 30, 2000, accounts receivable totaled RMB 2,482 million, RMB 4,957 million and RMB 5,526 million, respectively. The increases in accounts receivable were due primarily to our enlarged subscriber base and increased usage of our services, the inclusion of accounts receivable from Jiangsu Mobile since June 1998 and those of Fujian Mobile, Henan Mobile and Hainan Mobile since November 1999.

Short-term loans and current portion of obligations under capital leases totaled RMB 5,337 million, RMB 4,419 million and RMB 2,683 million as at December 31, 1998, December 31, 1999 and June 30, 2000, respectively.

The following table summarizes certain cash flow information for the periods indicated.

	Year ended December 31,			Six months ended June 30,	
	1997	1998	1999	1999	2000
	(RMB in millions)				
Net cash inflows from operating activities	8,825	13,567	21,662	9,801	19,566
Net cash outflow from returns on investments and servicing of finance and taxation	(622)	(123)	(1,989)	(1,219)	(2,513)
Net cash outflow from investing activities	(5,327)	(36,357)	(36,117)	(8,438)	(14,624)
Net cash inflow (outflow) before financing activities	2,876	(22,913)	(16,444)	144	2,429
Net cash inflow (outflow) from financing activities	34,218	325	18,337	(68)	(2,011)
Increase (decrease) in cash and cash equivalents	37,094	(22,588)	1,893	76	418

Net cash inflows from operating activities increased from 1997 to June 30, 2000, generally reflecting the growth in operating revenue due to the increase in our subscriber base.

Net cash outflow from returns on investments and servicing of finance and taxation decreased from 1997 to 1998 primarily due to an increase in interest received, which is in part attributable to the proceeds of our initial public offering in October 1997, which increase more than offset a significant increase in income tax paid. Net cash outflow from returns on investments and servicing of finance and taxation increased from 1998 to 1999, primarily due to a significant increase in income tax paid and a substantial decrease in interest received as a result of the application of the proceeds from our initial public offering for the acquisition of Jiangsu Mobile and network construction. We had a higher net cash outflow from returns on investments and servicing of finance and taxation for the six months ended June 30, 2000 as compared to the same period in 1999. This was mainly due to an increase in income tax paid on our higher net taxable income.

Net cash outflow from investing activities increased significantly from 1997 to 1998, primarily due to the payment of the cash consideration for the acquisition of Jiangsu Mobile as well as increased equipment purchases in connection with our network expansion. Net cash outflow from investing activities remained at a high level for 1999, primarily due to the payment of the consideration for the acquisition of Fujian Mobile, Henan Mobile and Hainan Mobile. Net cash outflow from investing activities increased significantly for the six months ended June 30, 2000 primarily due to inclusion of the capital expenditures of Fujian Mobile, Henan Mobile and Hainan Mobile in the first half of 2000 and an increase in capital expenditures as we continued to expand our network.

Net cash inflow from financing activities reflects net borrowings or repayments of debt, but excludes credit extended to us by equipment suppliers for additions to construction in progress. Net cash inflow from financing activities decreased in 1998 compared to 1997 primarily because of the proceeds from our initial public offering in 1997. Net cash inflow from financing activities increased significantly in 1999 as compared to 1998, primarily due to the proceeds received from the follow-on equity offering and the concurrent global offering of five-year fixed rate notes completed in November 1999. Net cash outflow from financing activities increased significantly for the six months ended June 30, 2000 due mainly to repayment of bank and other loans in the first six months of 2000.

The majority of the net proceeds from the US$2,000 million follow-on equity offering and US$600 million concurrent global offering of five-year fixed rate notes were used to finance the acquisition of Fujian Mobile, Henan Mobile and Hainan Mobile in 1999.

Adjusted Net Tangible Assets

The following statement of adjusted net tangible assets is based on our audited financial statements as of June 30, 2000, as set out elsewhere in this prospectus, adjusted as described below:

	(RMB in millions)
Our consolidated net tangible assets as of June 30, 2000	65,823
Increase in net tangible assets due to acquisition of the companies that we have agreed to acquire	29,317
Consideration payable for the acquisition of the companies that we have agreed to acquire after eliminating the gross proceeds from the share offering and the issuance of shares to China Mobile Hong Kong (BVI) Limited	(21,606)
Adjusted net tangible assets	73,534

Indebtedness

As of December 31, 1998 and 1999 and June 30, 2000, our aggregate long-term bank and other loans and obligations under capital leases (excluding current portions) totaled RMB 991 million, RMB 2,332 million and RMB 2,050 million, respectively, and our short-term bank and other loans (including the short-term portion of long-term loans and capital leases) totaled RMB 5,337 million, RMB 4,419 million and RMB 2,683 million, respectively. Our short-term loans increased in 1998 mainly due to the inclusion of the short-term loans of Jiangsu Mobile upon its acquisition by us. Our long-term loans increased in 1999 due to the inclusion of the long-term loans of Fujian Mobile and Henan Mobile upon their acquisition by us. Our short-term loans decreased in the first six months of 2000 mainly due to the repayment of loans in this period. Total scheduled long-term loans and obligations under capital lease payable in 2000, 2001 and 2002 will be approximately RMB 228 million, RMB 737 million and RMB 1,147 million, respectively. We currently plan to repay loan amounts due using cash in hand and cash from our operating activities. Capital lease obligations totaled RMB 136 million at June 30, 2000.

On November 2, 1999, we issued unsecured fixed rate notes with an aggregate principal amount of US$600 million due on November 2, 2004. The notes bear interest at the rate of 7.875% per annum and such interest is payable semi-annually on May 2 and November 2 of each year. We made the first interest payment on May 2, 2000.

As of June 30, 2000, we had the following outstanding borrowings, all of which were unsecured except for a short term loan of

RMB 100 million:

	Repayable Within one year	After one year	Total
	(RMB in millions)		
Bank loans	2,437	1,467	3,904
Other loans	178	515	693
Obligations under capital leases	68	68	136
	2,683	2,050	4,733

As of June 30, 2000, we did not have any loans from related parties.

As of June 30, 2000, certain bank and other loans were guaranteed by the following parties:

Guarantor	(RMB in millions)
Guangdong telecommunications administrative authority	239
Fujian telecommunications administrative authority	595
Hebei telecommunications administrative authority	650
Total	1,484

As of August 31, 2000, we had outstanding borrowings of approximately RMB 9,994 million in aggregate. These borrowings comprise secured bank loans of approximately RMB 100 million, unsecured bank loans of approximately RMB 2,853 million, other unsecured loans of approximately RMB 641 million, bills payable of approximately RMB 1,332 million, capital lease obligations of approximately RMB 101 million and unsecured fixed rate notes of approximately RMB 4,967 million.

Approximately RMB 720 million of the unsecured bank loans and approximately RMB 32 million of other unsecured loans are guaranteed by third parties.

Except as disclosed above and apart from intra-group liabilities, none of us or any of our subsidiaries had, as at the close of business on August 31, 2000, outstanding liabilities or any term loans or other borrowings or indebtedness in the nature of borrowings, including bank overdrafts and loans, debt securities or similar indebtedness, or any hire-purchase or capital lease commitments, or any guarantees, mortgages, charges or other material contingent liabilities.

Capital Expenditures

Capital expenditures incurred during 1997, 1998, 1999 and the six months ended June 30, 2000 were RMB 8,719 million, RMB 15,030 million, RMB 12,226 million and RMB 7,434 million, respectively. Capital expenditures we made were principally for the development, optimization and expansion of our GSM networks and the development and trial of new technology-based services.

We anticipate that we will require an aggregate of approximately RMB 86.3 billion to finance our capital expenditures in years 2000, 2001 and 2002. Our planned capital expenditures will allow us to:

- further expand our network capacity and coverage to improve the quality of our services;
- further optimize the structure, and enhance the management, of our networks;
- increase our efforts in improving our business operation support system and network support system;
- build our own transmission lines where economically advantageous; and
- develop and provide wireless data services and other new services using existing and new technologies.

The following sets forth our planned total capital expenditure requirements for the periods indicated. Actual future capital expenditures may differ from the amounts indicated below.

	(RMB in billions)	(US$ in billions)
2000	27.8	3.4
2001	30.2	3.6
2002	28.3	3.4

Total...	86.3	10.4

If the acquisition is completed, we estimate that the companies that we have agreed to acquire will require an aggregate of approximately RMB 49.7 billion for similar capital expenditures from 2000 through the end of 2002 for similar plans.

Following our initial public offering in 1997, we have funded capital requirements primarily with cash generated from operations and, to the extent necessary, short-term borrowings. We believe that cash on hand and cash generated from future operations will be sufficient to fund most of the capital expenditures and working capital necessary for our planned network expansion and continued growth of our mobile communication operations through the end of 2002. If necessary, we may seek to obtain additional sources of financing to fund our network expansion and possible future acquisitions.

Foreign Exchange

We maintain our accounts in Renminbi and substantially all of our revenue and expenses are denominated in Renminbi. Our capital expenditures, a major portion of which were denominated in US dollars and incurred in connection with our purchase of imported equipment, totaled the equivalent of RMB 8,719 million, RMB 15,030 million, RMB 12,226 million and RMB 7,434 million for 1997, 1998, 1999 and the six months ended June 30, 2000, respectively. In addition, we also incur interest expense on foreign currency (mainly US dollar) denominated borrowings. US dollar-denominated debt totaled the equivalent of RMB 1,746 million, RMB 6,119 million and RMB 5,993 million at December 31, 1998, December 31, 1999 and June 30, 2000, respectively, constituting 18.9%, 45.4% and 55.0% of our total debt as of those dates, respectively.

All of our current operating subsidiaries are incorporated in mainland China. Under the current foreign exchange system in mainland China, our subsidiaries may not be able to hedge effectively against currency risk, including any possible future Renminbi devaluation.

Each of our operating subsidiaries is able to purchase foreign exchange for settlement of current account transactions, as defined in applicable regulations, in order to satisfy its foreign exchange requirements.

Quantitative and Qualitative Disclosures About Market Risk

We are subject to market risks due to fluctuations in interest rates. The majority of our debt is in the form of long-term, fixed- and variable-rate bank and other loans with original maturities ranging from one to six years. Accordingly, fluctuations in interest rates can lead to significant fluctuations in the fair value of these debt instruments. From time to time, we may enter into interest rate swap agreements designed to mitigate our exposure to interest rate risks. In connection with the global offering of five-year fixed rate notes in November 1999, we entered into an interest rate swap transaction on October 27, 1999, which was terminated and settled on October 28, 1999. We did not consider it necessary to do so in the first six months of 2000.

We are also exposed to foreign currency risk as a result of our telecommunications equipment being sourced substantially from overseas suppliers. Specifically, our foreign currency exposure relates primarily to our foreign currency-denominated short- and long-term debt, our firm purchase commitments and, to a limited extent, cash and cash equivalents denominated in foreign currencies. We may, from time to time, enter into currency swap agreements and foreign exchange forward contracts designed to mitigate our exposure to foreign currency risks, although we did not consider this to be necessary in 1999 or in the first six months of 2000. Our foreign currency hedging activity generally is expected to be limited to hedging of specific future commitments and long-term debt denominated in foreign currencies.

The following table provides information regarding our interest rate-sensitive financial instruments, which consist of fixed and variable rate short-term and long-term debt obligations, as of December 31, 1999 and 1998, as well as the expected maturity profile of such debt obligations.

	Expected maturity date						As of December 31, 1999		As of December 31, 1998	
	2000	2001	2002	2003	2004	Thereafter	Total recorded amount	Fair value	Total recorded amount	Fair value
	(RMB equivalent in millions, except interest rates)									
Debt:										
Fixed rate bank and other										

loans	4,123	165	765	215	83	—	5,351	5,386	5,963	5,786
Average interest rate	6.09%	7.50%	7.54%	7.51%	7.50%	—	6.42%	—	7.08%	
Variable rate bank and other loans	228	811	186	—	—	—	1,225	1,225	366	366
Average interest rate(1)	6.11%	6.05%	5.93%	—	—	—	6.04%	—	6.07%	

(1) The interest rates for variable rate bank and other loans are calculated based on the year-end indices.

The following table provides information regarding our foreign currency-sensitive financial instruments and transactions, which consist of cash and cash equivalents, short- and long-term debt obligations and capital commitments as of December 31, 1999 and 1998, and the expected maturity profile of such debt obligations and capital commitments.

							As of December 31, 1999		As of December 31, 1998	
	2000	2001	2002	2003	2004	Thereafter	Total recorded amount	Fair value	Total recorded amount	Fair value
	(RMB equivalent in millions, except interest rates)									
On-balance sheet financial instruments:										
Cash and cash equivalents:										
in US dollars	5,071	—	—	—	—	—	5,071	5,071	1,103	1,103
in Hong Kong dollars	2,083	—	—	—	—	—	2,083	2,083	6,937	6,937
Debt:										
Fixed rate bank and other loans (US dollar)	165	165	165	165	84	—	744	751	1,016	840
Average interest rate	7.50%	7.50%	7.50%	7.50%	7.50%	—	7.50%	—	7.39%	
Variable rate bank and other loans (US dollar)	119	119	8	—	—	—	246	246	366	366
Average interest rate(1)	6.80%	6.80%	5.75%	—	—	—	6.77%	—	6.07%	
Off-balance sheet commitments										
Capital commitments authorized and contracted for in US dollars	4,932	—	—	—	—	—	4,932	4,932	3,088	3,088

(1) The interest rates for variable rate bank and other loans are calculated based on the year-end indices.

BUSINESS

General

We are the leading provider of mobile communications services in six provinces in China. We had approximately 23.9 million subscribers as of September 20, 2000. On October 4, 2000, we agreed to acquire from our majority shareholder, an indirect subsidiary of China Mobile Communications Corporation, the mobile communications services currently operated by China Mobile Communications Corporation in seven provinces, municipalities and autonomous region in China, subject to regulatory and independent shareholders' approvals and other conditions. Each of those companies that we have agreed to acquire is the leading mobile communications services provider in its geographic area. If the proposed acquisition is completed:

- we will have a geographically contiguous market covering all of the coastal regions of mainland China;
- we will have approximately 55.9% of all cellular subscribers in mainland China, based on market data as of June 30, 2000 compiled by China Mobile Communications Corporation;
- our service areas will cover approximately 48.0% of the total population in mainland China; and
- the cellular penetration rate in our combined market will be approximately 7.1%, which indicates room for significant future growth, based on market data as of June 30, 2000 compiled by China Mobile Communications Corporation.

The following table sets forth certain subscriber and market share information in the geographic areas in which we and the companies that we have agreed to acquire operate as of June 30, 2000, as well as on a pro forma combined basis as of the same date, giving effect to the proposed acquisition as if it had been completed on such date:

	As of June 30, 2000		
	China Mobile (HK)	Target companies	Pro forma combined
Population base (in millions)(1)	326	282	607
Cellular penetration (%)(1)(2)	8.0	6.1	7.1
Subscribers (in millions)	21.6	13.6	35.3
As a percentage of total cellular subscribers in mainland China(3)	34.3	21.6	55.9
Market share (%)(2)	83.0	80.0	81.8

(1) Estimate based on population data as of December 31, 1999 as published in 2000 China Statistical Abstract, and further assuming the same annual population growth rate in each province, municipality or autonomous region in 2000 as in 1999.

(2) Based on our estimate of the total number of subscribers.

(3) Based on data from the Ministry of Information Industry and China Mobile Communications Corporation for the total number of subscribers in mainland China as of June 30, 2000.

We and the companies that we have agreed to acquire are also major providers of Internet Protocol communications services and wireless data services in the respective geographic areas in which we and these companies operate.

Strategy

We believe that the telecommunications industry in mainland China has potential for significant future growth, and will continue to experience rapid increases in cellular penetration, growth in voice and data traffic, expansion in the range of available telecommunications services, and escalating consumer demand for modern technologies, such as those relating to the convergence of voice, data and video. We believe that this growth will be fostered by continued strong economic development, the low penetration rates for telecommunications services currently prevailing in mainland China and the introduction of new technologies. The recently completed industry restructuring, which we believe had as one of its principal objectives the creation of a more orderly competitive environment, will also stimulate growth in this industry.

We are the leading mobile communications operator in some of the most economically prosperous and developed markets in mainland China. We believe that the proposed acquisition represents a significant opportunity for us to consolidate our strong market position, and will allow us to capitalize on growth opportunities in the broader telecommunications industry in mainland China as well as to assume, in the future, a leadership position in the global telecommunications industry.

Our objective is to maximize profitability and to create value for our investors. We intend to pursue this growth objective through three principal business strategies:

Continue to Actively Grow Our Core Mobile Communications Business

Maintain Focus on Developing a High-Quality Subscriber Base. While we intend to continue our efforts toward achieving rapid subscriber growth in absolute terms, we believe that our economic performance is best served by maintaining our focus on developing a high-quality subscriber base, as measured by higher minutes of usage, higher revenue per subscriber and margins, lower churn rates and lower risk of default. We plan to achieve this by enhancing our network quality, coverage and performance, developing more value-added services and customized products and enhancing customer services, such as personalized services and payment convenience. We also intend to capitalize on the leading "CHINA MOBILE" brand name, including using promotional campaigns that emphasize quality of service. We expect to maintain and enhance the significant competitive advantages that we currently enjoy in these areas and in the high-quality subscriber segment.

Broaden Subscriber Base and Increase Market Penetration. We believe that mobile services will continue to move towards eventual mass popularization. We intend to capture additional subscribers from this rapidly growing market by offering products and services that are specifically tailored to the different customer segments in the Chinese mobile communications market, and further enhance our competitive position. For example, we began selectively offering prepaid services during the second half of 1999 in order to target certain lower usage customers and travellers. As of June 30, 2000, prepaid subscribers accounted for approximately 11.5% of our total subscriber base. We plan to leverage our extensive distribution networks, our leading brand name and our cellular network quality to continue our efforts in marketing our prepaid services to a certain segment of potential cellular users. We believe with accumulated and satisfactory usage experience, there is significant long term potential for these subscribers to increase usage and become regular, higher quality users of our mobile communications services and other new services we may offer.

Focus on Integrating Our Businesses and Realizing Synergies to Improve Efficiency. We expect to expand significantly if the proposed acquisition is completed. As a result, we plan to focus on integrating the acquired businesses with our existing businesses and realizing operational and other synergies from the combination, leveraging our experience from our acquisition of Jiangsu Mobile in 1998 and of Fujian Mobile, Henan Mobile and Hainan Mobile in 1999. We intend to implement a number of integration plans, including:

- streamlining our capital expenditure plans and continuing to invest in our GSM networks with an emphasis on increasing their coverage, capacity and operating efficiency, as well as further enhancing their quality;
- establishing uniform operating procedures to increase operational efficiency;
- implementing specific measures to maintain low churn rates, control bad debts and enhance subscriber usage;
- centralizing reporting and financial control functions; and
- implementing performance-oriented enterprise evaluation standards, which are consistent with practices adopted by us, by which the performance of these businesses and their management will be measured.

We intend to realize synergies in a number of areas, including:

- leveraging our contiguous market coverage along the coastal regions of mainland China to achieve cost savings in interconnection and other arrangements;
- leveraging our strong market position to realize volume cost savings in transmission line leasing and equipment and other purchases;
- leveraging the results of centralized research, development, billing and accounting functions; and

- leveraging the "CHINA MOBILE" brand name to centralize our marketing efforts to a greater degree and ensure consistency of our branding strategy.

In addition, we expect that the sharing of management resources and technological expertise among all of our operating subsidiaries will assist us in both areas.

Nurture Human Capital. The development of human capital is essential to our business, particularly as we expand quickly in size and as we seek to capture rapid technological development opportunities to expand the range of our services. We plan to continue to aggressively pursue measures to attract, retain and promote highly qualified personnel. These measures include:

- increasing the overall education level and technical expertise of our workforce;

- implementing attractive compensation schemes, such as our recently expanded employee stock option plan, to link employee compensation to our results of operations and the performance of our shares;

- rapidly promoting and increasing the responsibility of highly qualified managers;

- providing extensive training;

- implementing an extensive evaluation system so that productive employees are appropriately incentivized, and under-performing personnel are effectively and quickly identified, and appropriate measures are taken; and

- enhancing advancement opportunities for technical personnel so that they share the same career opportunities as management professionals.

Pursue Strategic Expansion in the Broader Telecommunications Market in Mainland China and Capture New Revenue Streams

We expect that the broader telecommunications market in mainland China will continue to expand quickly, as a result of significant market demand, rapid technological development and a more open regulatory framework. We intend to capture opportunities in the broader telecommunications market by leveraging our substantial subscriber base and moving up the value chain, as well as penetrating the non-cellular market at each level (as illustrated by the following chart):

[Broader Telecommunications Market Chart]

This value creation strategy emphasizes the following elements:

- As mobile communications technologies advance, we intend to further enhance our current GSM mobile communications network with various technologies to increase network coverage and network capacity and to enhance network intelligence;

- We believe Internet Protocol based services will have tremendous growth opportunities as a result of the convergence of voice and data services and the increasing needs for higher speed access. We intend to target the business market of Internet Protocol based services with bundled voice and data, fixed line and wireless services, while marketing our Internet Protocol telephony services to our mobile subscribers;

- With the rapid development of the Internet, wireless Internet access presents enhanced business opportunities for us. We will implement applications based on various new technologies, including WAP and general packet-switched radio service, to deploy wireless Internet access services, while moving towards a seamless transition to third generation technology in the future;

- To further move up the value chain, we are developing our own mobile Internet portal and intend to develop our mobile information service center. The mobile information service center will serve as the standard platform that hosts our mobile e-commerce and wireless virtual private network and will have end-to-end security, authentication and location-based information functions. We intend to seek strategic alliances or ventures, or jointly undertake business initiatives, with key wireless data industry players, which would include technology, equipment and application service providers, content providers, such as those relating to banking, securities trading and electronic gaming, and other companies that bring strategic value to our wireless data initiatives; and

- We intend to strategically build out our transmission trunk lines in high voice or data traffic routes where economically advantageous, while utilizing leased lines for our low traffic routes and connections.

Continue to Explore Acquisition and Other Expansion Opportunities

Continue to Explore Opportunities to Acquire Attractive Telecommunications Assets in Mainland China. If the proposed acquisition is completed, our subscriber base as a percentage of all subscribers in mainland China will increase from approximately 34.3% to approximately 55.9%, according to total market size data compiled by China Mobile Communications Corporation as of June 30, 2000. The mobile communications businesses operated by China Mobile Communications Corporation in the remaining 18 provinces, municipalities and autonomous regions are also growing rapidly, and some of them may represent attractive opportunities for further acquisitions.

Based on data compiled by China Mobile Communications Corporation, it had approximately 16.7 million subscribers in those 18 provinces, municipalities and autonomous regions as of June 30, 2000, and the relevant businesses had, on average, a subscriber growth rate of 75.4% from the end of 1997 to the end of 1999. Those regions, collectively accounting for approximately 52.0% of China's population, had an average cellular penetration rate of 1.9% as of December 31, 1999. We believe those provinces, municipalities and autonomous regions have potential for significant growth, and will continue to experience strong economic growth, in part assisted by recently announced Chinese government policies to promote the rapid development of the western and northern regions of China.

Seek Long-Term International Growth Opportunities. We intend to assume in the future a leadership position in the global telecommunications industry in terms of markets, technology and services. We intend to explore opportunities for potential strategic partnerships or cooperative arrangements with leading international telecommunications operators and content and technology providers.

Operations

We offer mobile communications services using primarily digital GSM technology and, to a lesser extent, analog TACS technology. Our cellular networks reach all cities and counties and most major roads and highways in the six provinces. The following table sets forth certain demographic and industry data for these six provinces for the periods indicated:

	As of or for the year ended December 31,		
	1997	**1998**	**1999**
Population (in thousands)(1)			
Guangdong	70,510	71,430	72,700
Zhejiang	44,350	44,560	44,750
Jiangsu	71,480	71,820	72,130
Fujian	32,820	32,990	33,160
Henan	92,430	93,150	93,870
Hainan	7,430	7,530	7,620
GDP per capita (RMB)(1)			
Guangdong	10,428	11,184	11,739
Zhejiang	10,515	11,202	11,981
Jiangsu	9,344	10,050	10,699
Fujian	9,258	10,121	10,969
Henan	4,430	4,676	4,899
Hainan	5,698	5,869	6,227
Cellular penetration (%)(2)			
Guangdong	3.6	5.4	9.4
Zhejiang	2.1	3.6	7.6
Jiangsu	1.2	2.1	4.0
Fujian	2.4	4.5	8.5
Henan	0.4	1.0	1.9
Hainan	1.7	2.5	3.8
Fixed line penetration (%)(3)			
Guangdong	11.8	13.4	15.9
Zhejiang	9.1	11.3	14.9
Jiangsu	8.3	10.4	12.5
Fujian	8.7	10.5	13.1
Henan	3.2	4.8	6.2
Hainan	5.2	5.8	6.9

(1) *Source:* 1998 China Statistical Yearbook, 1999 China Statistical Yearbook and 2000 China Statistical Abstract.

(2) Calculated based on our estimate of the total number of cellular subscribers, including subscribers of other operators.

(3) *Source:* the Ministry of Information Industry.

Subscribers and Usage

Our subscriber base has grown substantially, from approximately 3.4 million in 1997 to approximately 23.9 million as of September 20, 2000. We have a market share of approximately 83.0% in the six provinces in which we operate as of June 30, 2000. We believe that our subscriber growth has been attributable to numerous factors, including:

- our acquisitions;
- significant overall economic growth in the markets in which we operate;
- expansion in the coverage of our networks;
- wide recognition of our brand and diversified services;
- increased marketing and sales efforts and improved distribution channels;
- increased fixed line access resulting in additional communication opportunities;
- decreased cost of initiating services to new cellular subscribers due to a general decline in handset prices and our connection fees; and
- enhanced roaming capabilities and value added services.

The size and composition of our subscriber base and subscribers' usage patterns have changed over the last few years. As tariffs and the price of handsets have decreased and cellular technology has improved over time, mobile communications services have become increasingly popular with the broader middle income market for both business and social uses. In general, the highest usage subscribers with the greatest communications needs have tended to be the early subscribers of mobile services. As penetration increases, newer subscribers on average incur lower monthly usage, and are generally more price-sensitive. Accordingly, as is typical in many countries with developing mobile communications markets, the average usage and revenue per subscriber have declined over the last few years as our cellular penetration has increased. At the same time, connection fees for mobile communications services in mainland China have declined significantly, which reduced the cost for non-users to become cellular subscribers and for existing cellular users to switch between cellular networks. This, together with increased competition, has contributed to the increase in our churn rates since 1997. However, total minutes of usage of our subscribers has grown significantly since 1997.

The following table sets forth selected historical information about our cellular subscriber base (including subscribers for our prepaid services) for the six provinces for the periods indicated:

Subscriber Base and Related Information

	As of or for the year ended December 31,			As of or for the six months ended June 30,
	1997	1998	1999	2000
Subscribers (in thousands)				
Guangdong	2,502	3,623	5,951	9,167
Zhejiang	903	1,507	2,859	3,995
Jiangsu	—	1,401	2,328	3,268
Fujian	—	—	2,507	2,766
Henan	—	—	1,730	2,158
Hainan	—	—	246	284

Total	3,405	6,531	15,621	21,638*
Average churn rate (%)(1)				
Guangdong	1.2	1.9	3.5	2.7
Zhejiang	2.9	2.1	4.8	3.7
Jiangsu(2)	—	2.9	4.8	7.1
Fujian(3)	—	—	3.5	3.8
Henan(3)	—	—	7.4	4.7
Hainan(3)	—	—	18.3	4.1
Market share (%)(4)				
Guangdong	97.6	94.6	88.1	85.2
Zhejiang	97.0	93.5	84.7	81.5
Jiangsu	—	95.2	81.0	74.8
Fujian	—	—	89.1	82.2
Henan	—	—	97.8	94.2
Hainan	—	—	86.4	71.2
Minutes of usage (in billions)				
Guangdong	10.7	14.7	24.9	16.0
Zhejiang	3.7	5.7	9.8	6.2
Jiangsu(5)	—	4.6	7.0	4.8
Fujian(6)	—	—	8.5	4.8
Henan(6)	—	—	4.9	3.1
Hainan(6)	—	—	1.1	0.6
Average minutes of usage per subscriber per month(7)				
Guangdong	438	400	429(8)	357
Zhejiang	448	396	376	306
Jiangsu(5)	—	335	320	285
Fujian(6)	—	—	376	304
Henan(6)	—	—	310	268
Hainan(6)	—	—	436	397
Average revenue per subscriber per month (RMB)(9)				
Guangdong	454	452	376	325
Zhejiang	534	443	320	240
Jiangsu	—	n/a(10)	301	227
Fujian	—	—	n/a(11)	188
Henan	—	—	n/a(11)	196
Hainan	—	—	n/a(11)	284

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* 23.9 million subscribers as of September 20, 2000.

(1) Measures the rate of subscriber disconnections from mobile telephone service, determined by dividing (A) the sum of voluntary and involuntary deactivations (excluding deactivations due to subscribers switching from one of our contract services to another) during the relevant period by (B) the average number of subscribers during the period (calculated as the average at the beginning and end of the year (in the case of 1997 and 1998), and at the beginning of the year and the end of each calendar month (in the case of 1999 and the six months ended June 30, 2000)). On this basis, our calculated churn rate will be affected by the number of voluntary and involuntary deactivations and the significant growth in our subscriber base.

The upward trend in our calculated churn rate is attributable in part, to our tightened credit control policies and the compulsory termination of services where accounts are overdue for six or more months. In addition, we began offering prepaid services in late 1999. Some of our subscribers have switched from our contract services to our prepaid service, which does not require subscriber registration. Since the exact number of such subscribers cannot be ascertained, the above churn rate accounts for them as churn subscribers, even though they remain our subscribers. Based on our own recent market surveys, we believe that if such subscribers were to be excluded from the calculation, our calculated churn rate would be lower than that shown in the schedule above.

(2) We acquired Jiangsu Mobile in June 1998. The average churn rate of Jiangsu Mobile in respect of the full year of 1998 is presented for ease of comparison and is calculated based on the relevant information of Jiangsu Mobile prior to and after its acquisition by us.

(3) We acquired Fujian Mobile, Henan Mobile and Hainan Mobile in November 1999. The average churn rate for each of these subsidiaries in respect of the full year of 1999 is presented for ease of comparison and is calculated based on the relevant information of the respective companies prior to and after their acquisition by us.

(4) Calculated based on total number of cellular subscribers in the relevant provinces estimated by us.

(5) We acquired Jiangsu Mobile in June 1998. The minutes of usage and average minutes of usage per subscriber per month of Jiangsu Mobile in respect of the full year of 1998 are presented for ease of comparison and are calculated based on the relevant information of Jiangsu Mobile prior to and after its acquisition by us.

(6) We acquired Fujian Mobile, Henan Mobile and Hainan Mobile in November 1999. The minutes of usage and average minutes of usage per subscriber per month in respect of the full year of 1999 are presented for ease of comparison and are calculated based on the relevant information of Fujian Mobile, Henan Mobile and Hainan Mobile prior to and after their acquisition by us.

(7) Calculated by (A) dividing the total minutes of usage during the relevant period by the average number of subscribers during the period (calculated in the same manner as described in note (1) above) and (B) dividing the result by the number of months in the period.

(8) In Guangdong, the average usage by subscribers increased, in contrast to a general decline in average usage, due to the introduction of new value added services.

(9) Calculated by (A) dividing the operating revenue during the relevant period by the average number of subscribers during the period (calculated in the same manner as described in note (1) above) and (B) dividing the result by the number of months in the period.

(10) Not available for the full year of 1998 because the operating revenues of Jiangsu Mobile are included in our financial results only from June 4, 1998, the date of its acquisition by us.

(11) Not available for the full year of 1999 because the operating revenues of Fujian Mobile, Henan Mobile and Hainan Mobile are included in our financial results only from November 12, 1999, the date of their acquisition by us.

Contract Subscribers

The following table sets forth the total number of our contract cellular subscribers for the periods and in the provinces indicated.

	As of December 31,			As of June 30,
	1997	1998	1999	2000
Contract subscribers (in thousands)				
Guangdong	2,502	3,623	5,951	7,923
Zhejiang	903	1,507	2,859	3,579
Jiangsu	—	1,401	2,328	2,718
Fujian	—	—	2,507	2,572
Henan	—	—	1,730	2,075
Hainan	—	—	246	275
Total	3,405	6,531	15,621	19,142

Prepaid Subscribers

In the second half of 1999, we introduced prepaid services. Our prepaid subscribers can make and receive local and domestic and international long distance calls, and most of those subscribers also enjoy nationwide domestic roaming services. Each prepaid card has a value of RMB 50, RMB 100, RMB 300 or RMB 500 with a valid term of 180 days, 180 days, 360 days or 360 days, respectively. When a call is made or received by a prepaid subscriber, our system automatically deducts usage fees from the value stored in the card.

Prepaid subscribers can add value to their SIM cards by purchasing value-adding cards in the rest of mainland China when they are outside of their home cellular network (where such subscriber initially purchased the prepaid SIM card). Under our current arrangement with China Mobile Communications Corporation, its subsidiary in the location that issued the value-adding card remits 85% of the face value of the value-adding card to the subscriber's home network operator, and keeps the remainder as a handling charge.

We believe our prepaid services complement our traditional contract services, and are important means of expanding our subscriber base. In particular, subscribers to our prepaid services do not have to pay connection fees and monthly fees. Prepaid services also allow for easier subscription by non-local residents as compared to those required for traditional contract services. We believe that continued economic growth, the benefits of mobility, and current low cellular penetration rates in mainland China compared to demographically and culturally similar markets are among the fundamental factors that will further drive cellular subscriber growth towards eventual mass popularization. We believe prepaid services represent an effective tool for capturing additional subscribers and driving penetration in developing markets, such as mainland China, while keeping credit quality in check. Prepaid services also help introduce the enhanced benefit of mobility to non-mobile users. With accumulated and satisfactory usage experience, there is significant long term potential for these subscribers to substantially increase usage and become regular, higher quality users of our mobile communications services and other new services we may offer.

Our prepaid services have experienced rapid and significant growth in the first half of 2000. As of June 30, 2000, we had an aggregate of approximately 2.5 million subscribers for our prepaid services, representing 11.5% of our total subscriber base as of that date. The following table sets forth the total number of our prepaid subscribers by province as of June 30, 2000:

	Guangdong	Zhejiang	Jiangsu	Fujian	Henan	Hainan	Total
Prepaid subscribers (in thousands) ...	1,244	416	550	193	83	9	2,496
As a percentage of all subscribers (%)	13.8	10.4	16.8	7.0	3.8	3.2	11.5

Tariffs

The tariffs payable by our subscribers are primarily usage charges, including roaming charges, monthly fees, connection fees and monthly service fees for value added services. Usage charges reflect charges for both incoming and outgoing calls plus, where applicable, an additional component reflecting domestic and international long distance charges. When using roaming services, our subscribers pay roaming charges plus, where applicable, an additional component reflecting domestic and international long distance charges. Subscribers also pay fees for selection of specific telephone numbers.

Our tariffs are subject to regulation by various government authorities, including the Ministry of Information Industry, the State Development Planning Commission and the relevant provincial price regulatory authorities. For connection fees, the Ministry of Information Industry sets a guidance price range in consultation with the State Development Planning Commission for all mobile communications operators in mainland China. The actual price range in each province is determined by the relevant provincial price regulatory authorities. In general, basic usage charges, monthly fees, domestic roaming charges and applicable long distance tariffs are also determined by the Ministry of Information Industry in consultation with the State Development Planning Commission.

The following table summarizes some of the current basic charges for our full service packages:

	Guangdong	Zhejiang	Jiangsu	Fujian	Henan	Hainan
			(in RMB)			
Contract subscribers						
Connection fee(1).................................	500-800	300	550	700	500-800	400
Monthly fee(2).....................................	50	50	50	50	60(3)	50
Base usage charge (per minute)(2)	0.50	0.50(4)	0.50(4)	0.40	0.48(3)	0.40
Domestic roaming charge (per minute)....	0.60	0.60	0.60	0.60	0.72(3)	0.60
Prepaid subscribers						
Base usage charge (per minute)	0.60	0.60	0.60	0.60	0.60	0.60
Domestic roaming charge (per minute)....	0.80	0.80	0.80	0.80	0.80	0.80

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(1) Our operating subsidiaries offer different service packages with different connection fee rates. From time to time and in different regions in their respective provinces, our operating subsidiaries may also offer promotional connection fee rates, which could be substantially lower than the upper limit indicated in the table.

(2) We also offer certain specialized packages, in particular TACS network packages that offer local access services only, which have lower monthly fees and base usage charges than those indicated above.

(3) Henan Mobile's monthly fee, base usage and domestic roaming charges include an additional 20% surcharge.

(4) The base usage charges of Zhejiang Mobile and Jiangsu Mobile include an additional 25% surcharge.

In addition, we also charge long distance tariffs where applicable.

In order to develop our WAP services, we plan to charge a preferential usage fee for our WAP services at RMB 0.15 per minute (up to RMB 30 per month for the first 500 minutes in a month). The preferential usage fee rate will be effective from October 21, 2000 to May 20, 2001.

Contract Subscribers. Upon initial subscription, our new subscribers are charged a connection fee for service activation. After initial connection, subscribers are required to pay a fixed monthly fee. Subscribers incur base usage charges on a per minute basis for both incoming and outgoing calls, plus applicable long distance charges. For calls made or received by subscribers who are roaming outside of their registered service area, subscribers incur a roaming charge, plus applicable long distance charges. Subscribers may also have to pay various local surcharges. In addition, we collect fees for value added services.

Connection fees in all six provinces in which we operate have been substantially reduced in the past three years, accompanying a reduction in the guidance prices for connection fees over that period. In 1999, with the relevant government approval, we also reduced monthly fee rates in Guangdong and Zhejiang and base usage surcharge rates in Jiangsu. We anticipate that connection fees will be further reduced or eliminated in the next few years, which we believe may help to expand our subscriber base and increase total subscriber usage of our cellular services, thereby contributing to our revenue growth in the long term. We expect our overall tariff rates to remain stable despite further reductions in connection fees. Connection fees have become an increasingly less important source of our revenue. We expect that its importance will continue to decline.

Prepaid Subscribers. We do not charge connection fees and monthly fees for our prepaid services. Subscribers for our prepaid services only incur base usage charges on a per minute basis for both incoming and outgoing calls, plus applicable long distance tariffs.

Interconnection

Interconnection refers to various arrangements that permit the connection of our networks to other networks such as the fixed line telephone network.

Interconnection with China Telecommunications Corporation (for Local and Long Distance Calls). Our networks interconnect with China Telecommunications Corporation's public fixed line network, allowing our subscribers to communicate with fixed line subscribers and to make and receive local, domestic and international long distance calls. A majority of calls on our networks involve interconnection with China Telecommunications Corporation's fixed line network. Each of our operating subsidiaries has an interconnection agreement with the relevant subsidiary of China Telecommunications Corporation that operates the fixed line network in its province. The economic terms of these agreements are standardized from province to province.

Calls between our subscribers and China Unicom's subscribers interconnect through China Telecommunications Corporation's fixed line network, and the operator of the calling party settles with China Telecommunications Corporation. We and China Unicom each settle separately with China Telecommunications Corporation for such calls. We pay China Telecommunications Corporation RMB 0.05 per minute of the base usage charge for such local calls when our subscriber is the calling party.

Interconnection with China Mobile Communications Corporation (for Long Distance Calls and Roaming Calls). We also have an inter-provincial interconnection and roaming agreement with China Mobile Communications Corporation, under which the other subsidiaries of China Mobile Communications Corporation and we provide to each other domestic inter-provincial network interconnection services and domestic and international roaming services.

Interconnection Revenue Sharing and Settlement. Where calls involve interconnection with China Telecommunications Corporation's fixed line network or China Mobile Communications Corporation's network, our interconnection arrangement with China Telecommunications Corporation or China Mobile Communications Corporation provides for the sharing and settlement of revenues from the basic usage charge, and, if applicable, roaming charges and domestic and international long distance charges.

The following table summarizes the terms of our interconnection arrangement with China Telecommunications Corporation, including China Telecommunications Corporation's subsidiaries in each province, as they relate to revenue sharing and settlement of the base usage charges for non-roaming local calls:

Revenue Sharing and Settlement of

Base Usage Charges for Non-Roaming Local Calls

Type of calls	Originating subscriber	Terminating subscriber	Settlement arrangements
Mobile to fixed	Our subscriber	China Telecommunications Corporation's fixed line subscriber	*Our contract subscribers:* • We collect the base usage charge of RMB 0.40 to RMB 0.50 per minute from our subscriber making the call(1) • We pay RMB 0.05 per minute to China Telecommunications Corporation *Our prepaid subscribers:* • We are credited with the base prepaid usage charge of RMB 0.60 per minute from our subscriber making the call • We pay RMB 0.05 per minute to China Telecommunications Corporation
Fixed to mobile	China Telecommunications Corporation's fixed line subscriber	Our subscriber	*Our contract subscribers:* • We collect base usage charge of RMB 0.40 to RMB 0.50 per minute from our subscriber receiving the call(1) • No revenue sharing or settlement *Our prepaid subscribers:* • We are credited with the base prepaid usage charge of RMB 0.60 per minute from our subscriber receiving the call • No revenue sharing or settlement

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(1) See "— Tariffs" for the amount of the base usage charge in each province.

Where applicable, we collect domestic long distance charges in addition to the base usage charges. The following table summarizes the terms of our interconnection arrangement with each of China Telecommunications Corporation and China Mobile Communications Corporation as they relate to revenue sharing and settlement of the domestic long distance charges.

Revenue Sharing and Settlement of Domestic Long Distance Charges

Type of calls	Originating subscriber	Terminating subscriber	Settlement arrangements
Mobile to fixed	Our subscriber	China Telecommunications Corporation's fixed line subscriber	*Contract and prepaid subscribers:* • In addition to the base usage charge, we collect the domestic long distance charge of RMB 0.60 to RMB 1.00 per minute from our subscriber making the call(1) • We keep RMB 0.14 per minute of the domestic long distance charges and pay the rest to China Telecommunications Corporation
Fixed to mobile (through our transmission lines)	China Telecommunications Corporation's fixed line subscriber in our service area	Our subscriber or China Mobile Communications Corporation's subscriber	*Contract and prepaid subscribers:* • China Telecommunications Corporation collects the domestic long distance charge from its subscriber making the call • China Telecommunications Corporation keeps RMB 0.14 per minute of the domestic long distance charges and pays the rest to us
Mobile to mobile (through our transmission lines)	Our subscriber	China Mobile Communications Corporation's subscriber	*Contract and prepaid subscribers:* • In addition to the base usage charge, we collect the domestic long distance charges of RMB 0.60 to RMB 1.00 per minute from our subscriber making the call(1) • No revenue sharing or settlement

Mobile to mobile (through transmission lines of China Mobile Communications Corporation)	China Mobile Communications Corporation's subscriber	Our subscriber	*Contract and prepaid subscribers:* • In addition to its base usage charge, China Mobile Communications Corporation collects the domestic long distance charge from its subscriber making the call • No revenue sharing or settlement

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(1) Currently, domestic long distance tariffs are RMB 0.60 per minute in the case of intra-provincial long distance calls, and RMB 0.80 to RMB 1.00 per minute, depending on distance, in the case of inter-provincial calls. Additional surcharges may apply in certain provinces. Certain off-peak discounts may apply to such domestic long distance tariffs.

Where applicable, we collect international long distance charges in addition to base usage charges. The following table summarizes the terms of our interconnection arrangement with China Telecommunications Corporation as they relate to international long distance call charges.

Revenue Sharing and Settlement of International Long Distance Charges

Type of call	Settlement arrangements
Outgoing calls from our subscriber	• In addition to the base usage charges, we collect the international long distance charges from our subscriber making the call • We keep RMB 0.20 per minute of the international long distance charge and pay to China Telecommunications Corporation the rest of the international long distance charge
Incoming calls to our subscriber	• No revenue sharing or settlement(1)

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(1) Except for incoming international calls that interconnect with our gateway in Guangzhou, Guangdong province, for which we receive a portion of the long distance charge from China Telecommunications Corporation.

Roaming

Roaming services allow mobile subscribers to make and receive calls while outside of their local service areas.

We provide roaming capabilities to our subscribers, which allow them to make and receive telephone calls while they are physically outside of their registered service area and are in the coverage areas of other cellular networks with which we have a roaming arrangement. Both our GSM and TACS networks offer roaming capabilities throughout mainland China. In addition, our GSM networks offer roaming capabilities in 56 countries and regions around the world, where we currently have roaming arrangements with relevant local operators. A cellular subscriber using roaming services is charged at our per-minute roaming charge (instead of the base usage charge) for both incoming and outgoing calls, plus applicable long distance charges.

We have a domestic roaming arrangement with China Mobile Communications Corporation, under which our subscribers (of both GSM and TACS networks) can make and receive telephone calls while they are located in the service areas of China Mobile Communications Corporation in the rest of mainland China where we currently do not operate. Conversely, we offer roaming services to China Mobile Communications Corporation's subscribers while they are physically located in our service areas.

The following table sets forth our revenue sharing and settlement arrangement with China Mobile Communications Corporation for base roaming charges. We currently do not have a roaming arrangement with China Unicom.

Revenue Sharing and Settlement of the Basic Roaming Charges

Type of roaming	Settlement arrangements
	Our contract subscribers:
Our subscriber roaming into the mobile network of China Mobile Communications Corporation	• We collect the base roaming charge of RMB 0.60 per minute from our subscriber making or receiving the call while roaming(1) • We pay 80% of the base roaming charge to China Mobile Communications Corporation

	Our prepaid subscribers: • We are credited with the base prepaid roaming charge of RMB 0.80 per minute from our subscriber making or receiving the call while roaming(1) • We pay 80% of such amount to China Mobile Communications Corporation
Subscriber of China Mobile Communications Corporation roaming into our network	**China Mobile Communications Corporation's contract subscribers:** • China Mobile Communications Corporation collects the base roaming charge from its subscriber making or receiving the call while roaming • China Mobile Communications Corporation pays to us 80% of such base roaming charge collected **China Mobile Communications Corporation's prepaid subscribers:** • China Mobile Communications Corporation is credited with the base roaming charge from its subscriber making or receiving the call while roaming • China Mobile Communications Corporation pays to us 80% of such base roaming charge credited

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(1) See "— Tariffs" for the amount of the base roaming charge in each province.

Revenue Sharing and Settlement of Long Distance Charge when Roaming. In addition to the base roaming charge, long distance charges may be generated when a subscriber is roaming, either when our subscriber is making a long distance call from the roaming location, or when our subscriber is receiving a call (which necessarily involves long distance connection from our subscriber's home network to the location in which he is roaming). Under our arrangements with China Mobile Communications Corporation:

• Where a cellular subscriber makes a call while roaming, the visited network operator receives all long distance charges incurred. The visited network operator then settles those long distance charges, if settlement applies, in accordance with the long distance revenue sharing and settlement arrangements described above under "— Interconnection"; and

• Where a cellular subscriber receives a call while roaming, the home network operator receives and keeps all long distance charges incurred by that subscriber.

Value Added Services and New Services

In addition to basic mobile communications services, we offer a number of optional value added services. Recently, we have also begun offering certain new services, such as wireless data and Internet Protocol telephony, that capitalize on new technology-enabled opportunities.

Voice Functions. We offer a variety of basic value added services with voice function, including call forwarding, call waiting, conference calling, call limitation, voice mail and "Chinese Secretary", a live answering service.

Wireless Data. We believe that wireless data will be one of the fastest growing segments of the telecommunications market in mainland China over the next several years. We intend to further expand the range of our value added services, with particular emphasis on wireless data applications, which we believe can be achieved with modest initial expenditures.

In 1999, we used our short message service platform to develop new value added services in selected cities in our service areas, including stock price quotations, sports news, weather forecasts and on-line payment. We will continue to utilize our GSM network to provide data services based on the current short message service platform where consumer demands can be more economically served by short message service. These data services include, for example, transmission of short messages to facsimile and e-mail addresses.

We currently offer WAP services in all six provinces in which we operate. WAP refers to Wireless Application Protocol, which is a software protocol stack that defines a standardized means of transmitting Internet-based content and data to mobile handsets and other wireless handheld devices. Our WAP services provide wireless Internet access enabling subscribers to send and receive data over WAP enabled handsets or handheld computing devices and provide access to Internet-based content, such as weather forecasts, financial updates, news broadcasts, business information, health information, entertainment, traffic news and travel tips, e-commerce and on-line games.

We have also conducted advanced General Packet-Switched Radio Service technology trials. This technology will enable operators to provide end-to-end packet-switched data transmission on the existing GSM network, which improves wireless network utilization and enhances the wireless access rate for a variety of data applications, including WAP. We have also completed tests running WAP applications over a general packet-switched radio service platform. In August 2000, we installed and, conducted a stand alone test of, our first full general packet-switched radio service network for the offering of WAP services over this network.

Internet Protocol Telephony. In May 2000, we began providing Internet Protocol telephony service, which allows users to make domestic and international long distance calls at significantly lower cost. Our Internet Protocol telephony service covers all of our service areas. We intend to build customer awareness of the benefits of our Internet Protocol telephony service through marketing and promotional efforts.

"172" ISP Services. Recently, we launched "172" ISP services, which enable users to access the Internet through both mobile handsets or fixed line telephones by dialling a prefix. Our "172" ISP services are still at an early stage and the scope of these services is, therefore, currently limited. We intend to provide integrated voice, data and video access to both cellular and non-cellular users through such services in the near future.

We intend to continue focusing on the application of general packet-switched radio service and third generation mobile communication technologies, so as to launch new wireless multimedia services. Third generation refers to the third generation digital wireless telecommunications technologies, including those that support packet data switching, wireless broadband, multi-media and global roaming.

Research and Development

Our research and development efforts focus on:

- developing advanced data application solutions suitable for the particulars of the consumer markets in mainland China; and

- monitoring technological trends that may have an impact on the development of our current business and the implementation of our wireless data strategy.

In light of the increasingly competitive and rapidly evolving telecommunications market in mainland China, we expect to continue to devote resources to the research and development of new products, services and technology applications. We have established a research and development center in Shenzhen, Guangdong to lead our research and development efforts on developing wireless data applications.

Customer Service, Billing and Credit Control

We provide a full range of services that emphasize customer care from the point of sale onward. At the point of sale, after all application procedures have been completed, we are generally able to activate new subscriber connections within a few hours for our GSM services and within 24 hours for our TACS services. Our after-sales customer support services include customer service hotlines in our service areas. These hotlines provide customers with billing and service information, as well as receive customer reports of network problems.

We do not require subscribers to post any deposit before the initiation of local service, although subscribers may choose to establish direct debits from their bank accounts. Our prepaid subscribers may also choose to authorize the automatic adding of value to their stored value cards through direct debit arrangements. Despite the lack of widely available credit information services in mainland China, we have implemented certain subscriber registration procedures, such as identity checks and background checks for corporate customers to assist in credit control.

Generally, we have the same settlement policy for our subscribers in different service areas, requiring these subscribers to settle their individual accounts on a monthly basis. Subscribers may make payment either through direct debit accounts established at certain branches of banks and certain post offices, or by paying in person at numerous retail outlets and authorized dealers in various cities and counties. Detailed statements are made available upon the subscriber's request.

We impose a late payment fee on each subscriber whose account is not paid by the monthly due date. Our current policy is to deactivate the subscriber's services (i.e., an involuntary deactivation) if the subscriber's account remains overdue after one month. Subscribers whose services have been involuntarily deactivated must pay all overdue amounts, including applicable late payment fees, to reactivate services.

We make provision for doubtful accounts based on our assessment of the recoverability of accounts receivable on maturity. In particular, we make full provision for accounts receivable that are overdue for more than three months. The total amount of the provision for doubtful accounts for each of 1997, 1998 and 1999 and the six months ended June 30, 2000 was RMB 449 million, RMB 558 million, RMB 771 million and RMB 647 million, respectively, or 2.9%, 2.1%, 2.0% and 2.2% of total operating revenue, respectively.

Information Systems

Our information technology infrastructure consists primarily of three computerized information systems: the business operations support system, the management information system and our internal business communications network. Our business operations support system provides day-to-day operational support to our various business units, including customer care, billing and collection, and sales and marketing. Our management information system collects and processes information data, including operational and financial data, so that management and marketing personnel can monitor subscriber satisfaction, analyze trends in calling patterns, target network expansion and develop appropriate marketing strategies. Our internal business communications network allows internal communications through our intranet, video conference system and communications platform system. During 1999, we upgraded our information systems which has enabled us to enhance operations management, implement credit controls and monitor mobile usage in real time. Our information systems operated through each critical date relating to the year 2000 issue without difficulty or interruption. However, there is no assurance that a year 2000 problem that may occur or be detected at a later date will not pose operational problems or have an adverse effect on our business, financial condition or results of operations.

Service Distribution and Marketing

Since early 1997, we have significantly expanded our marketing and distribution efforts to attract a growing number and an increasingly diverse base of potential subscribers. We have focused on expanding our distribution channels, while emphasizing our brand name and network and service superiority.

Distribution Channels. We market our services through an extensive network of authorized dealers (including retail outlets of the fixed line operators and post offices) and through our own retail outlets.

As of June 30, 2000, we had 12,937 authorized third-party dealers and owned and operated 538 retail outlets as set forth in the following table.

	Guangdong	Zhejiang	Jiangsu	Fujian	Henan	Hainan
Authorized third-party dealers...	1,857	2,455	1,536	4,465	2,210	414
Owned and operated retail outlets..................................	114	76	84	35	197	32
Total	1,971	2,531	1,620	4,500	2,407	446

The authorized dealers market and sell our services at prices determined by us in accordance with the applicable price schedules in the relevant provinces. In connection with these sales, the dealers pay to us all related connection fees and other miscellaneous fees payable upon initial connection. We in turn pay the dealers a fee of RMB 150 to RMB 300 per new subscriber acquired. In addition to marketing our services, some of our authorized dealers also perform various services for us, such as payment collection and the provision of billing information and other customer services.

As of June 30, 2000, we also owned and operated 538 retail outlets. In addition to serving as outlets where customers can subscribe for our network services, most of these outlets also offer customers after-sales support services, including the repair of handsets and collection of payment.

We are seeking to develop other distribution channels, including on-line sales and customer service facilities over the Internet, in order to further strengthen our marketing efforts.

Brand Name. As the first and the leading mobile telephone services provider in our markets, we believe we are well positioned to develop our brand name. We market our services under the "CHINA MOBILE" brand name, which is the marketing name used throughout mainland China by China Mobile Communications Corporation. As a result of promotional and marketing initiatives by us and China Mobile Communications Corporation's other operating subsidiaries, the mark has attained wide recognition and is closely identified with us by consumers. China Mobile Communications Corporation has filed an application to register the "CHINA MOBILE" logo as a trademark in mainland China. In addition, applications have been filed in Hong Kong to register "CHINA MOBILE and logo" as our trademark for certain goods and services.

In October 1999, we entered into a licensing agreement with China Mobile Communications Corporation for the use of the "CHINA MOBILE" name and logo by us and our operating subsidiaries. Under this agreement, no license fee is payable by us for the first three years from the effective date of the trademark registration and any fees payable after that will be no less favorable than fees paid by other affiliates of China Mobile Communications Corporation.

We also changed our corporate name to "China Mobile (Hong Kong) Limited" as of June 28, 2000.

Cellular Networks

Each of our GSM networks consists of:

- cell sites, which are physical locations equipped with a base transceiver station containing transmitters, receivers and other equipment that communicate through radio channels (which are communication paths for transmitting voice or non-voice signals) with mobile telephone handsets within the range of a cell (which is the coverage area of the whole or part of a base station);
- base station controllers, which connect to, and control, the base transceiver station within each cell;
- mobile switching centers, which in turn control the base station controllers and the routing of calls; and
- leased transmission lines, which link the mobile switching centers, base station controllers, base transceiver stations and fixed line networks.

A base station or base transceiver station is a transmitter and receiver which serves as a bridge between all mobile users in a cell and connects mobile calls to the mobile switching center. Base station controller refers to equipment that monitors and controls one or more base stations, performing the functions of message exchange and frequency administration. A mobile switching center is a central switching point to which each call is connected, which controls the routing of calls.

The following table sets forth certain selected information regarding our GSM and TACS networks in each province as of June 30, 2000:

	Guangdong	Zhejiang	Jiangsu	Fujian	Henan	Hainan	Total
Subscribers (in thousands)							
GSM	8,883	3,586	2,871	2,635	2,042	269	20,286
TACS	284	409	397	131	116	15	1,352
Total	9,167	3,995	3,268	2,766	2,158	284	21,638
Voice channels (in thousands)							
GSM	338	185	143	151	83	12	912
TACS	19	19	32	14	6	1	91
Total	357	204	175	165	89	13	1,003
Mobile switching centers							
GSM	89	59	33	32	35	3	251
TACS	25	14	30	10	6	2	87
Total	114	73	63	42	41	5	338
Base station controllers(1)							
GSM	156	170	98	115	87	17	643
Base transceiver stations							
GSM	5,056	3,105	2,839	2,890	2,414	196	16,500
TACS	1,199	524	1,284	611	200	43	3,861
Total	6,255	3,629	4,123	3,501	2,614	239	20,361

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(1) In a TACS system, the base transceiver stations are connected directly to the mobile switching centers. Accordingly, our TACS networks do not utilize any base station controllers.

GSM Network Capacity Expansion Plans

Although our GSM cellular networks commenced operations only in 1995 (and in the case of Henan Mobile, in 1996), they have grown rapidly, accounting for approximately 94% of our total subscribers as of June 30, 2000. We intend to continue our network expansion and improvement with an emphasis on increasing the coverage and capacity and improving the operating efficiency of our GSM networks. We intend to achieve capacity expansion by adding cell sites in areas already within our network coverage and by expanding coverage, including along railways and highways and improving indoor coverage. Our network expansion plans depend to a large extent upon the availability of sufficient spectrum. In addition, in order to improve the quality of our cellular networks in certain major urban centers, we introduced GSM-compatible Digital Cellular System 1800 systems to add capacity and seek to achieve seamless coverage in these areas.

Migration from TACS to GSM Network

Recent advances in GSM technologies have substantially increased network capacity and the service quality. The economic life cycle of our current TACS network equipment is also much more limited compared to that of our GSM networks. Accordingly, to make more efficient use of our spectrum resources and accelerate the enhancement of our network, we have decided to reduce and eventually eliminate the use of the current TACS service and migrate our existing TACS subscribers to our GSM services at no additional cost to these subscribers. Through our marketing efforts, we encourage our TACS subscribers to migrate to our GSM networks by, for example, highlighting the attractiveness of value added services that are not available to TACS subscribers. The companies that we have agreed to acquire are in the process of implementing similar migration plans. The migration is part of our overall network development plan.

Spectrum

A cellular network's capacity is to a certain extent limited by the amount of frequency spectrum available for it to use. The Ministry of Information Industry has allocated 24 MHz in the 900 MHz frequency band to us to operate our cellular networks. In addition, we also have the right to use 10 MHz of spectrum in the 1800 MHz frequency band in each of the provinces in which we operate. We have used this spectrum to introduce Digital Cellular System 1800 systems to expand the capacity of our GSM networks in Guangdong, Jiangsu and Fujian by adding cell sites in certain areas with a high density of cellular subscribers.

Transmission Infrastructure

The physical infrastructure linking our base transceiver stations, base station controllers and mobile switching centers and interconnecting our networks to the fixed line network consists of transmission lines, which provide the backbone infrastructure by which mobile call traffic is carried.

Intra-Provincial Transmission Lines. We currently lease intra-provincial and local transmission lines from China Telecommunications Corporation's subsidiaries that operate the fixed line networks in Guangdong, Zhejiang, Jiangsu, Fujian, Henan and Hainan, and pay to them fees based on tariff schedules stipulated by the relevant regulatory authorities after adjusting for the discount that we are entitled to.

We have also built our own infrastructure in certain areas where the fixed line network operators do not currently have any transmission lines in place or where the leasing of existing lines is not economical. As part of our network operation strategy, we intend to build our own transmission lines where economically advantageous, such as in high voice traffic areas. In areas where the leasing of transmission lines makes more economic sense, we intend to continue to leverage our group buying capacity to negotiate preferential leasing rates.

Inter-Provincial Transmission Lines. We entered into a new inter-provincial leased line arrangement with China Mobile Communications Corporation in May 2000, with effect from April 1, 1999. The leased inter-provincial transmission lines link our mobile switching centers with each other and with China Mobile Communications Corporation's other mobile switching centers.

Prior to these arrangements, we leased intra-provincial transmission lines to link our network to the fixed line network, but did not lease any inter-provincial transmission lines. Instead, we paid China Mobile Communications Corporation an inter-provincial interconnection fee. Under these arrangements, we lease from China Telecommunications Corporation (and via China Mobile Communications Corporation) inter-provincial transmission lines. The rental payable by us is determined based on the standard leasing fee stipulated by the relevant regulatory authorities after adjusting for the discount that we are entitled to, and the cellular network operators at both ends of the transmission lines will share the leasing fees equally. The new arrangements led to an increase in our transmission line leasing expenses, but a greater reduction in our inter-provincial interconnection and roaming settlement expenses payable to China Mobile Communications Corporation, resulting in net savings in our operating expenses.

Network Operations and Maintenance

We believe that we have considerable network operation and maintenance experience and technical expertise. Day-to-day traffic management, troubleshooting and system maintenance are conducted by our experienced team of engineers and technicians, and technical staff are available for emergency repair work 24 hours a day. In addition, we employ specialist teams for central maintenance of the networks. We continue to seek to attract and retain qualified technical staff. Currently, most technical difficulties relating to the networks are resolved by our staff, although our equipment suppliers also provide back-up maintenance and technical support. To date, we have not experienced any technical difficulties that have resulted in a material interruption in cellular network services.

Base Station Sites

In urban areas, our base transceiver station sites are located mostly on existing structures, typically at the top of tall buildings. In rural areas, masts are often constructed for locating base transceiver stations. Typically, base station sites are of limited size, as base transceiver station equipment does not generally require significant space. Generally, depending on the length of time required for negotiation with respect to use of the land or buildings, construction of a base transceiver station takes approximately one to three months in an urban area and approximately three to six months in a rural area. We anticipate that we will need a significant number of new sites in connection with the expansion of our cellular networks. There can be no assurance that we will be able to obtain the requisite number of sites on reasonable commercial terms.

Equipment Suppliers

We select our principal suppliers from among leading international and domestic manufacturers of mobile communications equipment and in accordance with technical standards set by the Ministry of Information Industry. Our TACS networks use equipment primarily supplied by Ericsson and Motorola, while our GSM networks use equipment primarily supplied by Ericsson, Motorola, Nokia, Italtel and Alcatel. Our largest supplier accounted for approximately 25% of our network equipment purchases in 1999, and the top five suppliers accounted for an aggregate of 62% of our network equipment purchases in 1999.

Competition

China Unicom operates, directly or through its subsidiaries, in all of the provinces, municipalities and autonomous region in which we and the companies that we have agreed to acquire operate. The Chinese government encourages orderly and fair competition in the telecommunications industry in mainland China. Towards this end, it has extended certain favorable regulatory policies to China Unicom in order to help it become a more viable competitor to us and China Mobile Communications Corporation. In particular, the Chinese government has permitted China Unicom to lower its mobile service tariffs by up to 10% below the government guidance rates (or up to 20% below the government guidance rates in areas where we offer service packages that provide local access only services on analog networks, which packages have lower tariff rates compared to our standard tariff rates for services offered on GSM networks). Some of our subsidiaries offer such local access only services with limited scope over their TACS networks. We believe this policy has helped China Unicom capture a significant number of price-sensitive and low-usage cellular subscribers. Based on publicly available information in respect of China Unicom's listed subsidiary, as of December 31, 1999, China Unicom's listed subsidiary had an estimated market share of approximately 14.2% of cellular subscribers in its service areas, as compared to approximately 3.6% and 7.1% as of December 31, 1997 and 1998, respectively.

We compete on the basis of our network coverage and quality, the pricing of our services, the range of services we offer and our service quality. We believe that we have significant competitive advantages due to:

- our superior cellular networks;

- our financial resources;

• our experienced management team and high quality employees;

• our widely-recognized brand name and logo that are closely identified with us by consumers;

• our broad distribution networks and our focus on customer services; and

• our extensive range of value added services.

We believe these advantages have contributed to our superior subscriber quality compared to that of our competitor, as measured by average usage levels, average revenues per subscriber and doubtful accounts levels.

In addition to China Unicom, the State Council and the Ministry of Information Industry may approve additional mobile service providers in the future that may compete with us. We may also be subject to competition from providers of new telecommunications services based on new or existing technologies. Nonetheless, given the relatively low cellular penetration rates in our markets and in mainland China in general, we believe there is substantial growth potential for our mobile communications business. We believe that the restructuring of the telecommunications industry in mainland China has created a fair, orderly, transparent and healthy telecommunications market.

We also face indirect competition from providers of other wireless communications services, such as paging and city-wide mobile telephone services based on Personal Access System technology operated by China Telecommunications Corporation and its subsidiaries, which offer substantially lower prices for their services. However, we do not believe that they are significant competitors, as they provide a much more limited range of services compared to mobile communications services.

In addition, China Great Wall Communications Corporation has conducted trial operations in several cities in mainland China using 800 MHz Code Division Multiple Access technology. Code Division Multiple Access technology is a continuous digital transmission technology that accommodates higher throughput by using various coding sequences to mix and separate voice and data signals for wireless communication. The Ministry of Information Industry has not issued a license authorizing the commercial operation of cellular networks using this technology in mainland China. However, in March 1999, the State Council granted China Unicom its approval to utilize this technology for commercial mobile communications operations. We believe that the second generation of this technology has limited commercial value to our business due to the rapid development of wireless communications technology. In addition, we believe that the current second generation of this technology will not significantly change the relative competitive strengths of existing telecommunications operators. As a result, we have decided not to pursue its development.

China recently concluded bilateral negotiations of the major terms for its entry into the World Trade Organization with a number of countries, including the United States, and the European Union. As a result, we expect the Chinese government to gradually relax current restrictions on foreign ownership in the telecommunications industry. This could lead to the eventual opening of the Chinese telecommunications market to foreign investors and operators, and could result in or accelerate the issue of new telecommunications service licenses.

Management Measures and Performance Evaluation Systems

Since our initial public offering in 1997, we have made considerable efforts in transforming our operating subsidiaries into profit-driven, market-oriented enterprises to create value for our investors. We have adopted a series of management measures and performance evaluation systems that assist us in maximizing efficiency and integrating the operations of our subsidiaries. We monitor the progress of our operating subsidiaries, our management and employees on a regular basis.

We have established a stringent nine-point evaluation standard by which the performance of our subsidiaries and their management are measured:

• subscriber growth;

• revenue growth;

• average minutes of usage per subscriber;

• average revenue per subscriber;

• churn rate;

• level of bad debts;

• net profit;

• EBITDA margin; and

• productivity.

Employees

As of June 30, 2000, we had 19,547 employees, including 19,505 employees in our six operating subsidiaries as classified below, eight employees at China Mobile (Shenzhen), and 34 employees in Hong Kong. Approximately 40% of our full time employees have college or graduate degrees.

	Guangdong	Zhejiang	Jiangsu	Fujian	Henan	Hainan	Total
Management	1,280	321	697	604	508	49	3,459
Technical and engineering	2,918	930	813	753	1,147	137	6,698
Sales and marketing	2,502	1,059	992	1,693	1,239	460	7,945
Financial and accounting	358	198	179	145	136	13	1,029
Others	0	278	24	0	72	0	374
Total	7,058	2,786	2,705	3,195	3,102	659	19,505

We maintain a performance-based employee management and compensation system that enhances our employees' sense of participation and responsibility. To encourage our employees to make positive contributions to our management, we have adopted a 360 degree performance review system, which allows our employees to review the performance of our managers and vice versa.

In addition, we have adopted an employee compensation system that is linked to our results of operations and the performance of our shares. In April 2000, we expanded the scope of participants in our stock option plan to include the middle level management of our operating subsidiaries.

We have focused on increasing the productivity of our workforce, including that of the businesses which we have acquired. The following chart shows certain information relating to the number of subscribers per employee of each of our operating subsidiaries and China Mobile (HK) for the periods indicated.

Number of Subscribers Per Employee

[Number of Subscribers Per Employee Chart]

We provide certain employee benefits, including housing, retirement benefits and hospital, maternity, disability and dependent medical care benefits. Most of our employees are members of a labor association. We have not experienced any strikes, slowdowns or labor disputes that have interfered with our operations to date, and we believe that our relations with our employees are good.

Properties

Our principal executive office is located in Hong Kong. Our regional headquarters are located in Guangzhou in Guangdong, Hangzhou in Zhejiang, Nanjing in Jiangsu, Fuzhou in Fujian, Zhengzhou in Henan and Haikou in Hainan. We own, lease or have use rights in various properties which consist of land and buildings for offices, administrative centers, staff quarters, retail outlets and technical facilities. We are in the process of obtaining land use right certificates and property title certificates for a number of these properties in Guangdong. We believe that our use of these properties is not affected by the fact that we have not yet obtained the relevant land use right certificates and property title certificates. China Mobile Communications Corporation, our ultimate controlling shareholder, has agreed to indemnify us against any loss or damage caused by or arising from any challenge of, or interference with, our right to use these properties. We believe that all of our owned and leased properties are well maintained and are suitable and adequate for their present use.

Legal Proceedings

We are not involved in any litigation, arbitration or administrative proceedings relating to claims that could have a material adverse effect on our financial condition and results of operations, taken as a whole, and, so far as we are aware, no such litigation, arbitration or administrative proceedings are pending or threatened.

OUR PROPOSED STRATEGIC ALLIANCE WITH VODAFONE GROUP PLC

On October 4, 2000, we entered into a non-binding memorandum of understanding with Vodafone Group Plc, which sets forth the principal terms for cooperation between us in relation to mobile voice and data communications services. The arrangements contemplated by the memorandum of understanding are subject to the entering into of a definitive agreement or agreements not later than February 28, 2001. The memorandum of understanding contemplates that we and Vodafone Group Plc cooperate in various areas as may be permitted by applicable Chinese laws and regulations, including:

- the sharing of management experience and exchange of human resources at various levels;
- technical cooperation among the parties and exclusive licensing by Vodafone Group Plc to us in mainland China of technologies relating to mobile voice and data communications; and
- operational cooperation focusing on the exchange of expertise relating to subscriber management, marketing, branding, network operations, procurement, and research and development of advanced mobile data applications and services.

Separately, we and Vodafone Group Plc will also explore suitable opportunities for joint ventures and other equity-based strategic alliances, subject to separate negotiations and agreement with other relevant parties, and to the extent permitted by applicable Chinese laws and regulations. This will include the areas of research and development of wireless data services, international investment opportunities outside of China, and regional and/or global alliances. In addition, the memorandum of understanding contemplates the establishment of a multi-layer strategic alliance governance structure, which could comprise an executive-level chairmen's forum consisting of our Chairman and Chief Executive Officer, Mr. Wang Xiaochu, and Mr. Chris Gent, the Chief Executive of Vodafone Group Plc, a steering committee of senior management who will meet on a regular basis, and several project working groups to develop detailed project proposals.

We intend to make Vodafone Group Plc our preferred partner for any form of cooperation that falls within the scope of the memorandum of understanding.

According to publicly available information, Vodafone Group Plc is the world's largest mobile telecommunications company in terms of subscribers. Vodafone Group Plc has a global portfolio with operations in 25 countries around the world, across five continents. At the end of September 2000, Vodafone Group Plc reported a proportionate worldwide customer base of approximately 66 million.

We believe that, if definitive agreements are successfully concluded, this proposed strategic alliance would enhance our strengths in the telecommunications market in mainland China, as well as better position us for further expansion opportunities, if appropriate, globally. Furthermore, we believe that we would benefit from the exchange of experiences and managerial, technical and operational resources with Vodafone Group Plc, including access to leading technologies and the sharing of management and operational expertise. The exchange of human resources also enhances our strategy of nurturing our human capital. However, we cannot assure you that definitive agreements will be successfully concluded, that any necessary government approvals for specific terms would be obtained, or that, if concluded, the definitive agreements would encompass the same scope of cooperation as that contemplated by the memorandum of understanding.

Concurrently, we also entered into a strategic investor placing agreement with Vodafone Group Plc, under which Vodafone Group Plc has agreed to purchase, as part of the share offering, shares with an aggregate purchase price of US$2,500 million based on the offering price per share set forth on the cover page of this prospectus. For illustrative purposes only, assuming the offering price in the share offering is HK$55.50 per share, being the closing price of our ordinary shares on the Hong Kong Stock Exchange on October 10, 2000, Vodafone Group Plc will purchase 351,171,171 ordinary shares, representing 38.03% of the total number of ordinary shares offered in the share offering (or 33.07% if the underwriters' option to purchase additional shares in the share offering is exercised in full). The closing of the placement to Vodafone Group Plc is conditional upon the underwriting agreements for the share offering being entered into and having become unconditional by no later than December 31, 2000, but is not conditional upon the conclusion of the definitive agreements contemplated by the memorandum of understanding. Vodafone Group Plc has agreed that, without our consent and that of the global coordinators, it will not directly or indirectly offer, sell, pledge or otherwise dispose of any of such shares for a period of at least 180 days from the date of this prospectus.

REGULATION

The mobile communications industry in mainland China is subject to a high degree of regulation by the Chinese government. Regulations issued or implemented by the State Council, the Ministry of Information Industry and other relevant government authorities, including the Ministry of Foreign Trade and Economic Cooperation and the State Development Planning Commission, encompass all key aspects of cellular network operations, including entry into the telecommunications industry, scope of permissible business, interconnection and transmission line arrangements, technology and equipment standards, tariff standards, capital investment priorities, foreign investment policies and spectrum and number resources allocation.

The Ministry of Information Industry, under the leadership of the State Council, is responsible for, among other things:

- formulating and enforcing industry policy, standards and regulations;
- granting telecommunications licenses;
- formulating interconnection and settlement standards for implementation between telecommunications networks;
- together with other relevant regulatory authorities, formulating tariff and service charge standards for telecommunications services;
- supervising the operations of telecommunications service providers;
- maintaining fair and orderly market competition among operators; and
- allocating and administering public communications resources, such as radio frequencies, number resources, domain names and addresses of communications networks.

In order to provide a uniform regulatory framework to encourage the orderly development of the telecommunications industry, the Chinese government is currently preparing a draft telecommunications law. We expect that, if and when the telecommunications law is adopted by the National People's Congress, it will become the basic telecommunications statute and the legal source of telecommunications regulations in mainland China. In addition, the State Council has recently promulgated a set of new telecommunications regulations. These regulations are substantially consistent with the existing rules and guidelines for the telecommunications industry, and are primarily intended to streamline and clarify the existing rules and guidelines. They apply in the interim period prior to the adoption of the telecommunications law. Although we expect that the telecommunications law would have a positive effect on the overall development of the telecommunications industry in mainland China, we do not fully know what the nature and scope of the telecommunications law will be.

Entry into the Industry

The new telecommunications regulations adopt the existing regulatory distinction between basic and value added telecommunications services and provide a classification of those services. Cellular network operators, providers of other basic telecommunications services, such as local and long distance fixed line telephone services, and value added service providers whose telecommunications services cover two or more provinces, municipalities or autonomous regions in China must apply for specific permits from the Ministry of Information Industry in order to provide such services. Granting of permits for providing basic telecommunications services will be through a tendering process. Currently, in addition to us and other entities controlled by China Mobile Communications Corporation which operate in mainland China outside of our markets, China Unicom is also authorized to provide mobile services in all provinces, municipalities and autonomous regions in China.

Current regulations in mainland China prohibit foreign-invested enterprises and foreign entities (including individuals) from owning, operating or participating in the operation of telecommunications services in mainland China without approval by the State Council. We were authorized by the State Council to effect our initial public offering in 1997 and our subsequent acquisitions and the related financing. China reached an agreement with the United States in November 1999 and an agreement with the European Union in May 2000 relating to China's entry into the World Trade Organization. As a result, we expect that the Chinese government will gradually reduce the current restrictions on foreign ownership in the telecommunications industry.

Spectrum Usage

In coordination with the relevant provincial authorities, the Ministry of Information Industry regulates the allocation of radio frequency. The frequency assigned to an entity is not allowed to be leased or, without approval of the Ministry of Information Industry, transferred by the entity. In accordance with a joint circular from the State Development Planning Commission and the Ministry of Finance, China Mobile Communications Corporation determines the amount of fees to be paid to the Ministry of Information Industry for spectrum usage by each cellular network operator under its control based on the bandwidth of the frequency used and the number of base transceiver stations within the operator's network, subject to the limitation that the total annual payment by all such operators in mainland China shall equal RMB 1.0 million per MHz of frequency allocated by the Ministry of Information Industry.

Number Resources

The Ministry of Information Industry is responsible for the administration of the number resources within mainland China, including the mobile communications network number and subscriber numbers. The use of number resources by any telecommunications operator shall be subject to the approval by the Ministry of Information Industry. In April 2000, the Ministry of Information Industry implemented new provisional measures on administration of telecommunications network number resources. In accordance with these new measures, the telecommunications network number resources are owned by the state, and the user of number resources is required to pay a usage fee to the state. However, the standard for the usage fee is yet to be stipulated. It is also not clear when the standard of the usage fee will be stipulated and when we will be required to pay such fee. The new measures also provide for procedures for application for the use, upgrade and adjustment of number resources by telecommunications operators.

Tariff Setting

The levels and categories of our current tariffs are subject to regulation by various government authorities, including the Ministry of Information Industry, the State Development Planning Commission, and, at the local level, the relevant provincial price regulatory authorities. Under the new telecommunications regulations, telecommunication tariffs are categorised into market based tariffs, government guidance tariffs or government fixed tariffs. Currently, the connection fee is based on a guidance tariff range set by the Ministry of Information Industry in consultation with the State Development Planning Commission, with the actual tariff determined by the relevant provincial price regulatory authorities. In general, basic usage charges, monthly fees, domestic roaming usage charges and tariffs for all domestic long distance and international calls are fixed jointly by the Ministry of Information Industry and the State Development Planning Commission. International roaming charges are set in accordance with agreements between China Mobile Communications Corporation and the relevant foreign mobile operators. Under the new telecommunications regulations, tariffs for those telecommunications businesses that are considered fully competitive may be set by the service providers as market based tariffs.

Interconnection Arrangements and Leased Line Arrangements

Under the new telecommunications regulations, parties to an interconnection arrangement must enter into an interconnection agreement and file such interconnection agreement with the Ministry of Information Industry. Major telecommunications service providers that have control over essential telecommunications infrastructure and possess significant market share must allow for interconnection to their networks by other operators. They must establish interconnection rules and procedures based on the principles of non-discrimination and transparency and submit such rules and procedures to the Ministry of Information Industry for approval. Such rules and procedures will be binding upon those major telecommunications service providers. Termination of any interconnection arrangement will require prior approval by the Ministry of Information Industry.

The applicable regulations provide that interconnection related equipment must conform with the technical standards approved by the Ministry of Information Industry. See "Technical Standards" below. The Ministry of Information Industry also determines the standard lease tariffs to be paid by telecommunications operators with respect to the leasing of transmission lines that facilitate interconnection between mobile and fixed line telecommunications networks. The relevant provincial fixed line telecommunications companies under China Telecommunications Corporation are responsible for the maintenance of the transmission lines and related equipment in their respective localities.

Technical Standards

The Ministry of Information Industry sets technical standards and controls the type and quality of mobile communications equipment used in public networks by requiring prior certification by the Ministry of Information Industry together with other relevant regulatory authorities, for all telecommunications terminal equipment that are connected to the public networks, all radio communications equipment and all interconnection related equipment. In addition, the Provisions on the Management of Import of Radio Transmission Equipment, jointly issued by the former State Radio Regulatory Commission, the State Economic and Trade Commission, Ministry of Foreign Trade and Economic Cooperation and the General Administration of Customs, effective January 1, 1996, provide that before radio transmission equipment (including mobile communications equipment) may be imported into mainland China, an importer must obtain the necessary certification from the Ministry of Information Industry and the State Mechanical and Electrical Products Import and Export Office.

The establishment of base transceiver stations requires the approval of the relevant provincial regulatory authorities. A number of these approvals with respect to the base stations of our operating subsidiaries and those of the companies that we have agreed to acquire are currently pending. We have not experienced and do not expect to experience difficulty in obtaining permission to establish additional sites.

Capital Investment

The State Development Planning Commission and the State Economic and Trade Commission are empowered by the State Council to exercise responsibility over the approval of all major investment projects, including cellular network development projects, involving total capital investment between RMB 50 million and RMB 200 million. Any investment projects with total capital investment in excess of RMB 200 million must obtain approval from the State Council. Accordingly, project proposals and feasibility study reports for these projects, following review and approval by China Mobile Communications Corporation or the Ministry of Information Industry, are required to be submitted for approval to the State Development Planning Commission and the State Economic and Trade Commission or to the State Council.

RELATIONSHIP WITH CHINA TELECOMMUNICATIONS CORPORATION

As part of the recently completed industry restructuring, China Telecommunications Corporation was established in May, 2000 as a state-owned company to operate the fixed line telephone and data communications networks nationwide formerly operated by the Directorate General of Telecommunications and its operating subsidiary in each province, municipality or autonomous region. In each province, municipality or autonomous region, China Telecommunications Corporation has an operating subsidiary responsible for the fixed line network operation. We have entered into various operating, service and other agreements with China Telecommunications Corporation and its subsidiaries, such as those relating to interconnection with China Telecommunications Corporation's fixed line networks and leasing of transmission lines from China Telecommunications Corporation.

Prior to the restructuring of the companies that we have agreed to acquire in connection with the proposed acquisition, China Mobile Communications Corporation entered into similar arrangements with China Telecommunications Corporation and its subsidiaries in respect of the mobile communications businesses operated by China Mobile Communications Corporation in Beijing, Shanghai, Tianjin, Hebei, Liaoning, Shandong and Guangxi. In connection with the proposed acquisition, certain of the companies that we have agreed to acquire have entered into similar arrangements with China Telecommunications Corporation and its subsidiaries. The terms of these arrangements are similar to those between China Mobile Communications Corporation and China Telecommunications Corporation and its subsidiaries in these geographic areas.

The terms of these agreements are described below.

Interconnection Arrangements

Each of our operating subsidiaries has entered into an interconnection agreement with the subsidiary of China Telecommunications Corporation that operates the fixed line network in its network area. A majority of calls on our networks involve interconnection with China Telecommunications Corporation's fixed line network. The economic terms of the interconnection arrangements are described under "Business — Interconnection".

The following table summarizes the terms of these interconnection agreements:

	Term	Expiration date(1)
Guangdong Mobile	One year from October 1, 1999	September 30, 2000
Zhejiang Mobile	One year from October 1, 1999	September 30, 2000
Jiangsu Mobile	One year from October 1, 1999	September 30, 2000
Fujian Mobile	One year from October 1, 1999	September 30, 2000
Henan Mobile	One year from January 1, 2000	December 31, 2000
Hainan Mobile	One year from October 1, 1999	September 30, 2000

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(1) To be renewed automatically on an annual basis (in the case of Jiangsu Mobile, to be renewed automatically for another year) unless either party notifies the other of its intention to terminate at least three months prior to the expiration of the term.

Each of the companies that we have agreed to acquire has also entered into an interconnection agreement with the relevant subsidiary of China Telecommunications Corporation that operates the fixed line network in its geographic area. These agreements have substantially the same economic terms as those applicable to our subsidiaries. The following table summarizes the terms of these interconnection agreements:

	Term	Expiration date(1)
Beijing Mobile	One year from August 8, 2000	August 7, 2001
Shanghai Mobile	One year from August 10, 2000	August 9, 2001
Tianjin Mobile	One year from August 10, 2000	August 9, 2001
Hebei Mobile	One year from August 10, 2000	August 9, 2001
Liaoning Mobile	One year from August 10, 2000	August 9, 2001
Shandong Mobile	One year from August 10, 2000	August 9, 2001
Guangxi Mobile	One year from August 10, 2000	August 9, 2001

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(1) To be renewed automatically on an annual basis unless either party notifies the other of its intention to terminate at least three months prior to the expiration of the term.

Leasing of Intra-Provincial or Local Transmission Lines

Each of our operating subsidiaries leases certain transmission lines from the relevant subsidiary of China Telecommunications Corporation in its network area in order to link our base transceiver stations, base station controllers and mobile switching centers and to interconnect our network to the fixed line networks of China Telecommunications Corporation and the cellular networks of other operators. The following table summarizes the terms of these leases:

	Term	Expiration date
Guangdong Mobile	Ten years and two months from October 20, 1997	December 19, 2007, and to be renewed automatically for another ten years(1)
Zhejiang Mobile	Three years from January 1, 2000	December 31, 2002, and renewable subject to the agreement by the parties
Jiangsu Mobile	Eight years from July 1, 1999	June 30, 2007, and to be renewed automatically for another year(2)
Fujian Mobile	One year from January 1, 2000	December 31, 2000, and to be renewed automatically on an annual basis(1)
Henan Mobile	One year from January 1, 2000	December 31, 2000, and to be renewed automatically on an annual basis(1)
Hainan Mobile	One year from April 2, 2000	April 1, 2001, and to be renewed automatically on an annual basis(1)

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(1) Unless either party notifies the other of its intention to terminate at least six months (at least three months in the cases of Fujian Mobile, Henan Mobile and Hainan Mobile) prior to the expiration of the term.

(2) Unless Jiangsu Mobile notifies the lessor of its intention to terminate at least three months prior to the expiration of the term and, after the renewed term, the lease is terminable at any time by either party upon three months' prior notice.

Each of the companies that we have agreed to acquire has also entered into an agreement with the relevant subsidiary of China Telecommunications Corporation that operates the fixed line network in its network area in relation to the leasing of local transmission lines. In addition, each of Hebei Mobile, Liaoning Mobile, Shandong Mobile and Guangxi Mobile has also entered into an agreement with the relevant fixed line operator in relation to the leasing of intra-provincial long distance transmission lines, the term of which is the same as the lease agreement for local lines. The following table summarizes the terms of these agreements:

	Term	Expiration date(1)
Beijing Mobile	One year from August 8, 2000	August 7, 2001
Shanghai Mobile	One year from August 10, 2000	August 9, 2001
Tianjin Mobile	One year from August 10, 2000	August 9, 2001
Hebei Mobile	One year from August 10, 2000	August 9, 2001
Liaoning Mobile	One year from August 10, 2000	August 9, 2001
Shandong Mobile	One year from August 10, 2000	August 9, 2001
Guangxi Mobile	One year from August 10, 2000	August 9, 2001

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(1) To be renewed automatically on an annual basis unless either party notifies the other of its intention to terminate at least three months prior to the expiration of the term.

Leasing of Synchronized Clock Ports

Under a lease agreement, each of Zhejiang Mobile, Fujian Mobile, Henan Mobile and Hainan Mobile leases synchronized clock ports from the relevant subsidiary of China Telecommunications Corporation that operates the fixed line network in its network area. The synchronized clocks ensure both the mobile and the fixed line networks run simultaneously. The following table summarizes the major terms of these lease agreements:

	Annual lease payment	Term	Expiration date(1)
		(RMB/clock port)	
Zhejiang Mobile	24,000	From October 1, 1999 to December 31, 2002	December 31, 2002
Fujian Mobile	25,000	One year from January 1, 2000	December 31, 2000

Henan Mobile	25,000	One year from January 1, 2000	December 31, 2000
Hainan Mobile	25,000	One year from April 2, 2000	April 1, 2001

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(1) To be renewed automatically on an annual basis unless either party notifies the other of its intention to terminate at least three months prior to the expiration of the term.

Each of the companies that we have agreed to acquire has also entered into a lease agreement with the relevant subsidiary of China Telecommunications Corporation that operates the fixed line network in its network area in connection with its lease of synchronized clock ports from the fixed line operator. The following table summarizes the major terms of these lease agreements:

	Annual lease payment	Term	Expiration date(1)
	(RMB/clock port)		
Beijing Mobile	25,000	One year from August 8, 2000	August 7, 2001
Shanghai Mobile	25,000	One year from August 10, 2000	August 9, 2001
Tianjin Mobile	25,000	One year from August 10, 2000	August 9, 2001
Hebei Mobile	25,000	One year from August 10, 2000	August 9, 2001
Liaoning Mobile	25,000	One year from August 10, 2000	August 9, 2001
Shandong Mobile	25,000	One year from August 10, 2000	August 9, 2001
Guangxi Mobile	25,000	One year from August 10, 2000	August 9, 2001

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(1) To be renewed automatically on an annual basis unless either party notifies the other of its intention to terminate at least three months prior to the expiration of the term.

Account Processing Services

Shanghai Mobile has entered into an account processing service agreement with the subsidiary of China Telecommunications Corporation in Shanghai, under which the China Telecommunications Corporation subsidiary in Shanghai provides bill processing and mailing services to Shanghai Mobile. The following table summarizes the major terms of this agreement:

	Monthly service fee	Term	Expiration date(1)
	(RMB/mobile phone number)		
Shanghai Mobile	0.86	One year from August 10, 2000	August 9, 2001

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(1) To be renewed automatically on an annual basis unless either party notifies the other of its intention to terminate at least three months prior to the expiration of the term.

Collection Services

Zhejiang Mobile, Jiangsu Mobile and Henan Mobile handle their own payment collection. Each of Guangdong Mobile, Fujian Mobile and Hainan Mobile has entered into a service agreement with the relevant subsidiary of China Telecommunications Corporation that operates the fixed line network in its network area, under which the fixed line operator provides certain payment collection services to the mobile communications operator. The following table summarizes the major terms of these agreements:

	Service fee	Term	Expiration date(1)
Guangdong Mobile	Market price	Three years from October 20, 1997	October 19, 2000
Fujian Mobile	RMB 0.01 for each RMB 1.00 collected	One year from January 1, 2000	December 31, 2000
Hainan Mobile	RMB 0.01 for each RMB 1.00 collected	One year from April 2, 2000	April 1, 2001

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(1) To be renewed automatically on an annual basis unless either party notifies the other of its intention to terminate at least three months prior to the expiration of the term. In the case of Guangdong Mobile, the lease is terminable at any time by Guangdong Mobile upon six months' prior notice.

Beijing Mobile, Shanghai Mobile, Hebei Mobile, Liaoning Mobile and Shandong Mobile handle their own payment collections.

Each of Tianjin Mobile and Guangxi Mobile has entered into a collection agreement with the relevant subsidiary of China Telecommunications Corporation that operates the fixed line network in its network area, under which the relevant fixed line operator provides collection services to the mobile communications operator. The following table summarizes the major terms of these agreements:

	Service fee	Term	Expiration date(1)
Tianjin Mobile	RMB 0.0075 for each RMB 1.00 collected	One year from August 10, 2000	August 9, 2001
Guangxi Mobile	RMB 0.01 for each RMB 1.00 collected	One year from August 10, 2000	August 9, 2001

(1) To be renewed automatically on an annual basis unless either party notifies the other of its intention to terminate at least three months prior to the expiration of the term.

Distribution and Marketing Arrangements

Each of our operating subsidiaries (except Guangdong Mobile) markets and sells its mobile communications services in part through authorized dealers under the control of the relevant subsidiary of China Telecommunications Corporation in its network area. The following table summarizes the major terms of these agreements:

	Commission	Term	Expiration date
Zhejiang Mobile	RMB 300 per new contract subscriber acquired	From October 1, 1999 to December 31, 2000	December 31, 2000, and renewable subject to mutual agreement
Jiangsu Mobile	RMB 300 per new contract subscriber acquired	Five years from January 1, 1998	January 1, 2003(1)
Fujian Mobile	Not lower than the commission paid to authorized dealers not affiliated with China Telecommunications Corporation	One year from January 1, 2000	December 31, 2000, and renewable subject to mutual agreement
Henan Mobile	RMB 250 per new contract subscriber acquired; and an agency fee equal to 5% of the total sales value of all prepaid card sales	One year from January 1, 2000	December 31, 2000, and renewable subject to mutual agreement
Hainan Mobile	RMB 250 (for bulk sales) or RMB 150 (for retail sales) per new contract subscriber acquired, and an agency fee equal to 5% (for bulk sales) or 4% (for retail sales) of the total sales values of all prepaid card sales	One year from April 2, 2000	April 1, 2001, and to be renewed automatically subject to mutual agreement

(1) To be renewed automatically for an additional year unless either party notifies the other of its intention to terminate at least three months prior to the expiration of the term.

Guangxi Mobile markets its mobile communications services in part through authorized dealers under the control of China Telecommunications Corporation under an agency agreement with the fixed line operator in Guangxi. The following table summarizes the major terms of this agreement:

	Commission	Term	Expiration date(1)
Guangxi Mobile	RMB 200 (for bulk sales) or RMB 100 (for retail sales) per new contract subscriber acquired, RMB 40 (for bulk sales) or RMB 20 (for retail sales) per prepaid card	From August 8, 2000 to December 31, 2000	December 31, 2000

	subscriber acquired, plus a service fee equal to 12% (for bulk sales) or 10% (for retail sales) of the total sales values of all prepaid card sales		

(1) To be renewed automatically for an additional year unless either party notifies the other of its intention to terminate at least three months prior to the expiration of the term.

Equipment Maintenance Services

Fujian Mobile has entered into an equipment maintenance service agreement with a subsidiary of China Telecommunications Corporation in Fujian, under which the fixed line operator in Fujian provides maintenance services for the operating equipment of Fujian Mobile, such as transmission equipment, electrical equipment and other ancillary facilities. The following table summarizes the major terms of this agreement:

	Annual service fee	Term	Expiration date(1)
Fujian Mobile	1% of the total book value of equipment maintained	One year from January 1, 2000	December 31, 2000

(1) To be renewed automatically on an annual basis unless either party notifies the other of its intention to terminate at least three months prior to the expiration of the term.

Each of Beijing Mobile, Tianjin Mobile and Guangxi Mobile has entered into an equipment maintenance service agreement with the relevant subsidiary of China Telecommunications Corporation that operates the fixed line network in its network area, under which the fixed line operator provides maintenance services for the operating equipment of the mobile communications operator. The following table summarizes the major terms of these agreements:

	Annual service fee	Term	Expiration date(1)
Beijing Mobile	0.3% of the total book value of equipment maintained	One year from August 8, 2000	August 7, 2001
Tianjin Mobile	Government rate, or rate agreed by the parties if there is no government rate	One year from August 10, 2000	August 9, 2001
Guangxi Mobile	Government rate, or rate agreed by the parties if there is no government rate	One year from August 10, 2000	August 9, 2001

(1) To be renewed automatically on an annual basis unless either party notifies the other of its intention to terminate at least three months prior to the expiration of the term.

Tianjin Mobile and Beijing Mobile each also provides equipment maintenance services to the relevant fixed line operator in their respective network area under similar terms.

Leasing of Offices and Sites for Network Equipment

Each of our operating subsidiaries has leased certain premises from the relevant subsidiary of China Telecommunications Corporation that operates the fixed line network in its network area for use as offices, retail outlets, warehouses and sites for locating equipment. Fujian Mobile also leases to the fixed line operator in Fujian certain properties under similar terms.

Under a lease agreement, each of the companies that we have agreed to acquire has also leased certain premises from the relevant subsidiary of China Telecommunications Corporation that operates the fixed line network in its network area for use as offices, retail outlets, warehouses and sites for locating equipment. Each of Beijing Mobile, Shanghai Mobile and Tianjin Mobile also leases to the fixed line operator in Beijing, Shanghai and Tianjin, respectively, certain properties under similar terms."

1. Responsibility Statement

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

2. Disclosure of Interests

(i) As at the Latest Practicable Date, the interests of the directors and the chief executive of the Company in the equity or debt securities of the Company or any of its associated corporations as defined in the SDI Ordinance as recorded in the register required to be kept under section 29 of the SDI Ordinance were as follows:

Name of Directors	Personal Interest
Wang Xiaochu..........	400 ADSs (1)
Ding Donghua	400 ADSs (1)

(1) One American depositary share represents five ordinary shares of HK$0.10 each of the Company

(ii) As at the Latest Practicable Date, options exercisable for an aggregate of 14,494,000 Shares had been granted to the following Directors under the Company's share option scheme:

Name of Directors	Number of Shares covered by options
Wang Xiaochu..........	4,100,000
Ding Donghua	3,400,000
Li Gang...................	1,180,000
Xu Long..................	1,170,000
He Ning..................	1,166,000
Liu Ping..................	1,162,000
Yuan Jianguo...........	1,160,000
Wei Yiping..............	1,156,000

Save as disclosed above, as at the Latest Practicable Date, none of the Directors had or was deemed to have any interests in the equity or debt securities of the Company or any of its associated corporations (within the meaning of the SDI Ordinance) which were required to be notified to the Company and the Stock Exchange pursuant to section 28 of the SDI Ordinance (including interests which they are deemed or taken to have under section 31 of, or part 1 of the Schedule to, the SDI Ordinance) or which are required, pursuant to section 29 of the SDI Ordinance to be entered in the register referred to therein or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, to be notified to the Company and the Stock Exchange.

Save as disclosed herein, none of the Directors is materially interested in any contract or arrangement subsisting at the date hereof which is significant in relation to the business of the Combined Group taken as a whole.

Since 30 June 2000, the date to which the latest published audited financial statements of the Company were prepared, none of the Directors nor any experts named in paragraph 8 of this Appendix has any direct or indirect material interest in any assets which have been acquired or disposed of by or leased to any member of the Combined Group, or are proposed to be acquired or disposed of by or leased to any member of the Combined Group.

3. Substantial Shareholders

As at the Latest Practicable Date, so far as is known to the Directors, the following persons were, directly or indirectly, interested in 10% or more of the issued share capital carrying rights to vote at general meetings of the Company:

Percentage of total

	No. of Shares	issued share capital of the Company
CMCC.....	10,283,195,021	75%
CMHKG..	10,283,195,021	75%
CMBVI ...	10,283,195,021	75%

Note: Because of the fact that CMCC and CMHKG directly or indirectly control one-third or more of the voting rights in the shareholders' meetings of CMBVI, in accordance with the SDI Ordinance, the interests of CMBVI are deemed to be, and have therefore been included in, the interests of CMCC and CMHKG.

Save as disclosed above, there is no person known to the Directors who, as at the Latest Practicable Date, was, directly or indirectly, interested in 10% or more of the nominal value of the issued share capital carrying rights to vote in all circumstances at general meetings of any member of the Combined Group.

4. Litigation

There is no litigation or claim of material importance known to the Directors to be pending or threatened against any member of the Combined Group.

5. Service Contracts

As at the Latest Practicable Date, none of the Directors had entered into any service contracts with the Company or any member of the Combined Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

The aggregate of the remuneration payable to and benefits in kind receivable by the Directors of the Company will not be varied in consequence of the Acquisition.

6. Material Adverse Change

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 30 June 2000, being the date of the latest published audited financial statements of the Company.

7. Consents

CICC, Goldman Sachs, Rothschild and KPMG have given and have not withdrawn their respective written consents to the issue of this circular with the inclusion of their reports and letters (if any), as the case may be, and references to their names in the form and context in which they respectively appear.

None of CICC, Goldman Sachs, Rothschild and KPMG is beneficially interested in the share capital of any member of the Group and none of them has any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

8. Qualifications of Experts

The following are the qualifications of the professional advisers who have given opinions or advice contained in this circular:

Names	Qualifications
CICC	Registered investment adviser
Goldman Sachs	Registered investment adviser
KPMG	Certified public accountants
Rothschild	Registered investment adviser

9. Miscellaneous

(a) The company secretary of the Company is Yung Shun Loy, Jacky (FCCA, FHKSA, CPA (Australia)).

(b) The registered office and head office of the Company is at 60th Floor, The Center, 99 Queen's Road Central, Hong Kong.

(c) HKSCC Registrars Limited, the share registrar of the Company, is at 2/F Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong.

(d) The English text of this circular and form of proxy shall prevail over the Chinese text.

10. Material Contracts

The following contracts (including contracts for the Connected Transactions and contracts not entered into in the ordinary course of business) have been entered into by members of the Combined Group within the two years immediately preceding the date of this circular, and are or may be material:

(a) Asset Acquisition Agreement dated 27 April 1999 between Jiangsu Mobile and Jiangsu Tongda Communication Technology Company Limited ("Tongda"), pursuant to which Tongda, whose main business had been the handling of subscribers' accounts for Jiangsu PTA prior to the restructuring, sold its assets to Jiangsu Mobile at a consideration of RMB3,716,555.

(b) Agreement Regarding the Assignment of Personnel, Assets and Properties Related to Mobile Telecommunications Business dated 25 September 1999 between CMCC and Fujian Mobile, pursuant to which assets and liabilities in relation to the mobile telecommunications services in Fujian province were assigned to Fujian Mobile by China Mobile as part of the restructuring of the telecommunications sector in the PRC.

(c) Agreement Regarding the Assignment of Personnel, Assets and Properties Not Directly Related to Mobile Telecommunications Business dated 25 September 1999 between CMCC, Fujian Mobile and the Services Company in Fujian, pursuant to which selected real estate properties, staff employment contracts and liabilities not directly related to the mobile telecommunications services in Fujian province were assigned to the Services Company in Fujian by Fujian Mobile and confirmed by CMCC as part of the restructuring of the telecommunications sector in the PRC.

(d) Conditional Acquisition Agreement dated 4 October 1999 between the Company, CMBVI and CMHKG, pursuant to which the Company acquired the entire issued share capital in Fujian Mobile BVI, Henan Mobile BVI and Hainan Mobile BVI from CMBVI at a consideration of HK$49,715 million.

(e) Agreement Regarding the Assignment of Personnel, Assets and Properties Related to Mobile Telecommunications Business dated 15 October 1999 between CMCC and Henan Mobile, pursuant to which assets and liabilities in relation to the mobile telecommunications services in Henan province were assigned to Henan Mobile by CMCC as part of the restructuring of the telecommunications sector in the PRC.

(f) Agreement Regarding the Assignment of Personnel, Assets and Properties Not Directly Related to Mobile Telecommunications Business dated 15 October 1999 between CMCC, Henan Mobile and the Services Company in Henan, pursuant to which selected real estate properties, staff employment contracts and liabilities not directly related to the mobile telecommunications services in Henan province were assigned to the Services Company in Henan by Henan Mobile and confirmed by CMCC as part of the restructuring of the telecommunications sector in the PRC.

(g) Agreement Regarding the Assignment of Personnel, Assets and Properties Related to Mobile Telecommunications Business, dated 15 October 1999 between CMCC and Hainan Mobile, pursuant to which all assets and liabilities in relation to the mobile telecommunications services in Hainan province were assigned to Hainan Mobile by CMCC as part of the restructuring of the telecommunications sector in the PRC.

(h) Agreement Regarding the Assignment of Personnel, Assets and Properties Not Directly Related to Mobile Telecommunications Business dated 15 October 1999 between CMCC, Hainan Mobile and the Services Company in Hainan, pursuant to which selected real estate properties, staff employment contracts and liabilities not directly related to the mobile telecommunications services in Hainan province were assigned to the Services Company in Hainan by Hainan Mobile and confirmed by CMCC as part of the restructuring of the telecommunications sector in the PRC.

(i) Agreement Regarding the Assignment of Personnel, Assets and Properties Not Directly Related to Mobile Telecommunications Business dated 30 August 2000 between CMCC, Beijing Mobile and the Services Company in Beijing, pursuant to which the parties confirmed that selected assets, investments, real estate properties, staff employment contracts and liabilities not directly related to the mobile telecommunications services in Beijing were owned by the Services Company in Beijing.

(j) Investment Agreement dated 30 August 2000 between CMCC, Beijing Mobile and the Services Company in Beijing, pursuant to which CMCC injected all assets, liabilities, licences and permits in relation to the mobile telecommunications services in Beijing into Beijing Mobile.

(k) Confirmation of the Transfer of Personnel, Assets and Properties and Related Rights and Liabilities dated 30 August 2000 signed by Beijing Mobile and the Services Company in Beijing to confirm the assets, liabilities, personnel, real estate properties, licences and permits and investments respectively held by them.

(l) Agreement Regarding the Assignment of Personnel, Assets and Properties Not Directly Related to Mobile Telecommunications Business dated 30 August 2000 between CMCC, Shanghai Mobile and the Services Company in Shanghai, pursuant to which the parties confirmed that selected assets, investments, real estate properties, staff employment contracts and liabilities not directly related to the mobile telecommunications services in Shanghai were owned by the Services Company in Shanghai.

(m) Investment Agreement dated 30 August 2000 between CMCC, Shanghai Mobile and the Services Company in Shanghai, pursuant to which CMCC injected all assets, liabilities, licences and permits in relation to the mobile telecommunications services in Shanghai into Shanghai Mobile.

(n) Confirmation of the Transfer of Personnel, Assets and Properties and Related Rights and Liabilities dated 30 August 2000 signed by Shanghai Mobile and the Services Company in Shanghai to confirm the assets, liabilities, personnel, real estate properties, licences and permits and investments respectively held by them.

(o) Agreement Regarding the Assignment of Personnel, Assets and Properties Not Directly Related to Mobile Telecommunications Business dated 30 August 2000 between CMCC, Tianjin Mobile and the Services Company in Tianjin, pursuant to which the parties confirmed that selected assets, investments, real estate properties, staff employment contracts and liabilities not directly related to the mobile telecommunications services in Tianjin were owned by the Services Company in Tianjin.

(p) Investment Agreement dated 30 August 2000 between CMCC, Tianjin Mobile and the Services Company in Tianjin, pursuant to which China Mobile injected all assets, liabilities, licences and permits in relation to the mobile telecommunications services in Tianjin into Tianjin Mobile.

(q) Confirmation of the Transfer of Personnel, Assets and Properties and Related Rights and Liabilities dated 30 August 2000 signed by Tianjin Mobile and the Services Company in Tianjin to confirm the assets, liabilities, personnel, real estate properties, licences and permits and investments respectively held by them.

(r) Agreement Regarding the Assignment of Personnel, Assets and Properties Not Directly Related to Mobile Telecommunications Business dated 30 August 2000 between CMCC, Hebei Mobile and the Services Company in Hebei, pursuant to which the parties confirmed that selected assets, investments, real estate properties, staff employment contracts and liabilities not directly related to the mobile telecommunications services in Hebei were owned by the Services Company in Hebei.

(s) Investment Agreement dated 30 August 2000 between CMCC, Hebei Mobile and the Services Company in Hebei, pursuant to which CMCC injected all assets, liabilities, licences and permits in relation to the mobile telecommunications services in Hebei into Hebei Mobile.

(t) Confirmation of the Transfer of Personnel, Assets and Properties and Related Rights and Liabilities dated 30 August 2000 signed by Hebei Mobile and the Services Company in Hebei to confirm the assets, liabilities, personnel, real estate properties, licences and permits and investments respectively held by them.

(u) Agreement Regarding the Assignment of Personnel, Assets and Properties Not Directly Related to Mobile Telecommunications Business dated 30 August 2000 between CMCC, Liaoning Mobile and the Services Company in Liaoning, pursuant to which the parties confirmed that selected assets, investments, real estate properties, staff employment contracts and liabilities not directly related to the mobile telecommunications services in Liaoning were owned by the Services

Company in Liaoning.

(v) Investment Agreement dated 30 August 2000 between CMCC, Liaoning Mobile and the Services Company in Liaoning, pursuant to which China Mobile injected all assets, liabilities, licences and permits in relation to the mobile telecommunications services in Liaoning into Liaoning Mobile.

(w) Confirmation of the Transfer of Personnel, Assets and Properties and Related Rights and Liabilities dated 30 August 2000 signed by Liaoning Mobile and the Services Company in Liaoning to confirm the assets, liabilities, personnel, real estate properties, licences and permits and investments respectively held by them.

(x) Agreement Regarding the Assignment of Personnel, Assets and Properties Not Directly Related to Mobile Telecommunications Business dated 30 August 2000 between CMCC, Shandong Mobile and the Services Company in Shandong, pursuant to which the parties confirmed that selected assets, investments, real estate properties, staff employment contracts and liabilities not directly related to the mobile telecommunications services in Shandong were owned by the Services Company in Shandong.

(y) Investment Agreement dated 30 August 2000 between CMCC, Shandong Mobile and the Services Company in Shandong, pursuant to which CMCC injected all assets, liabilities, licences and permits in relation to the mobile telecommunications services in Shandong into Shandong Mobile.

(z) Confirmation of the Transfer of Personnel, Assets and Properties and Related Rights and Liabilities dated 30 August 2000 signed by Shandong Mobile and the Services Company in Shandong to confirm the assets, liabilities, personnel, real estate properties, licences and permits and investments respectively held by them.

(aa) Agreement Regarding the Assignment of Personnel, Assets and Properties Not Directly Related to Mobile Telecommunications Business date 30 August 2000 between CMCC, Guangxi Mobile and the Services Company in Guangxi, pursuant to which the parties confirmed that selected assets, investments, real estate properties, staff employment contracts and liabilities not directly related to the mobile telecommunications services in Guangxi were owned by the Services Company in Guangxi.

(bb) Investment Agreement dated 30 August 2000 between CMCC, Guangxi Mobile and the Services Company in Guangxi, pursuant to which CMCC injected all assets, liabilities, licences and permits in relation to the mobile telecommunications services in Guangxi into Guangxi Mobile.

(cc) Confirmation of the Transfer of Personnel, Assets and Properties and Related Rights and Liabilities dated 30 August 2000 signed by Guangxi Mobile and the Services Company in Guangxi to confirm the assets, liabilities, personnel, real estate properties, licences and permits and investments respectively held by them.

(dd) Acquisition Agreement.

(ee) Strategic Investor Placing Agreement.

(ff) RMB5 billion Syndicated Loan Agreement dated 7 October 2000 between China Mobile (Shenzhen) as borrower, Bank of China, China Construction Bank and other syndicate members as lenders, and Guangdong Mobile, Zhejiang Mobile, Jiangsu Mobile, Fujian Mobile, Henan Mobile and Hainan Mobile as guarantors.

(gg) RMB7.5 billion Syndicated Loan Agreement dated 7 October 2000 between China Mobile (Shenzhen) as borrower, Bank of China, China Construction Bank and other syndicate members as lenders, and Guangdong Mobile, Zhejiang Mobile, Jiangsu Mobile, Fujian Mobile, Henan Mobile and Hainan Mobile as guarantors.

(hh) Each of the agreements described in the section headed "Connected Transactions" in this circular.

11. Documents available for inspection

Copies of the following documents will be available for inspection at Linklaters, 10th Floor, Alexandra House, Chater Road, Hong Kong during normal business hours on any business day from the date of this circular until 29 October 2000:

(a) the Acquisition Agreement;

(b) the memorandum and articles of association of the Company;

(c) the consolidated audited financial statements of the Group for the years ended 31 December 1998 and 31 December 1999 and the unaudited interim report of the Company for the six months ended 30 June 2000;

(d) the letters of consent referred to in this circular;

(e) the letter from Rothschild dated 16 October 2000, the text of which is set out on pages 32 to 51 of this circular;

(f) the accountants' report from KPMG dated 16 October 2000, the text of which is set out in Appendix III to this circular;

(g) the letters from KPMG and the Company's financial advisers both dated 16 October 2000, the texts of which are set out in Appendix VII to this circular;

(h) the material contracts referred to under the paragraph headed "Material Contracts" in this Appendix and each other agreement referred to in this circular; and

(i) a copy of the circular issued by the Company dated 18 May 2000 in relation to certain connected transactions of the Company.

NOTICE OF THE EXTRAORDINARY GENERAL MEETING

[China Telecom LOGO]

CHINA MOBILE (HONG KONG) LIMITED

(Incorporated in Hong Kong with limited liability under the Companies Ordinance)

NOTICE IS HEREBY GIVEN that an Extraordinary General Meeting of the shareholders of China Mobile (Hong Kong) Limited (the "Company") will be held at 10:00 a.m. on 10 November 2000, in the Conference Room, 5th Floor, Island Shangri-La Hotel, Pacific Place, Supreme Court Road, Central, Hong Kong for the purposes of considering and, if thought fit, passing, with or without modifications, the following resolutions as Ordinary Resolutions:

ORDINARY RESOLUTIONS

1. **"THAT** the conditional sale and purchase agreement dated 4 October 2000 (the "Acquisition Agreement") between the Company, China Mobile Hong Kong (BVI) Limited ("CMBVI") and China Mobile Communications Corporation, a copy of which has been initialled by the chairman of this meeting (the "Chairman") and for the purpose of identification marked "A", pursuant to which, *inter alia*, CMBVI has agreed as legal and beneficial owner to sell, and the Company has agreed to purchase, the entire issued share capital of each of Beijing Mobile (BVI) Limited, Shanghai Mobile (BVI) Limited, Tianjin Mobile (BVI) Limited, Hebei Mobile (BVI) Limited, Liaoning Mobile (BVI) Limited, Shandong Mobile (BVI) Limited and Guangxi Mobile (BVI) Limited, which holds 100% of each of Beijing Mobile Communication Company Limited, Shanghai Mobile Communication Company Limited, Tianjin Mobile Communication Company Limited, Hebei Mobile Communication Company Limited, Liaoning Mobile Communication Company Limited, Shandong Mobile Communication Company Limited and Guangxi Mobile Communication Company Limited (the "Target Companies"), respectively, at a consideration of an aggregate of HK$256,021 million comprising:

(a) HK$79,291 million payable in cash; and

(b) HK$176,730 million to be satisfied by the allotment by the Company to CMBVI of the number of ordinary shares of HK$0.10 each (each a "Share") in the share capital of the Company (the "Consideration Shares"), credited as fully paid, and calculated by dividing HK$176,730 million by the offering price per Share of the proposed share offering of new Shares pursuant to a registration statement on Form F-3 which has been filed with the United States Securities and Exchange Commission (File No. 333-47256) (which share offering is described in more detail in the circular of the Company dated 16 October 2000 and the preliminary prospectus of the Company dated 11 October 2000); provided that the Company may elect to increase the number of Consideration Shares in which case the cash portion of the consideration shall be correspondingly reduced by an amount calculated by multiplying the offering price per Share by such additional number of Consideration Shares and that such election can only be made if CMBVI's shareholding in the Company immediately following completion of the Acquisition Agreement and the issue of the Consideration Shares will not exceed 76.5%,

is hereby generally and unconditionally approved and the directors of the Company are hereby authorised to do all such further acts and things and execute such further documents and take all such steps which in their opinion may be necessary, desirable or expedient to implement and/or give effect to the terms of the Acquisition Agreement."

2. **"THAT** the authorised share capital of the Company is hereby increased from HK$1,600,000,000 to HK$3,000,000,000 by the creation of 14,000,000,000 ordinary shares of HK$0.10 each, the new shares to rank pari passu in all respects with the existing ordinary shares of the Company."

3. **"THAT** subject to the passing of Ordinary Resolutions No. 1 and 2 set out in the notice convening the Extraordinary General Meeting at which this Resolution is proposed, the allotment by the Company to CMBVI pursuant to the terms of the Acquisition Agreement of the Consideration Shares (including such additional Consideration Shares which may be issued pursuant to an election by the Company in accordance therewith set out in paragraph (b) of Ordinary Resolution No. 1) is hereby approved."

4. **"THAT** subject to the passing of Ordinary Resolutions No. 1, 2 and 3 set out in the notice convening the Extraordinary General Meeting at which this Resolution is proposed, the Connected Transactions as described in the paragraph headed "Connected Transactions" under the section "Letter from the Chairman" of the circular of the Company dated 16 October 2000, which the Company expects to occur on a regular and continuous basis in the ordinary and usual course of business of the Company, its subsidiaries and the Target Companies, as the case may be, together with the relevant upper limits are hereby approved and the directors of the Company are hereby authorised to do all such further acts and things and execute such further documents and take all such steps which in their opinion may be necessary, desirable or expedient to implement and/or give effect to the terms of the Connected Transactions."

By Order of the Board
Yung Shun Loy, Jacky
Company Secretary

Hong Kong, 16 October 2000

Notes:

1. A member entitled to attend and vote at the Extraordinary General Meeting is entitled to appoint one or more proxies to attend and, on a poll, vote in his stead. A proxy need not be a member of the Company.

2. In order to be valid, a form of proxy together with any power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power of authority, must be deposited at the Company's registered office at 60th Floor, The Center, 99 Queen's Road Central, Hong Kong, at least 36 hours before the time appointed for holding the Extraordinary General Meeting. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or at any adjourned meeting should you so wish.

China International Capital Corporation
(Hong Kong) Limited
Room 4302, 43rd Floor
Central Plaza
18 Harbour Road
Wanchai
Hong Kong

Goldman Sachs (Asia) L.L.C.
68th Floor
Cheung Kong Center
2 Queen's Road Central
Hong Kong

16 October 2000

The Directors
China Mobile (Hong Kong) Limited
60th Floor, The Center
99 Queen's Road Central
Hong Kong

Dear Sirs

We refer to the forecast of the combined profit after taxation but before extraordinary items of Beijing Mobile Communication Company Limited ("Beijing Mobile"), Shanghai Mobile Communication Company Limited ("Shanghai Mobile"), Tianjin Mobile Communication Company Limited ("Tianjin Mobile"), Hebei Mobile Communication Company Limited ("Hebei Mobile"), Liaoning Mobile Communication Company Limited ("Liaoning Mobile"), Shandong Mobile Communication Company Limited ("Shandong Mobile") and Guangxi Mobile Communication Company Limited ("Guangxi Mobile") for the year ending 31 December 2000 as set out in the circular issued by China Mobile (Hong Kong) Limited (the "Company"), dated 16 October 2000.

We have discussed with you the bases and assumptions upon which the profit forecast has been made. We have also considered the letter dated 16 October 2000 addressed to you and us from KPMG regarding the accounting policies and calculations upon which the forecast has been made.

On the basis of the assumptions made by the management of the Company and Beijing Mobile, Shanghai Mobile, Tianjin Mobile, Hebei Mobile, Liaoning Mobile, Shandong Mobile and Guangxi Mobile, respectively, and on the bases of the accounting policies and calculations reviewed by KPMG, we are of the opinion that the profit forecast, for which the management of the Company and Beijing Mobile, Shanghai Mobile, Tianjin Mobile, Hebei Mobile, Liaoning Mobile, Shandong Mobile and Guangxi Mobile are solely responsible, has been made after due and careful enquiry.

Yours faithfully,
For and on behalf of
CHINA INTERNATIONAL CAPITAL CORPORATION (HONG KONG) LIMITED

Bi Mingjian
Managing Director

Yours faithfully,
For and on behalf of
GOLDMAN SACHS (ASIA) L.L.C.

Bob Yang
Executive Director

[China Telecom LOGO]

CHINA MOBILE (HONG KONG) LIMITED

(Incorporated in Hong Kong with limited liability under the Companies Ordinance)

16 October 2000

To the Independent Shareholders

Dear Sir or Madam,

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTIONS
ACQUISITION OF BEIJING MOBILE BVI, SHANGHAI MOBILE BVI, TIANJIN MOBILE BVI, HEBEI MOBILE BVI, LIAONING MOBILE BVI, SHANDONG MOBILE BVI AND GUANGXI MOBILE BVI

I refer to the circular (the "Circular") dated 16 October 2000 issued by the Company to its Shareholders and Noteholders (for information only) of which this letter forms part. The terms defined in the Circular shall have the same meanings when used in this letter, unless the context otherwise requires.

On 4 October 2000, the Board announced that the Company had entered into the Acquisition Agreement, pursuant to which the Company agreed to acquire, and CMBVI agreed to sell, the entire issued share capital of each of Beijing Mobile BVI, Shanghai Mobile BVI, Tianjin Mobile BVI, Hebei Mobile BVI, Liaoning Mobile BVI, Shandong Mobile BVI and Guangxi Mobile BVI, subject to certain conditions.

The Independent Board Committee was formed on 4 October 2000 to make a recommendation to the Independent Shareholders as to whether, in its view, the terms of the Acquisition, the mechanism for the determination of the issue price of the Consideration Shares and the terms of the Connected Transactions, from a financial perspective, are fair and reasonable so far as the Independent Shareholders are concerned. Rothschild has been retained as independent financial adviser to advise the Independent Board Committee on the fairness and reasonableness of the Acquisition, the mechanism for the determination of the issue price of the Consideration Shares and the terms of the Connected Transactions from a financial perspective.

The terms and the reasons for the Acquisition (including arrangements regarding the financing of the Acquisition) are summarised in the Letter from the Chairman set out on pages 7 to 30 of the Circular. The terms of the Connected Transactions are also summarised in the Letter from the Chairman.

As your Independent Board Committee, I have discussed with the management of the Company the reasons for the Acquisition, the mechanism for the determination of the issue price of the Consideration Shares and the terms of the Connected Transactions and the basis upon which their terms have been determined. I have also considered the key factors taken into account by Rothschild in arriving at its opinion regarding the Acquisition, the mechanism for the determination of the issue price of the Consideration Shares and the terms of the Connected Transactions as set out in the letter from Rothschild on pages 32 to 51 of the Circular, which I urge you to read carefully.

The Independent Board Committee concurs with the views of Rothschild and considers that the terms of the Acquisition, the mechanism for the determination of the issue price of the Consideration Shares and the terms of the Connected Transactions, from a financial perspective, are fair and reasonable so far as the Independent Shareholders are concerned. The Independent Board Committee considers that the Acquisition is in the interest of the Group. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of ordinary resolutions numbered 1, 3 and 4 set out in the notice of the Extraordinary General Meeting at the end of the Circular.

Yours faithfully

Arthur Li Kwok Cheung
Independent Board Committee

PROSPECTUS SUMMARY

You should read the following summary together with the more detailed information regarding our company, the ADSs being sold in the share offering and the convertible notes being sold in the convertible note offering and the financial statements and notes to those statements appearing elsewhere in this prospectus. Unless otherwise indicated, information contained in this prospectus assumes that the respective underwriters' option to purchase additional ADSs in the share offering or additional convertible notes in the convertible note offering, as the case may be, will not be exercised.

China Mobile (Hong Kong) Limited

Introduction

We are the leading provider of mobile communications services in six provinces in China, and had approximately 21.6 million subscribers as of June 30, 2000. On , 2000, we agreed to acquire from our majority shareholder, an indirect subsidiary of China Mobile Communications Corporation, or CMCC, the mobile communications businesses currently operated by CMCC in seven provinces, municipalities and autonomous region in China, subject to regulatory and independent shareholder approvals and other conditions. Each of those targets is the leading mobile communications services provider in its geographic area. If the proposed acquisition is successfully completed:

- we will have a geographically contiguous market covering all of the coastal regions of mainland China;
- we will have approximately 59.5% of all cellular subscribers in mainland China as of June 30, 2000, according to market data compiled by CMCC; and
- our service areas will cover approximately 48.0% of the total population in mainland China.

The following table sets forth certain subscriber and market share information in the geographic areas in which we and the targets operate as of June 30, 2000, as well as such information on a pro forma combined basis as of the same date, giving effect to the proposed acquisition as if it had been completed on such date:

	As of June 30, 2000		
	China Mobile (HK)	Targets	Pro forma combined
Population base (in millions)(1)	326	282	607
Cellular penetration (%)(1)(2)	8.0	6.1	7.1
Subscribers (in millions)	21.6	13.6	35.3
As a percentage of total cellular subscribers in mainland China(%)(3)	36.5	23.0	59.5
Market share (%)(2)	83.0	80.0	81.8

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(1) Estimate based on population as of December 31, 1999 as published in the 1999 China Statistical Yearbook, and further assuming the same annual population growth rate in each province, municipality or autonomous region in 2000 as in 1999.

(2) Based on our estimate of the total number of subscribers.

(3) Based on MII data for the total number of subscribers in mainland China as of June 30, 2000.

We and the targets are also major providers of Internet Protocol, or IP, communications services and wireless data services in the respective geographic areas in which we and the targets operate.

The telecommunications industry in mainland China has experienced rapid growth in recent years. The mobile communications sector is one of the fastest growing sectors within the telecommunications industry. The number of cellular subscribers in mainland China increased from approximately 7.0 million as of December 31, 1996 to approximately 59.3 million as of June 30, 2000. The combined subscriber base of our existing operations and the targets has grown from approximately 5.0 million as of December 31, 1996 to approximately 35.3 million as of June 30, 2000. However, the total number of cellular subscribers as a percentage of the total population, or the cellular penetration rate, in mainland China is still relatively low compared to the cellular penetration rates in other Asian and international markets, which indicates significant future growth potential.

Operations

Our cellular networks are based primarily on the digital Global System for Mobile Communications, or GSM, technology. Our networks reach all cities and counties and most major roads and highways in the provinces in which we operate. Our networks are connected to China's national fixed line telephone networks and the other cellular networks of CMCC in the regions in which we do not currently operate. In addition, we offer our subscribers roaming capability throughout mainland China, and have roaming arrangements with operators in 56 foreign countries and regions.

We use a total of 24 MHz of frequency spectrum in the 900 MHz frequency band. In addition, we are also using 10 MHz of spectrum in the 1800 MHz frequency band to deploy GSM-compatible Digital Cellular System for 1800 MHz, or DCS 1800, to further expand the capacity of our networks.

We are continuing our efforts to improve our existing mobile communications operations. At the same time, we are also focusing on the development of wireless data services using various technologies such as short message service, or SMS, Wireless Application Protocol, or WAP, and General Packet-Switched Radio Services, or GPRS, technologies, and intend to make a seamless transition to other broadband wireless applications based on third generation, or 3G, wireless communication technologies. We have launched WAP services in all six provinces in which we operate. In addition, we have conducted successful initial advanced tests of GPRS technology, and we are currently conducting trials to prepare for full commercial launch.

We market our services under the "China Mobile" brand name, which is a widely recognized brand in mainland China. We distribute our mobile communications services through our own retail outlets and an extensive network of authorized third-party dealers.

The Acquisition

We have agreed to acquire from China Mobile Hong Kong (BVI) Limited, or China Mobile (BVI), our immediate controlling shareholder, the mobile communications businesses currently operated by CMCC in Beijing, Shanghai, Tianjin, Hebei, Liaoning, Shandong and Guangxi. This acquisition is in accordance with our strategy to expand our subscriber base and contiguous coverage area and further consolidate our strong position in the mobile communications market in mainland China. The total purchase price is HK$ million (US$ million), to be paid by us with a combination of cash and new shares to be issued to China Mobile (BVI), as follows:

- HK$ million (US$ million) in the form of cash consisting of:
- HK$ million (US$ million) which is expected to be paid in cash in either Hong Kong dollars or US dollars, which we intend to raise from the concurrent share offering and convertible note offering described in this prospectus; and
- HK$ million (US$ million) which is expected to be paid in cash in Renminbi, which we intend to raise from bank loans; and
- HK$ million (US$ million) in the form of new shares, the number of such shares to be determined by dividing this amount by the initial offering price to public investors in the share offering.

If the acquisition is completed, Beijing Mobile, Shanghai Mobile, Tianjin Mobile, Hebei Mobile, Liaoning Mobile, Shandong Mobile and Guangxi Mobile will become our indirect wholly-owned subsidiaries. We will proceed with the acquisition only if the conditions set forth in the acquisition agreement are satisfied or waived. These conditions include the receipt of regulatory and independent shareholder approvals for the acquisition.

Most of the regions in which the targets operate are among the most developed and prosperous regions in China not yet served by us. We believe that the acquisition will enhance our growth prospects, further consolidate our strong position in the mobile communications market in mainland China and create value for our investors.

Strategy

We believe that the telecommunications industry in mainland China has potential for significant future growth. We believe that the proposed acquisition represents a significant opportunity to consolidate our strong position, and will enable us to capitalize on growth opportunities in the broader telecommunications sector in mainland China as well as, in the future, to assume a leadership position in the global telecommunications industry. We intend to capitalize on these opportunities in order to maximize profitability and create value for our investors. We intend to achieve this objective by:

- continuing to actively grow our core mobile communications services by:

- maintaining focus on developing a high-quality subscriber base;

- broadening our subscriber base and increasing market penetration;

- focusing on integrating our businesses and realizing synergies to improve efficiency; and

- nurturing our human capital;

- pursuing strategic expansion in the broader telecommunications market in mainland China and capturing new revenue streams; and

- continuing to explore acquisition and other expansion opportunities.

Capital Expenditure Plans

Our planned capital expenditures will allow us to:

- further expand our network capacity and coverage to improve the quality of our services;

- further optimize the structure, and improve the management, of our networks;

- increase our efforts in improving our business operation support system and network support system;

- build our own transmission lines where economically advantageous; and

- develop and provide wireless data services and other new services using existing and new technologies.

We estimate that our capital expenditures required to implement these plans from 2000 through the end of 2002 will amount to approximately RMB 86.3 billion (US$10.4 billion). We estimate that the targets will require approximately RMB 49.7 billion (US$6.0 billion) for capital expenditures from 2000 through the end of 2002 to implement similar plans.

Industry Restructuring

The Ministry of Information Industry, or the MII, regulates the telecommunications industry in mainland China. During the first half of 2000, the Chinese government substantially completed the restructuring of the telecommunications industry. One of the principal objectives of the restructuring was to separate the government's regulatory function from its business management functions in respect of state-owned enterprises. As a result, the MII ceased to have an indirect controlling interest in China Mobile (HK), and no longer exercises control over telecommunications operations, but it continues its role as the industry regulator providing policy guidance as well as exercising regulatory authority over all telecommunications service providers in mainland China.

As part of this restructuring, the telecommunications operations previously controlled by the MII have been separated along four business lines: fixed line telecommunications, mobile communications, satellite communications and paging services. With respect to fixed line and mobile communications:

- China Telecommunications Corporation, or CTC, was established in May 2000 as a state-owned company to hold and operate the fixed line and data communications networks nationwide resulting from this separation; and

- CMCC was established in July 1999 as a state-owned company to hold and operate the cellular networks nationwide resulting from this separation.

CMCC indirectly owns approximately 75% of our outstanding shares. Upon the completion of the concurrent share offering and convertible note offering and the proposed acquisition, CMCC will indirectly own approximately % of our outstanding shares (or % if the underwriters' over-allotment option in the share offering is exercised in full).

Our principal executive office is located at 60th Floor, The Center, 99 Queen's Road Central, Hong Kong, China and our telephone number at the above address is (852) 3121-8888.

The Offerings

The offerings described in this prospectus include the share offering and the convertible note offering. The closing of one offering is not conditional upon the closing of the other offering.

The Share Offering

Securities offered	ADSs offered by us. Purchasers may elect to receive shares instead of ADSs.
International offering	ADSs in the form of shares or ADSs.
Asia offering	ADSs in the form of shares or ADSs.
ADS to shares ratio	1:5.
Number of shares outstanding immediately after the share offering and the acquisition	shares (including shares to be issued to China Mobile (BVI) as part of the purchase price for the acquisition).
Overallotment option	We have granted the underwriters for the share offering an option to purchase additional ADSs. The option is exercisable within 28 days of the date of this prospectus.
Listings	The ADSs have been approved for listing, subject to notice of issuance, on the New York Stock Exchange. Application has also been made for the listing of and permission to deal in the shares underlying these ADSs on The Stock Exchange of Hong Kong Limited.
New York Stock Exchange symbol	"CHL".
Depositary	The Bank of New York.
Three-day gap between pricing and trading of the shares	The shares offered in the share offering will not commence trading on the Hong Kong Stock Exchange until they are delivered, which is expected to be three business days after the date of pricing of these shares. You may not be able to sell or otherwise deal in these shares during the three-day period.

The Convertible Note Offering

Securities offered	US$ aggregate principal amount of % convertible notes due 2005.
Offering price	100%.
Overallotment option	We have granted the underwriters for the convertible note offering an option to purchase up to an additional US$ principal amount of convertible notes. The option is exercisable within 28 days of the date of this prospectus.
Global note; Book-entry system	We will issue the convertible notes only in fully registered form and in minimum

denominations of US$1,000 and integral multiples of US$1,000. The convertible notes will be evidenced only by one or more global notes in fully registered form, registered in the name of Cede & Co., as nominee of The Depository Trust Company. Your interest in the global notes will be shown on, and transfers of your interest can only be effected through, records maintained by DTC and its direct and indirect participants (including Euroclear and Clearstream).

Interest	%. We will pay interest on the convertible notes semi-annually on and of each year commencing , 2001.
Ranking	The convertible notes will be our general unsecured, unsubordinated obligations and will rank equal to all of our other unsecured, unsubordinated debt. As of June 30, 2000, we had consolidated Debt (as defined in "Description of the Convertible Notes") of approximately RMB 10,902 million (US$1,317 million). Of this amount, RMB 4,957 million (US$599 million) was the principal amount of our 7 7/8% notes due 2004 issued in November 1999 and RMB 5,945 million (US$718 million) was Debt of our subsidiaries. As of June 30, 2000, after giving pro forma effect to the concurrent share and convertible note offerings, the RMB million (US$ million) of bank loans incurred in connection with the acquisition and the Debt of the targets as of June 30, 2000 to be assumed by us upon completion of the acquisition, we would have had consolidated Debt of approximately RMB million (US$ million), of which RMB million (US$ million) would have been Debt that ranks equally with the convertible notes and approximately RMB million (US$ million) would have been Debt of our subsidiaries (including the targets). Approximately RMB million (US$ million) of this total Debt would have been secured Debt.
Taxes	In the event that certain Hong Kong taxes are payable in respect of payments under the convertible notes as a result of any change in or amendment to Hong Kong laws or regulations, we will pay additional amounts to compensate holders of the affected convertible notes for any such taxes. Any reference in this prospectus to principal or interest with respect to any convertible note shall be deemed to include any such additional amounts payable in connection therewith. In such cases, the notes may be subject to optional redemption as referred to below under "Optional tax redemption by us".
Conversion	You may convert your convertible notes into our shares or ADSs at any time after 30 days from the original issuance of the convertible notes and before the close of business on the third business day prior to the earlier of (1) the maturity date, which is , 2005 or (2) the date of early redemption. The conversion price per ADS is initially US$ per ADS. This is equivalent to an initial conversion price of HK$ per share based on the fixed exchange rate of US$1.00 = HK$ and the current share-to-ADS ratio of 5:1. The conversion price may be subject to adjustment as described in "Description of the Convertible Notes — Conversion — Adjustment of Conversion Price".
Redemption at maturity	We will redeem the convertible notes at 100% of their principal amount, plus any accrued and unpaid interest, on , 2005.
Optional redemption by us	We have the option to redeem the convertible notes in whole but not in part at any time on or after at a price equal to 100% of the principal amount plus accrued and unpaid interest to the optional redemption date if the closing price (translated into US dollars at the prevailing exchange rate) of the shares on the Hong Kong Stock Exchange for each of the 30 consecutive trading days, the last of which occurs not more than five days prior to the date on which notice of redemption is given, is at least % of the conversion price per share as effective on such notice date (translated into US dollars at the fixed exchange rate of US$1.00 = HK$). In addition, if at any time the aggregate principal amount of the convertible notes outstanding is less than 5% of the aggregate principal amount of the convertible notes originally issued, we have the option to redeem such convertible notes in whole but not in part at 100% of the principal amount plus any accrued and unpaid interest.
Optional tax redemption by us	The convertible notes are to be redeemed at our option, in whole but not in part, if we determine that, as a result of any change in or amendment to Hong Kong laws or regulations, we would be required to pay additional amounts as referred to above under "Taxes".

Holders' put option	Upon certain change in control events as described under "Description of Convertible Notes — Repurchase at Option of Holders Upon Change in Control", each holder of the convertible notes shall have the right to require us to repurchase all or any portion of such holder's convertible notes in cash at 100% of the principal amount plus any accrued and unpaid interest.
Fundamental covenants	The indenture for the convertible notes will restrict, among other things, our ability to pledge assets or enter into sale and leaseback transactions and the ability of our subsidiaries to incur indebtedness. However, these and other limitations are subject to a number of important qualifications.
Events of default	The trustee or 25% of the holders of the convertible notes can declare the convertible notes to be payable immediately if, among other events: • we fail to make a payment of principal on the relevant payment date or fail to pay interest on the convertible notes within 30 days after the relevant payment date; • we fail to perform covenants with respect to the convertible notes within 60 days after written notice; • we or any of our material subsidiaries fail to pay more than US$30 million of indebtedness within 10 days after it becomes due; or • there is an event of bankruptcy, insolvency or reorganization for the benefit of our creditors involving us or one of our material subsidiaries.
Listing	We have applied to list the convertible notes on the Luxembourg Stock Exchange.
Trustee and conversion agent	The Bank of New York.
Governing law	The indenture and the convertible notes will be governed by New York law, except that all matters relating to their authorization and execution by us are governed under the laws of Hong Kong.

Use of Proceeds

We plan to use the total net proceeds from the concurrent share offering and convertible note offering, together with Renminbi-denominated bank loans and, if necessary, internal resources and other forms of external financing, to finance the cash portion of the purchase price for our acquisition of the seven targets. If the acquisition is not completed, the net proceeds from these offerings will be used for general corporate purposes or for other potential strategic investments in the telecommunications industry in mainland China. Pending these uses, the net proceeds will be invested in interest-bearing short-term deposits or short-term U.S. government bonds.

Summary Historical Consolidated Financial Information

	As of or for the year ended December 31,						As of or for the six months ended June 3	
	1995	1996	1997	1998	1999	1999	1999	2000
	RMB	RMB	RMB	RMB	RMB	US$	RMB	RMB
	(in millions, except per share and per ADS information and share numbers)							
Income Statement Data:								
Hong Kong GAAP								
Operating revenue........	**7,598**	**10,367**	**15,488**	**26,345**	**38,623**	**4,666**	**16,940**	**28,897**
Operating expenses.......	**2,856**	**5,405**	**10,074**	**18,410**	**24,983**	**3,018**	**10,929**	**16,575**
Operating profit.........	**4,742**	**4,962**	**5,414**	**7,935**	**13,640**	**1,648**	**6,011**	**12,322**
Write-down and write-off of TACS network equipment...............	**—**	**—**	**—**	**282**	**8,242**	**996**	**500**	**—**
Profit before tax and minority interests......	**4,954**	**4,941**	**5,953**	**9,387**	**6,444**	**778**	**5,974**	**12,742**
Income tax...............	**286**	**428**	**991**	**2,486**	**1,647**	**199**	**1,970**	**4,018**
Net profit(1)............	**4,668**	**4,509**	**4,955**	**6,900**	**4,797**	**579**	**4,004**	**8,724**
Basic and diluted net profit per share(2)(3).............		**0.50**	**0.52**	**0.59**	**0.40**	**0.05**	**0.34**	**0.64**
Basic and diluted net profit per ADS(2)(3)....		**2.50**	**2.60**	**2.93**	**1.99**	**0.24**	**1.70**	**3.18**
Shares utilized in basic calculation (in thousands)..............		**9,010,000**	**9,534,365**	**11,780,788**	**12,069,108**	**12,069,108**	**11,782,885**	**13,706,310**
Shares utilized in diluted calculation (in thousands)..............		**9,010,000**	**9,534,365**	**11,782,521**	**12,072,383**	**12,072,383**	**11,785,447**	**13,716,377**
US GAAP(4)								
Operating revenue........	**10,440**	**15,322**	**23,853**	**35,516**	**44,940**	**5,429**	**21,483**	**27,834**
Operating expenses.......	**4,231**	**8,056**	**14,867**	**23,761**	**34,318**	**4,146**	**13,870**	**16,606**
Operating profit.........	**6,201**	**7,266**	**8,986**	**11,755**	**10,622**	**1,283**	**7,613**	**11,228**
Profit before tax and minority interests......	**6,464**	**7,411**	**9,571**	**13,548**	**11,482**	**1,387**	**8,044**	**11,690**
Income tax...............	**498**	**832**	**1,416**	**3,262**	**3,248**	**392**	**2,460**	**3,532**
Net profit...............	**5,974**	**6,575**	**8,148**	**10,285**	**8,234**	**995**	**5,584**	**8,158**
Basic and diluted net profit per share(2)(3).............	**0.58**	**0.64**	**0.75**	**0.79**	**0.63**	**0.08**	**0.43**	**0.60**
Basic and diluted net profit per ADS(2)(3)....	**2.90**	**3.20**	**3.77**	**3.94**	**3.13**	**0.38**	**2.14**	**2.98**
Shares utilized in basic calculation (in thousands)..............	**10,283,195**	**10,283,195**	**10,807,560**	**13,053,983**	**13,164,404**	**13,164,404**	**13,056,080**	**13,706,310**
Shares utilized in diluted calculation (in thousands)..............	**10,283,195**	**10,283,195**	**10,807,560**	**13,055,716**	**13,167,679**	**13,167,679**	**13,058,642**	**13,716,377**
Balance Sheet Data:								
Hong Kong GAAP								
Current assets								
Cash and cash Equivalents...........	**3,128**	**2,976**	**40,071**	**17,481**	**19,349**	**2,337**	**17,557**	**19,767**
Deposits with banks.....	**—**	**—**	**—**	**1,311**	**8,227**	**994**	**5,234**	**14,455**
Accounts receivable.....	**807**	**1,087**	**1,592**	**2,482**	**4,957**	**599**	**3,244**	**5,526**
Fixed assets............	**7,346**	**11,536**	**18,634**	**33,986**	**42,699**	**5,158**	**35,297**	**44,399**
Total assets............	**13,563**	**18,136**	**64,950**	**64,541**	**87,435**	**10,562**	**68,609**	**96,624**
Total short-term debt(5)................	**513**	**1,504**	**2,148**	**5,337**	**4,419**	**534**	**4,995**	**2,683**
Total long-term debt(6)................	**2,004**	**1,946**	**2,870**	**991**	**2,332**	**282**	**1,200**	**2,050**
Fixed rate notes.........	**—**	**—**	**—**	**—**	**4,952**	**598**	**—**	**4,957**
Total liabilities........	**4,522**	**5,657**	**10,386**	**18,699**	**30,343**	**3,665**	**18,709**	**30,801**
Shareholders' equity.....	**9,041**	**12,471**	**54,550**	**45,827**	**57,092**	**6,897**	**49,900**	**65,823**
US GAAP(4)								
Fixed assets.............................	10,464	18,597	27,058	39,930	41,618	5,027	42,144	43,439
Total assets.............................	17,693	27,960	79,986	75,098	87,570	10,577	83,308	97,359
Total long-term debt(6)	2,015	2,054	3,054	2,472	2,333	282	3,122	2,050
Fixed rate notes.........................	—	—	—	—	4,952	598	—	4,957
Shareholders' equity	12,570	20,871	66,715	51,665	55,927	6,755	57,367	64,120

Other Financial Data:								
Hong Kong GAAP								
Capital expenditures.................	2,653	5,511	5,807	11,040	11,708	1,414	4,591	8,498
Adjusted cash flow(7)...............	4,450	4,213	8,203	13,444	19,673	2,377	8,582	17,053
Net cash inflow from operating activities	5,331	6,418	8,825	13,567	21,662	2,617	9,801	19,566
Net cash inflow/(outflow) from financing activities................................	(467)	899	34,218	325	18,337	2,215	(68)	(2,011)
Adjusted EBITDA(8)	5,707	6,436	8,180	12,869	21,603	2,609	9,578	16,817
US GAAP(4)								
Net cash inflow from operating activities	6,403	8,176	13,252	17,110	23,500	2,838	11,826	17,053
Net cash outflow from investing activities...................	5,810	10,589	11,590	17,694	19,245	2,325	10,193	14,624
Net cash inflow/(outflow) from financing activities................................	(803)	2,385	35,440	(22,017)	(2,589)	(313)	(135)	(2,011)
Adjusted EBITDA(8)	7,257	9,495	12,821	17,675	24,660	2,980	11,922	15,636

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(1) After excluding the write-down and write-off of TACS network equipment and the related tax effect, net profit for the years ended December 31, 1998 and 1999 and the six months ended June 30, 1999 was RMB 7,088 million, RMB 10,320 million and RMB 4,339 million, respectively.

(2) The basic and diluted net profit per share and per ADS amounts under Hong Kong GAAP for the years ended December 31, 1996 and 1997 have been computed by dividing net profit under Hong Kong GAAP by the weighted average number of shares and the weighted average number of ADSs, respectively, outstanding as if 9,010,000,000 ordinary shares and 1,802,000,000 ADSs (based on a ratio of five shares to one ADS), respectively, issued in the IPO restructuring were outstanding during these periods (in addition to shares actually issued, if any).

The basic and diluted net profit per share and per ADS amounts under US GAAP for the years ended December 31, 1995, 1996 and 1997 have been computed by dividing net profit under US GAAP by the weighted average number of shares and the weighted average number of ADSs, respectively, outstanding as if (i) 9,010,000,000 ordinary shares and 1,802,000,000 ADSs (based on a ratio of five shares to one ADS), respectively, issued in the IPO restructuring and (ii) 1,273,195,021 ordinary shares and 254,639,004 ADSs, respectively, issued to China Mobile (BVI) as part of the consideration in the acquisition of Fujian Mobile, Henan Mobile and Hainan Mobile were outstanding during these periods (in addition to shares actually issued, if any).

(3) The basic net profit per share and per ADS amounts under Hong Kong GAAP for the years ended December 31, 1998 and 1999 have been computed by dividing net profit by the weighted average number of shares and the weighted average number of ADSs, respectively, in issue during 1998 and 1999. The calculation of diluted net profit per share under Hong Kong GAAP for the years ended December 31, 1998 and 1999 have been compiled after adjusting for the effects of all dilutive potential ordinary shares.

The basic net profit per share and per ADS amounts under US GAAP for the years ended December 31, 1998 and 1999 have been computed by dividing net profit by the weighted average number of shares and the weighted average number of ADSs, respectively, as if 1,273,195,021 ordinary shares and 254,639,004 ADSs issued to China Mobile (BVI) as part of the consideration in the acquisition of Fujian Mobile, Henan Mobile and Hainan Mobile were outstanding during these periods (in addition to shares actually issued, if any). The calculation of diluted net profit per share under US GAAP for the years ended December 31, 1998 and 1999 have been compiled after adjusting for the effects of all dilutive potential ordinary shares.

All dilutive potential ordinary shares arise from the share options granted to our directors under our share option scheme which, if converted to ordinary shares, would decrease profit attributable to shareholders per share.

(4) The amounts for the years ended December 31, 1995, 1996, 1997, 1998 and 1999 are presented to reflect the acquisitions of Jiangsu Mobile, Fujian Mobile, Henan Mobile and Hainan Mobile under the "as if pooling-of-interest" method, as well as the effects of other differences between Hong Kong GAAP and US GAAP.

(5) Total short-term debt includes short-term bank and other loans, current portion of long-term bank and other loans and current installments of obligations under capital leases.

(6) Total long-term debt includes long-term bank and other loans and obligations under capital leases, net of current portion.

(7) Represents net cash inflows from operating activities less net cash outflows (inflows) from returns on investments and servicing of finance and taxation.

(8) Adjusted EBITDA represents earnings before interest income, interest expense, income taxes, depreciation and amortization, non-operating income (expense) and write-down and write-off of fixed assets.

For the years ended December 31, 1995, 1996, 1997, 1998 and 1999, and the six months ended June 30, 1999 and 2000, non-operating income (expense) under Hong Kong GAAP was RMB 125 million, RMB 97 million, RMB (27) million, RMB (51) million, RMB 70 million, RMB 11 million and RMB (12) million, respectively, and under US GAAP was RMB 124 million, RMB 103 million, RMB (12) million, RMB (1) million, RMB (136) million, RMB 21 million and RMB 2 million, respectively. Write-down and write-off of fixed assets under Hong Kong GAAP for the years ended December 31, 1998 and 1999 and the six months ended June 30, 1999 was RMB 282 million, RMB 8,242 million, and RMB 500 million, and under US GAAP was RMB 136 million, RMB 5,267 million, and RMB 322 million, respectively. There was no write-down and write-off of fixed assets under Hong Kong GAAP or US GAAP in the six months ended June 30, 2000.

EBITDA is commonly used in the telecommunications industry to analyze companies on the basis of operating performance, leverage and liquidity. Adjusted EBITDA is not intended to represent cash flow for the period, nor has it been presented as an alternative to net profit as an indicator of operating performance. The items of net profit excluded from adjusted EBITDA are significant components in understanding and assessing our financial performance, and our computation of adjusted EBITDA may not be comparable to other similarly titled measures of other companies. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated statements of cash flows contained elsewhere in this prospectus.

Summary Historical Combined Financial Information of the Targets

	As of or for the year ended December 31,				As of or for the six months ended June 30,		
	1997	1998	1999	1999	1999	2000	2000
	RMB	RMB	RMB	US$ (in millions)	RMB	RMB	US$
Income Statement Data:							
Hong Kong GAAP							
Operating revenue	12,977	18,859	26,384	3,187	11,827	15,706	1,897
Operating expenses	8,193	13,408	17,864	2,158	8,183	9,956	1,202
Operating profit	4,784	5,451	8,520	1,029	3,644	5,750	695
TACS write-down/write-off	—	—	4,508	545	—	—	—
Profit before tax	4,652	5,223	3,506	423	3,454	5,456	659
Income tax	316	640	824	100	595	1,002	121
Net profit(1)	4,336	4,583	2,682	323	2,859	4,454	538
US GAAP							
Operating revenue	12,977	18,859	25,663	3,100	11,827	15,467	1,868
Operating expenses	8,236	13,712	22,125	2,673	8,278	9,878	1,193
Operating profit	4,741	5,147	3,538	427	3,549	5,589	675
Profit before tax	4,651	4,948	3,128	378	3,380	5,318	642
Income tax	381	650	369	45	666	1,584	191
Net profit	4,270	4,298	2,759	333	2,714	3,734	451
Balance Sheet Data:							
Hong Kong GAAP							
Current assets							
Cash and cash equivalents		557	4,641	561		6,467	781
Accounts receivable		2,267	2,685	325		2,823	341
Fixed assets		24,069	29,999	3,624		37,141	4,485
Total assets		35,791	45,711	5,522		53,653	6,479
Total short-term debt(2)		4,992	6,513	787		5,340	645
Total long-term debt(3)		7,910	10,999	1,329		10,787	1,303
Total liabilities		17,198	24,681	2,982		24,441	2,952
Owner's equity		18,593	21,030	2,540		29,212	3,527
US GAAP							
Fixed assets		24,154	30,173	3,645		32,614	3,940
Total assets		36,490	47,654	5,757		51,460	6,216
Total long-term debt(3)		7,910	10,999	1,329		10,787	1,303
Owner's equity		18,462	21,146	2,554		26,408	3,190
Other Financial Data:							
Hong Kong GAAP							
Capital expenditures	6,346	9,868	11,385	1,375	5,180	4,580	553
Adjusted cash flow(4)	4,808	5,438	10,788	1,303	4,563	8,242	995
Net cash inflow from operating activities	5,813	7,810	13,428	1,622	6,245	10,823	1,307
Net cash outflow from investing activities	(6,352)	(9,864)	(11,401)	(1,377)	(5,179)	(4,614)	(557)
Net cash inflow/(outflow) from financing activities	1,360	4,589	4,697	567	3,393	(1,802)	(218)
Adjusted EBITDA(5)	6,520	8,409	13,322	1,609	5,804	8,452	1,021
US GAAP							
Net cash inflow from operating activities	5,265	6,730	11,637	1,406	5,348	9,539	1,152
Net cash outflow from investing activities	(6,352)	(9,864)	(11,401)	(1,377)	(5,179)	(4,614)	(557)
Net cash inflow/(outflow) from financing activities	903	3,297	3,848	465	2,608	(3,099)	(374)
Adjusted EBITDA(5)	6,479	8,108	12,855	1,553	5,712	8,297	1,002

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(1) After excluding the write-down and write-off of TACS network equipment and the related tax effect, net profit for the year ended December 31, 1999 was RMB 6,760 million.

(2) Total short-term debt includes short-term bank and other loans, current portion of long-term bank and other loans and current installments of obligations under capital leases.

(3) Total long-term debt includes long-term bank and other loans and obligations under capital leases, net of current portion.

(4) Represents net cash inflows from operating activities less net cash outflows (inflows) from returns on investments and servicing of finance and taxation.

(5) Adjusted EBITDA represents earnings before interest income, interest expense, income taxes, depreciation and amortization, non-operating income (expense) and write-down and write-off of fixed assets. Non-operating income (expense) both under Hong Kong GAAP and US GAAP for the years ended December 31, 1997, 1998 and 1999, and the six months ended June 30, 1999 and 2000 was RMB 77 million, RMB 68 million, RMB 123 million, RMB 57 million and RMB 52 million, respectively. Write-down and write-off of fixed assets for the year ended December 31, 1999 was RMB 4,508 million. There was no write-down and write-off of fixed assets for the years ended December 31, 1997 and 1998 and the six months ended June 30, 1999 and 2000. EBITDA is commonly used in the telecommunications industry to analyze companies on the basis of operating performance, leverage and liquidity. Adjusted EBITDA is not intended to represent cash flow for the period, nor has it been presented as an alternative to net profit as an indicator of operating performance. The items of net profit excluded from adjusted EBITDA are significant components in understanding and assessing the financial performance of the targets, and this computation of adjusted EBITDA may not be comparable to other similarly titled measures of other companies. You should also refer to the combined statements of cash flows of the targets contained elsewhere in this prospectus.

Summary Operating and Other Data

	As of or for the year ended December 31, 1997	1998	1999	As of or for the six months ended June 30, 2000
China Mobile (HK)				
Total population base (in millions)(1)	115	188	324	326(2)
Cellular penetration (%)(3)	3.0	3.7	5.6	8.0(2)
Subscribers (in thousands)				
Contract	3,405	6,531	15,621	19,142
Pre-paid(4)	—	—	—	2,496
Total subscribers	3,405	6,531	15,621	21,638
Market share (%)(3)	97.6	94.5	87.4	83.0
Average churn rate (%)(5)(6)	1.6	2.1	4.6	3.9
Average minutes of use per subscriber per month (7)	441	385	383	327
Average revenue per subscriber per month (RMB)(8)	474	450(9)	347(10)	261
Targets				
Total population base (in millions)(1)	277	279	281	282(2)
Cellular penetration (%)(3)	1.4	2.5	4.2	6.1(2)
Subscribers (in thousands)				
Contract	3,699	6,471	10,121	12,280
Pre-paid(4)	—	—	—	1,363
Total subscribers	3,699	6,471	10,121	13,643
Market share (%)(3)	94.6	91.3	85.4	80.0
Average churn rate (%)(5)(6)	5.1	6.3	7.9	6.4
Average minutes of use per subscriber per month (7)	419	386	340	310
Average revenue per subscriber per month (RMB)(8)	387	309	270	224
China Mobile (HK) and Targets Pro Forma Combined				
Combined total population base (in millions)(1)	392	467	605	607(2)
Cellular penetration (%)(3)	1.9	3.0	4.9	7.1(2)
Subscribers (in thousands)				
Contract	7,104	13,002	25,743	31,422
Pre-paid(4)	—	—	—	3,858
Total subscribers	7,104	13,002	25,743	35,280
Market share (%)(3)	95.9	92.9	86.1	81.8
Average churn rate (%)(5)(6)	3.4	4.6	5.9	4.9
Average minutes of use per subscriber per month (7)	429	386	366	320
Average revenue per subscriber per month (RMB)(8)	430	373(9)	310(10)	247

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(1) *Source:* 1999 China Statistical Yearbook.

(2) Estimate based on population as of December 31, 1999 as published in the 1999 China Statistical Yearbook, and further assuming the same annual population growth rate in each province, municipality or autonomous region in 2000 as in 1999.

(3) Calculated based on our estimate of the total number of cellular subscribers.

(4) We and the targets began trial pre-paid services in selected cities in the second half of 1999 and launched pre-paid services on a full scale basis in the beginning of 2000 in the markets in which we and the targets operate.

(5) Measures the rate of subscriber disconnections from mobile telephone service, determined by dividing (i) the sum of voluntary and involuntary deactivations (excluding deactivations due to subscribers switching from one of our contract services to another) during the relevant period by (ii) the average number of subscribers during the period (calculated as the average at the beginning and end of the year (in the case of 1997 and 1998) and at the beginning of the year and the end of each calendar month (in the case of 1999 and the six months ended June 30, 2000)). For ease of comparison, the calculation includes the relevant information of Jiangsu Mobile in respect of the full year of 1998 and the relevant information of Fujian Mobile,

Henan Mobile and Hainan Mobile in respect of the full year of 1999.

(6) We began offering pre-paid services in late 1999. Some of our subscribers have switched from our contract services to our pre-paid services, which do not require subscriber registration. Since the exact number of such switching subscribers cannot be ascertained, the above churn rate accounts for them as churn subscribers, even though they remain our subscribers. Based on our own recent market surveys, we believe that if such subscribers were to be excluded from the churn rate calculation, our actual churn rates would have been lower than those shown in the schedule above.

(7) Calculated by (i) dividing the total minutes of usage during the relevant period by the average number of subscribers during the period (calculated in the same manner as described in note (5) above) and (ii) dividing the result by the number of months in the period. For ease of comparison, the calculation includes the relevant information of Jiangsu Mobile in respect of the full year of 1998 and the relevant information of Fujian Mobile, Henan Mobile and Hainan Mobile in respect of the full year of 1999.

(8) Calculated by (i) dividing the operating revenue during the relevant period by the average number of subscribers during the period (calculated in the same manner as described in note (5) above) and (ii) dividing the result by the number of months in the period.

(9) Excluding Jiangsu Mobile, because the operating revenues of Jiangsu Mobile are included in our financial results only from June 4, 1998, the date of its acquisition by us.

(10) Excluding Fujian Mobile, Henan Mobile and Hainan Mobile, because the operating revenues of Fujian Mobile, Henan Mobile and Hainan Mobile are included in our financial results only from November 12, 1999, the date of their acquisition by us.

RISK FACTORS

You should carefully consider the risks described below and the other information in this prospectus before deciding to invest in the ordinary shares or ADSs or the convertible notes.

Risks Relating to Our Company and the Telecommunications Industry in China

Extensive Government Regulation May Limit Our Flexibility to Respond to Market Conditions, Competition or Changes in Our Cost Structure

The MII regulates, among others, the following areas of the telecommunications industry under the leadership of the State Council:

- formulating and enforcing industry policy, standards and regulations;
- granting telecommunications licenses;
- formulating interconnection and settlement standards for implementation between telecommunications networks;
- together with other relevant regulatory authorities, formulating tariff and service charge standards for telecommunications services;
- supervising the operations of telecommunications service providers;
- maintaining fair and orderly market competition among telecommunications service providers; and
- allocating and administering public communications resources, such as radio frequencies, number resources, domain names and addresses of communications networks.

Other Chinese government authorities also take part in regulating tariff policies and foreign investment in the telecommunications industry. The regulatory framework within which we operate may limit our flexibility to respond to market conditions, competition or changes in our cost structure. In particular, future adverse changes in tariff policies and rates could immediately decrease our revenues.

We operate our businesses with approvals granted by the State Council and under licenses granted by the MII. If these approvals or licenses are revoked or suspended, we will be adversely affected.

We May Be Affected by Future Regulatory Changes

To provide a uniform regulatory framework for orderly development of the telecommunications industry, the Chinese government is currently preparing a draft telecommunications law. If and when the telecommunications law is adopted by the National People's Congress, it is expected to become the fundamental telecommunications statute and the legal basis for telecommunications regulations in mainland China. In addition, the MII has been preparing draft telecommunications regulations that will be subject to approval by the State Council. These regulations are expected to establish the rules and guidelines for the telecommunications industry to be used in the interim period prior to the adoption of the telecommunications law. Although we expect that the telecommunications law and the regulations will positively affect the overall development of the telecommunications industry in mainland China, we do not fully know what the nature and scope of the telecommunications law and the regulations will be. The telecommunications law and the regulations may contain provisions that could materially and adversely affect our business, financial condition and results of operations.

Competition from Other Mobile Communications Service Providers May Affect Our Subscriber Growth and Profitability

China United Telecommunications Corporation, or Unicom, operates (directly or through its subsidiaries) in all of the provinces, municipalities and autonomous region in which we and the targets operate. The Chinese government encourages orderly competition in the telecommunications industry in mainland China. Towards this end, it has extended certain favorable regulatory policies to Unicom in order to help it become a more viable competitor. In particular, the Chinese government has permitted Unicom to lower its cellular service tariffs by up to 10% below the government guidance rates (or up to 20% below the government guidance rates in areas where we and the targets offer TACS network service packages that provide only local access services, which packages have lower tariff rates compared to our full service packages). Some of our subsidiaries and targets offer such local access only services over their TACS networks. We believe this policy has helped Unicom capture a significant number of price-sensitive and low-usage cellular subscribers. As a result, Unicom's market share has increased over the past few years. See "Business — Competition". We could experience increased competition if the Chinese government takes other actions in the future to further enhance Unicom's competitive position.

In addition to Unicom, the State Council and the MII may approve additional mobile communications service providers in the future that may compete with us. We may also be subject to competition from providers of new telecommunications services as a result of technological development and the convergence of various telecommunications services.

China recently concluded bilateral negotiations of the major terms for its entry into the World Trade Organization, or WTO, with a number of countries, including the United States, and the European Union. As a result, we expect the Chinese government to gradually reduce current restrictions on foreign ownership in the telecommunications industry. This could lead to the eventual opening of the Chinese telecommunications market to foreign investors and operators, and could result in or accelerate the issuance of new mobile communications service licenses.

Increased competition from Unicom and any introduction of new competitors through the issuance of additional mobile communications service licenses could adversely affect our financial results by, among other factors, causing the rate of our subscriber growth to decline and bringing about decreases in tariff rates and increases in selling and promotional expenses. This could have a material adverse effect on our results of operations.

We Are Controlled by CMCC, Which May Not Always Act in Your Best Interest

Upon completion of the concurrent share and convertible note offerings and the payment of the share consideration in connection with the acquisition of the targets, CMCC will indirectly own an aggregate of % of our shares. CMCC will indirectly own % of our shares if the underwriters of the share offering exercise in full their option to purchase additional ADSs. Accordingly, CMCC is, and will be, able to:

• nominate our entire board of directors and, in turn, indirectly influence the selection of our senior management;

• determine the timing and amount of our dividend payments; and

• otherwise control or influence actions that require the approval of our shareholders.

The interests of CMCC as our ultimate controlling person could conflict with the interests of our minority shareholders.

In addition, CMCC also provides our operating subsidiaries with services that are necessary for our business activities, including:

• interconnection arrangements with its other subsidiaries' cellular networks and roaming arrangements;

• the coordination of the provision of inter-provincial transmission leased lines from CTC to us; and

• billing processing for domestic and international roaming services.

The interests of CMCC as the provider of these services to our operating subsidiaries may conflict with our interests. See "Relationship with CMCC" for a description of the services provided to our operating subsidiaries by CMCC and its other subsidiaries.

China Mobile (HK) Group, which is under the control of CMCC, is our controlling shareholder. In connection with our proposed acquisition of the targets, we have obtained certain representations, warranties and indemnities from China Mobile (HK) Group, including with respect to any undisclosed contingent liabilities of the targets. However, these may not be fully or effectively enforced against China Mobile (HK) Group.

Restructuring of the Telecommunications Industry Could Affect Our Business and Operations

During the first half of 2000, the Chinese government substantially completed a restructuring of the telecommunications industry in mainland China. As a result of this restructuring, the MII no longer exercises control over the business management of telecommunications service providers, but continues its role as the industry regulator providing policy guidance as well as exercising regulatory authority over all telecommunications service providers in mainland China. CMCC and CTC now operate independently as commercial entities within their respective areas of operation. CTC operates the fixed line telephone and data telecommunications networks nationwide previously controlled by the MII, while CMCC operates the mobile telecommunications networks nationwide previously controlled by the MII, including through us in the six provinces in which we operate and through the targets in the seven provinces, municipalities and autonomous region in which they operate. We have entered into various business arrangements with CTC, such as those relating to interconnection, transmission line leasing, marketing and distribution, network and facility maintenance, and land and property leasing. We cannot predict what effect, if any, this ownership and business separation may have on these existing arrangements, or our ability in the future to obtain similar arrangements with CTC. More generally, although we expect that the restructuring will positively affect the overall development of the telecommunications industry in mainland China, we cannot predict what effect, if any, it may have on our business and operations in the future.

Factors Beyond Our Control Could Affect Our Expansion Plans

The future growth of our subscriber base depends on our ability to expand our network capacity to accommodate additional subscribers. Our network expansion plans are based on anticipated subscriber growth. However, actual future growth in our subscriber base will be subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control.

Our expansion plans are subject to risks and uncertainties that could delay the introduction of our services in some areas and increase the cost of network construction. In particular, we may not be able to:

- obtain on reasonable commercial terms the requisite number of sites to locate network equipment;
- obtain the necessary transmission lines and equipment;
- obtain necessary funding on a timely basis, if at all, to finance our capital expenditure requirements; and
- obtain the relevant government approvals on a timely basis, if at all.

If we fail to implement our expansion plans, we may not be able to expand our subscriber base. This could materially and adversely affect our business, financial condition and results of operations.

The Limited Spectrum Allocated to Us May Constrain Our Future Network Capacity Growth

A cellular network's capacity is to a certain extent limited by the amount of frequency spectrum available for it to use. Since the MII allocates frequency spectrum to mobile communications operators in mainland China, the capacity of our cellular network is limited by the amount of spectrum that the MII allocates to us. The MII has allocated 24 MHz in the 900 MHz frequency band and 10 MHz in the 1800 MHz frequency band to each of our operating subsidiaries and the targets.

We believe that our current spectrum allocation, and that of the targets, is sufficient for anticipated subscriber growth in the near term, but we and the targets may need additional spectrum to accommodate future subscriber growth or to develop cellular services using 3G wireless communications technologies. However, the MII may not allocate additional spectrum to us or the targets. Our network expansion plans and those of the targets may be affected if we or the targets are unable to obtain additional spectrum. This could in turn constrain our future network capacity growth and materially and adversely affect our business, financial condition and results of operations.

Changes to Our Interconnection and Leased Line Arrangements May Adversely Affect Our Profitability

Our mobile communications services depend, in large part, upon our interconnection arrangements. Currently, interconnection is necessary in the case of all local calls between our subscribers and subscribers of fixed line or other cellular networks. Interconnection and leased line arrangements are also necessary for domestic long distance calls and international calls. We have entered into interconnection and transmission line leasing agreements with the relevant fixed line operators and other subsidiaries of CMCC. The targets have also entered into similar agreements.

The terms of our interconnection arrangements and leased line arrangements have a material effect on our operating revenue and expenses. A material increase in the interconnection or leased line expenses we pay could have a material adverse effect on our results of operations. In addition, we will be materially and adversely affected if we cannot enter into future interconnection and leased line agreements on commercially acceptable terms. See "Relationship with CMCC" and "Relationship with CTC".

We May Be Unable to Obtain Sufficient Financing to Fund Our Substantial Capital Requirements

We estimate that we will require approximately RMB 86.3 billion (US$10.4 billion) for capital expenditures from 2000 through the end of 2002 for a range of projects. These projects principally relate to:

• further expansion of our network capacity and coverage to improve the quality of our services;

• further optimization of the structure, and enhancement of the management, of our networks;

• building our business operation support system and network support system;

• the building of our own transmission lines where economically advantageous; and

• the development and provision of wireless data services and other new services using existing and new technologies.

We estimate that the targets will require approximately RMB 49.7 billion (US$6.0 billion) for capital expenditures from 2000 through the end of 2002 for a similar range of projects.

We believe that cash from operations, together with any necessary borrowings, will provide sufficient financial resources to meet our projected capital and other expenditure requirements. We currently plan to use the net proceeds from the concurrent share and convertible note offerings described in this prospectus solely for the acquisition. If we have underestimated our capital requirements or overestimated our future cash flows, additional financing may be required. In addition, a significant feature of our business strategy is to continue exploring opportunities for strategic investments in the telecommunications industry in mainland China, which may require additional capital resources.

Our ability to obtain financing depends, among other factors, on:

• our financial position and leverage;

• prevailing economic and financial market conditions;

• applicable government regulations; and

• the cost of financing.

Financing may not be available to us on acceptable terms. In addition, any future issuance of our securities to foreign investors will require approval from the China Securities Regulatory Commission, the State Council, and other relevant government authorities. If adequate capital is not available, our business prospects could be adversely affected.

Changes in Technology May Render Our Current Technologies Obsolete or Require Us to Make Substantial Capital Investments

The telecommunications industry is subject to rapid and significant changes in technology. We cannot predict what effect emerging and future technological changes may have on our business. Accordingly, although we strive to keep our technology up to international standards, the mobile communications technologies currently employed by us may become obsolete or subject to competition from new technologies in the future. In addition, the cost of implementing new technologies, upgrading our networks or expanding capacity could be significant. In particular, in order for us to effectively respond to technological changes, including the introduction of "third-generation", or 3G, mobile communications technologies, which will include those that support packet switching and wireless broadband and multi-media applications, we may be required to make substantial capital expenditures in the near future. This will in turn depend upon our ability to obtain additional financing on commercially acceptable terms. There can be no assurance that the new technologies we implement, such as wireless data applications, will generate an acceptable rate of return.

Failure to Capitalize on New Business Opportunities May Have an Adverse Effect on Our Growth Potential

We intend to pursue a number of new growth opportunities in the broader telecommunications industry, including wireless data. These opportunities involve new services for which there are no proven markets. In addition, the ability to deploy and deliver these services depends, in many instances, on new and unproven technology. There can be no assurance that our newly adopted technology, such as WAP and GPRS, will perform as expected, and that we will be able to successfully develop new technology to effectively and economically deliver these services, or that we will be able to compete successfully in the delivery of telecommunications services based on new technology.

In addition, these opportunities require substantial capital outlays, suitable content and spectrum availability to deploy on a large scale. There can be no assurance that such capital, content or spectrum will be available. Furthermore, the success of wireless data services is substantially dependent on the availability of wireless data applications and devices that are developed by third party developers that support wireless applications. There can be no assurance that these applications or devices will be sufficiently developed to support the deployment of our wireless data services. In addition, our success in these potential future business areas will depend on our ability to retain current managerial and technical personnel and attract additional personnel experienced in these new business areas.

Moreover, we cannot provide assurance that these services will be widely introduced or fully implemented in a timely manner, or at all, that they will be commercially successful when they are in place, or that customers will purchase the services offered. If these services are not successful or costs associated with the roll out of these services materially exceed those currently estimated by us, our financial condition and prospects could be materially and adversely affected.

We May Be Affected by Disruption of Supplies and Services from Our Principal Suppliers

We currently rely on a limited number of leading international and domestic mobile communications equipment manufacturers to provide network equipment and technical support. We believe that comparable equipment and support are also available from other established suppliers. However, if we are unable to obtain adequate supplies of equipment or services in a timely manner or on acceptable commercial terms, or if there are significant increases in the cost of these supplies, our business and results of operations may be materially and adversely affected.

Actual or Perceived Health Risks Could Lead to Decreased Mobile Communications Usage and Difficulties in Increasing Network Coverage

According to certain published reports, the electromagnetic signals from cellular handsets and transmission masts, which serve as antennae for transmitting radio signals, may pose health risks and interfere with the operation of electronic equipment. Although the findings in such reports are disputed, actual or perceived risks of using cellular communications devices or transmission masts could have an impact on cellular operators, including us. For example, we could encounter difficulties in obtaining sites for additional base transceiver stations required to expand our network coverage and experience reductions in our growth rate, subscriber base or average usage per subscriber.

Risks Relating to the Acquisition

We May Not Complete the Acquisition of the Targets

We will only be able to acquire the targets if the conditions set forth in the acquisition agreement are satisfied or waived. In particular, we may proceed with the acquisition, only if we obtain the approval of the relevant Chinese government authorities and our independent shareholders. However, there is no assurance that we will obtain these approvals. We also have the right not to proceed with the acquisition if there is any material adverse change in the business of the targets. In addition, if our aggregate net proceeds from the concurrent share offering and the convertible note offering and the financing that we obtain from bank borrowings are less than the respective amounts we currently expect, we may not have sufficient funds to finance the acquisition unless we can obtain additional funds through other forms of external financing in addition to any available internal resources. If we are not able to or choose not to acquire the targets, the information regarding the targets and the pro forma information in this prospectus giving effect to the acquisition would not be relevant, and the proceeds of the offerings will not be applied towards their intended use. Our net profit per share and per ADS may also be significantly diluted following the offerings if we do not complete the acquisition.

We May Face Difficulties and Incur Additional Costs in Integrating the Acquired Operations with Our Existing Operations

Once we complete the acquisition, we will have to integrate the operations of the targets with our existing operations. We may experience difficulties in assimilating the operations, assets, systems, structure and personnel of previously separate operations into our existing operations.

The Actual Results of the Targets May Vary Materially from the Prospective Financial Information Provided in this Prospectus

The financial projections for the targets included in this prospectus under "The Acquisition — Prospective Financial Information" represent our best estimate of the targets' results of operations for the year ending December 31, 2000 under normal operating circumstances. The projections are based upon a number of assumptions. Some of these assumptions may not materialize, and unanticipated events could adversely affect the actual results of the targets. Consequently, actual results may vary materially from these projections. You are cautioned not to place undue reliance on these projections. We do not intend to update or otherwise revise the projections to reflect events or circumstances after the date of this prospectus or to reflect the occurrence of unanticipated events. The projections have been prepared in accordance with customary practice in Hong Kong. They have not been prepared in compliance with published guidelines of the American Institute of Certified Public Accountants and have not been examined by our independent auditors.

Risks Relating to the Share Offering

There will be a Three-day Time Gap Between Pricing and Trading of the Ordinary Shares

The initial price to the public of the ADSs and ordinary shares sold in the share offering will be determined on the date of pricing. However, the ordinary shares will not commence trading on the Hong Kong Stock Exchange until they are delivered, which is expected to be three business days after the pricing date. As a result, investors will not be able to sell or otherwise deal in those shares for such three-day period. Accordingly, holders of those shares are subject to the risk that the trading prices of our shares could fall before trading in the ordinary shares offered in the share offering commences on the Hong Kong Stock Exchange.

Risks Relating to the Convertible Note Offering

We May Be Unable to Meet Our Payment Obligations Under the Convertible Notes if We Fail to Receive Dividends and Other Payments from Our Operating Subsidiaries

We are a holding company and all of our operations are conducted through our operating subsidiaries. We may not be able to meet our payment obligations in respect of the convertible notes if we fail to receive funds from our subsidiaries in the form of dividends or interest and principal payments on inter-company loans. There are currently no legal, regulatory or contractual restrictions on dividend payments by our subsidiaries. However, the ability of our subsidiaries to make dividend and other payments to us may be restricted by factors that include:

- change of applicable foreign exchange and other laws and regulations; and

- agreements to which our subsidiaries are or may become subject.

In particular, under Chinese law, our operating subsidiaries may only pay dividends after 10% of their net profit has been set aside as a statutory surplus reserve. Our operating subsidiaries are not required to set aside any of their net profit as part of the statutory surplus reserve if such reserve is at least 50% of their respective registered capital.

Because we are a holding company, the convertible notes are structurally subordinated to all existing and future liabilities of our subsidiaries. The aggregate long-term and short-term debt of our subsidiaries on our consolidated balance sheet as of June 30, 2000, was approximately RMB 5,945 million (US$718 million). The aggregate long-term and short-term debt of the targets as of June 30, 2000 was approximately RMB 16,127 million (US$1,948 million). Our subsidiaries may incur substantial additional indebtedness in the future. If any of our subsidiaries is liquidated or restructured or becomes insolvent, it may not be able to make dividend or other payments to us. This would adversely affect our ability to meet our financial obligations, including our obligations under the convertible notes. In addition, our right to participate in any distribution of assets upon the liquidation, reorganization or insolvency of any of our subsidiaries will be subject to the claims of the subsidiary's creditors.

There Is No Prior Public Market for the Convertible Notes and an Active Trading Market May Not Develop

There has been no public market for the convertible notes. We have applied to list and trade the convertible notes on the Luxembourg Stock Exchange. However, an active or liquid trading market for the convertible notes may not develop.

Risks Relating to Mainland China

Substantially all of our assets are located in mainland China and substantially all of our revenue is derived from our operations in mainland China. Accordingly, our financial condition and results of operations are subject to a significant degree to economic, political and legal developments in mainland China.

Political and Economic Policies of the Chinese Government Could Affect Our Business

Since the late 1970s, the Chinese government has been reforming the Chinese economic system. These reforms have resulted in significant economic growth and social progress. We expect that many of the reforms will be refined and improved upon. Changes in political, economic and social conditions in China, adjustments in policies of the Chinese government or changes in laws and regulations could affect our financial condition and results of operations.

The economy of mainland China differs from the economies of most countries belonging to the Organization for Economic Cooperation and Development in a number of respects, including:

- structure;
- level of government involvement;
- level of development;
- level of capital reinvestment;
- control of foreign exchange; and
- methods of allocating resources.

Since 1949, mainland China has primarily been a planned economy subject to a system of macroeconomic management. Although enterprises in mainland China are predominantly state-owned and the Chinese government still owns the majority of productive assets in mainland China, economic reform policies since the late 1970s have encouraged the gradual change of China's economy into a market-driven economy emphasizing autonomous enterprise management and the utilization of market mechanisms. Although we believe that economic reforms and the macroeconomic measures adopted by the Chinese government have had a positive effect on economic development in mainland China, we cannot predict what effects these measures may have on our business or results of operations.

We May Not Freely Convert Renminbi into Foreign Currency

Substantially all of our revenues and operating expenses are denominated in Renminbi, while a portion of our capital expenditures and indebtedness are denominated in US dollars and other foreign currencies. The Renminbi is currently freely convertible under the "current account", which includes dividends, trade and service-related foreign exchange transactions, but not under the "capital account", which includes foreign direct investment, unless the prior approval of the State Administration for Foreign Exchange, or the SAFE, is obtained.

Our operating subsidiaries are foreign investment enterprises. Currently, they may purchase foreign exchange without the approval of the SAFE for settlement of "current account transactions", including payment of dividends, by providing commercial documents evidencing these transactions. They may also retain foreign exchange in their current accounts (subject to a cap approved by the SAFE) to satisfy foreign exchange liabilities or to pay dividends. In addition, if and when we acquire the targets as described in this prospectus, they will also become foreign investment enterprises and will be eligible for the same treatment that our current subsidiaries are receiving. However, there is no assurance that the relevant Chinese government authorities will not limit or eliminate our ability to purchase and retain foreign currencies in the future. Also, our subsidiaries incorporated in mainland China may not be able to obtain sufficient foreign exchange to satisfy their foreign exchange requirements or pay dividends to us for our use in making any future dividend payments or to satisfy other foreign exchange payment requirements. Foreign exchange transactions under the capital account are still subject to limitations and require approvals from the SAFE. This could affect our subsidiaries' ability to obtain foreign exchange through debt or equity financing, including by means of loans or capital contributions from us.

Fluctuations in Exchange Rates Could Adversely Affect Our Financial Results

The value of the Renminbi is subject to changes in Chinese government policies and to international economic and political developments. Although the official exchange rate for the conversion of Renminbi to US dollars has been stable, with the Renminbi appreciating slightly against the US dollar since 1994, the exchange rate of the Renminbi may become volatile against the US dollar or other currencies in the future. Substantially all of our operating revenue is denominated in Renminbi, while a portion of our capital expenditures and some of our financing expenses are denominated in US dollars. Because we may not be able to hedge effectively against Renminbi devaluations, future movements in the exchange rate of Renminbi and other currencies could have an adverse effect on our financial condition and results of operations.

The Chinese Legal System Embodies Uncertainties Which Could Limit the Legal Protections Available to You

The Chinese legal system is a civil law system based on written statutes. Unlike common law systems, it is a system in which decided legal cases have little precedential value. In 1979, the Chinese government began to promulgate a comprehensive system of laws and regulations governing economic matters in general. Legislation over the past 20 years has significantly enhanced the protections afforded to various forms of foreign investment in mainland China. Our existing subsidiaries are, and after the acquisition the targets will be, "wholly foreign-owned enterprises", or WFOEs, which are enterprises incorporated in mainland China and wholly-owned by Hong Kong or foreign investors, and subject to the laws and regulations applicable to foreign investment in mainland China. However, these laws, regulations and legal requirements are relatively recent, and their interpretation and enforcement involve uncertainties, which could limit the legal protections available to foreign investors.

CAPITALIZATION

The following table sets forth our consolidated short-term debt and capitalization:

• as of June 30, 2000; and

• as adjusted to give effect to the following events as if they had occurred on June 30, 2000:

• our sale of ordinary shares offered in the share offering (after deducting underwriters' discounts and commissions and other estimated expenses of the share offering);

• our sale of the US$ million principal amount of % convertible notes due 2005 offered in the convertible note offering (after deducting underwriters' discounts and commissions and other estimated expenses of the convertible note offering);

• raising of RMB in bank loans;

• the application of total net proceeds from the concurrent share offering and convertible note offering to the purchase price of the proposed acquisition; and

• the issuance of ordinary shares to China Mobile (BVI) as part of the purchase price of the proposed acquisition.

You should read this table together with our consolidated financial statements, the combined financial statements of the targets, and the pro forma financial statements included elsewhere in this prospectus.

	June 30, 2000			
	Actual RMB	As adjusted RMB	Actual US$	As adjusted US$
	(in millions)			
Short-term debt:				
Short-term bank and other loans	2,330	4,268	282	516
Current portion of long-term bank and other loans	285	2,074	34	251
Current installments of obligation under capital lease	68	1,681	8	203
Total short-term debt	2,683	8,023	324	970
Capitalization:				
Long-term bank and other loans, net of current portion	1,982	10,832	239	1,308
Obligations under capital lease — long term	68	2,005	8	242
Notes	4,957	4,957	599	599
Convertible notes(1)	—			
Shareholders' equity(2)				
Ordinary shares, par value HK$0.10 per share: 16,000,000,000 shares authorized, 13,706,429,021 shares issued and outstanding; shares as adjusted	1,467		177	
Reserves(3)	64,356		7,774	
Total shareholders' equity	65,823		7,951	
Total capitalization	72,830		8,797	

(1) Does not take into account the US$ principal amount of convertible notes which may be issued pursuant to the underwriters' overallotment option relating to the convertible note offering.

(2) Does not take into account the ADSs which may be issued pursuant to the underwriters' overallotment option relating to the share offering.

(3) Includes the effect of eliminating the excess of the purchase price over the estimated fair value of the underlying net assets of the targets as of June 30, 2000 against reserves.

Under US GAAP, the acquisitions of Jiangsu Mobile, Fujian Mobile, Henan Mobile and Hainan Mobile are considered a "combination of entities under common control" and are accounted for under the "as if pooling-of-interests" method, whereby assets and liabilities are accounted for at historical cost and the accounts of previously separate companies for periods prior to the combination generally are restated on a combined basis.

Our acquisition of Jiangsu Mobile had a material impact on our overall results of operations for 1998 and shareholders' equity as of December 31, 1998. Our acquisition of Fujian Mobile, Henan Mobile and Hainan Mobile as part of our growth strategy had a material impact on our overall results of operations for 1999 and shareholders' equity as of December 31, 1999. Those acquisitions significantly expanded the size of the mobile communications markets we serve and increased the number of our subscribers and usage of our services. As a result, our operating revenue and operating expenses increased significantly in 1998 and 1999.

Write-down and Write-off of TACS Network Equipment Affected Our Net Profits in 1998 and 1999

Due to the rapid development of mobile telecommunications technologies and the potentially limited economic life of our TACS network equipment, we decided to accelerate the enhancement of our technology and the migration of our TACS subscribers to our GSM network, resulting in write-downs and write-offs of our TACS network equipment. We wrote down certain TACS network equipment in 1998 and 1999 in aggregate amounts of RMB 282 million and RMB 6,720 million, respectively, and we wrote off certain TACS network equipment in 1999 in an aggregate amount of RMB 1,522 million. After the write-down and write-off, the net book value of the TACS network equipment at the end of 1999 was RMB 1,525 million, representing 3.6% of the total net book value of fixed assets. As of June 30, 2000, we had an aggregate of 1.35 million TACS subscribers, representing 6.3% of our total subscribers, compared to 27.1% at December 31, 1998 and 10.2% at December 31, 1999.

We expect to continue to utilize the TACS networks until the end of their economic life. However, we will also seek to identify the most economically advantageous means for disposing of the TACS network equipment. As the write-down and write-off of our TACS network equipment was substantially completed in prior periods, we expect that future write-downs and write-offs relating to the TACS network equipment, if any, will not have a material impact on our net profit in the future.

Operating Arrangements We Entered Into in 1997, 1998 and 1999 Materially Impacted Our Financial Results

Our current corporate structure was established pursuant to our IPO restructuring completed in September 1997, our acquisition of Jiangsu Mobile completed in June 1998 and our acquisition of Fujian Mobile, Henan Mobile and Hainan Mobile completed in November 1999. In connection with these transactions, we entered into various operating arrangements. These arrangements included:

- agreements with respect to interconnection revenue and costs;
- leased line agreements;
- property leasing agreements;
- service agreements with the relevant fixed line operator or other local service providers;
- a change in the tax treatment of connection fees and certain surcharge revenue for our services; and
- the revaluation of fixed assets of Guangdong Mobile and Zhejiang Mobile as of May 31, 1997, of Jiangsu Mobile as of December 31, 1997 and of Fujian Mobile, Henan Mobile and Hainan Mobile as of June 30, 1999.

In addition, in October 1999 we entered into an agreement with CMCC for inter-provincial interconnection and domestic and international roaming, which apply to all of our six subsidiaries, with effect from April 1, 1999. This agreement has been superseded by the interconnection and roaming agreement that we entered into with CMCC in May 2000, as described below.

Our financial results reflect the impact of the above arrangements as of the dates they became effective. These arrangements and changes have had a material impact on our overall results of operations. In particular, the implementation of the interconnection agreements in 1997, 1998 and 1999 led to significant increases in both operating revenue (in the form of usage fees and other operating revenues) and operating expenses (in the form of interconnection and leased line expenses). In addition, other operating expenses including selling, general and administrative expenses, or SG&A, increased as a result of the implementation of agreements relating to billing and collection services and distribution and sales. Depreciation expense increased as a result of the revaluation of fixed assets, while income tax increased as a result of connection fees and certain surcharges becoming fully taxable following the IPO restructuring and the acquisitions.

Our New Operating Arrangements with CMCC Have Affected and May Continue to Affect Our Financial Results

In May 2000, we entered into two agreements with CMCC for (i) inter-provincial interconnection and domestic and international roaming services and (ii) sharing of inter-provincial leased line fees. The agreements apply to our six operating subsidiaries with retroactive effect from April 1, 1999, except that with regard to Guangdong Mobile, Zhejiang Mobile and Jiangsu Mobile, the leased line fee sharing arrangement has retroactive effect from October 1, 1999.

Prior to these arrangements, we leased intra-provincial transmission lines to link our network to the fixed line network, but did not lease any inter-provincial transmission lines. Instead, we paid CMCC an inter-provincial interconnection fee. Pursuant to these arrangements, we lease certain inter-provincial transmission lines. The rent payable by us is determined based on the standard leasing fee stipulated by the relevant regulatory authorities after adjusting for the discount that we are entitled to, and on the basis that the cellular network operators at both ends of the transmission lines will share the leasing fees equally. As a result, the new arrangements led to an increase in our transmission leasing expenses, but a reduction in our inter-provincial interconnection and roaming settlement expenses, which resulted in net savings in our operating expenses for the six months ended June 30, 2000. We expect that the reduction in interconnection and roaming costs will continue to exceed the increased transmission line leasing fees in 2000. See "Relationship with CMCC".

Pro Forma Financial Impact of the Proposed Acquisition and Related Arrangements

We have conditionally agreed to acquire the targets from China Mobile (BVI), our immediate controlling shareholder, for a total purchase price of HK$ million (US$ million). As a result of the enlarged subscriber base and expanded network coverage following the acquisition, we expect that our operating revenue and operating expenses will increase significantly. See "Selected Pro Forma Financial Information".

The acquisition will be accounted for as a purchase under Hong Kong GAAP. As a result of the targets being under common control with us, the acquisition will be considered a "combination of entities under common control" under US GAAP. Under US GAAP, combinations of entities under common control are accounted for under the "as if pooling-of-interests method", whereby assets and liabilities are accounted for at historical cost and the financial statements of previously separate companies for periods prior to the combination generally are restated on a combined basis.

Geographical Breakdown of Our Operating Revenues By Province

Currently, we provide mobile communications services in Guangdong, Zhejiang, Jiangsu, Fujian, Henan and Hainan. Launched approximately five years earlier than our operations in other provinces, Guangdong Mobile has greater network capacity, serves more of our subscribers and accounts for a greater portion of our operating revenue, expenses and profit than our other operating subsidiaries.

The following charts show a percentage breakdown of our operating revenue and adjusted EBITDA, respectively, for the six months ended June 30, 2000 by contribution from each subsidiary.

Percentage of our total operating revenue
by province for the six months ended June 30, 2000

LOGO

Results of Operations

The following table sets forth selected income statement data, expressed as percentages of operating revenue, for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	1997	1998	1999	1999	2000
Operating revenue:...	100.0%	100.0%	100.0%	100.0%	100.0%

Usage fees	56.3	62.0	66.8	65.0	69.7
Monthly fees	17.4	16.5	12.9	12.3	14.7
Connection fees	20.5	12.6	11.2	14.3	5.3
Others	5.8	8.9	9.1	8.4	10.3
Operating expenses:					
Leased lines	20.2	14.9	9.6	11.9	9.4
Interconnection	7.8	18.0	16.7	16.4	12.5
Depreciation	17.3	17.5	19.2	19.4	14.4
Personnel	4.9	6.1	5.8	5.0	5.1
Other operating expenses	14.8	13.4	13.4	11.8	16.0
Total operating expenses	65.0	69.9	64.7	64.5	57.4
Operating profit	35.0	30.1	35.3	35.5	42.6
Write-down and write-off of TACS network equipment	—	(1.1)	(21.3)	(3.0)	—
Other income	0.5	1.3	1.4	1.6	1.1
Finance costs	(1.1)	(0.6)	(0.9)	(0.6)	(1.1)
Interest income	4.2	6.1	2.0	1.7	1.5
Non-operating income (expenses)	(0.2)	(0.2)	0.2	0.1	0
Profit before tax and minority Interests	38.4	35.6	16.7	35.2	44.1
Income tax	(6.4)	(9.4)	(4.3)	(11.6)	(13.9)
Net profit*	32.0%	26.2%	12.4%	23.6%	30.2%

* Net profit margin before write-down and write-off of TACS network equipment was 26.9% and 26.7% for the years ended 1998 and 1999, respectively, and 25.6% for the six months ended June 30, 1999.

Six Months Ended June 30, 2000 Compared to Six Months Ended June 30, 1999

Operating Revenue. We derive operating revenue principally from usage fees, monthly fees, and one-time connection fees charged to new contract subscribers. Usage fees represent basic local usage fees for airtime and applicable domestic and international long distance charges]received from subscribers for the use of our cellular networks and facilities, and fees in respect of roaming out calls made by our subscribers outside their registered service areas. We also derive revenue from other services, such as interconnection and certain value added services.

Operating revenue increased 70.6% from RMB 16,940 million in the six months ended June 30, 1999 to RMB 28,897 million in the same period in 2000. This increase was due primarily to increased usage by subscribers in Guangdong, Zhejiang and Jiangsu, and the inclusion of subscribers in Fujian Mobile, Henan Mobile and Hainan Mobile upon their acquisition by us in November 1999. Our total number of subscribers was 21.6 million as of June 30, 2000, compared to 8.8 million as of June 30, 1999. Excluding Fujian Mobile, Henan Mobile and Hainan Mobile, operating revenue increased 37.2% from RMB 16,940 million in the six months ended June 30, 1999 to RMB 23,237 million in the same period in 2000. Excluding connection fees, operating revenue increased 88.4% from RMB 14,523 million to RMB 27,365 million.

Usage Fees. Revenue from usage fees increased 82.9% from RMB 11,012 million in the six months ended June 30, 1999 to RMB 20,143 million in the same period in 2000. This increase was due primarily to the increase in total subscriber numbers and the expanded communications opportunities for subscribers as a result of the expansion and improvement of fixed line and cellular networks throughout mainland China. Excluding Fujian Mobile, Henan Mobile and Hainan Mobile, usage fees increased 45.9% from RMB 11,012 million to RMB 16,065 million. In the first half of 2000, we introduced our pre-paid services on a full-scale basis. In the six months ended June 30, 2000, usage fees from our pre-paid services were RMB 791 million, representing approximately 3.9% of our revenue from usage fees in the same period.

Monthly Fees. Revenue from monthly fees increased 104.2% from RMB 2,081 million in the six months ended June 30, 1999 to RMB 4,250 million in the same period in 2000. This increase was mainly due to the increase in total subscriber numbers. Excluding Fujian Mobile, Henan Mobile and Hainan Mobile, monthly fees increased 58.2% from RMB 2,081 million to RMB 3,293 million.

Connection Fees. Revenue from connection fees decreased 36.6% from RMB 2,417 million in the six months ended June 30, 1999 to RMB 1,532 million in the same period in 2000. This decrease was mainly due to decreases in average connection fees charged to new subscribers, partially offset by the increase in total new subscribers, including subscribers of Fujian Mobile, Henan Mobile and Hainan Mobile. Excluding Fujian Mobile, Henan Mobile and Hainan Mobile, connection fees decreased 41.4% from RMB 2,417 million to RMB 1,417 million. We believe that connection fees for new subscribers will continue to decrease and will be eliminated in the near future, and that this will continue to help to expand our subscriber base and result in increased total subscriber usage of our services. As a percentage of operating revenue, connection fees decreased from 14.3% in the six months ended June 30, 1999 to 5.3%

in the same period in 2000.

Other Operating Revenue. Other operating revenue increased 107.8% from RMB 1,430 million in the six months ended June 30, 1999 to RMB 2,972 million in the same period in 2000. Excluding Fujian Mobile, Henan Mobile and Hainan Mobile, other operating revenue increased by RMB 1,032 million, or 72.2%, from RMB 1,430 million in the six months ended June 30, 1999 to RMB 2,462 million in the same period in 2000. Of this increase, interconnection revenue accounted for 69.3%, revenue from value-added services accounted for 21.0% and incoming roaming revenue accounted for 9.7%.

Operating Expenses. Operating expenses principally include leased line expenses, interconnection expenses, depreciation expense relating to our cellular network and other fixed assets, personnel expenses and other operating expenses.

Operating expenses increased 51.7% from RMB 10,929 million in the six months ended June 30, 1999 to RMB 16,575 million in the same period in 2000. Excluding Fujian Mobile, Henan Mobile and Hainan Mobile, operating expenses increased 19.9% from RMB 10,929 million in the six months ended June 30, 1999 to RMB 13,099 million in the same period in 2000, mainly due to the increase in other operating expenses.

Leased Lines. Total leased line payments increased 34.8% from RMB 2,014 million in the six months ended June 30, 1999 to RMB 2,714 million in the same period in 2000. Excluding Fujian Mobile, Henan Mobile and Hainan Mobile, leased line payments increased 5.9% from RMB 2,014 million in the six months ended June 30, 1999 to RMB 2,132 million in the same period in 2000. This increase was mainly due to our leasing of inter-provincial transmission lines from CMCC under an inter-provincial leased line agreement with retroactive effect from April 1999, and the expansion of our network to include new coverage areas and increase network transmission capacity, offset in part by decreases in leased line tariffs. For a discussion of the impact of the new inter-provincial leased line agreement, see "— Our New Operating Arrangements with CMCC Have Affected and May Continue to Affect Our Financial Results". As a percentage of operating expenses, total leased line payments decreased from 18.4% in the six months ended June 30, 1999 to 16.4% in the same period in 2000, reflecting decreases in leased line tariffs as well as greater efficiency in our utilization of leased lines.

Interconnection. Interconnection expenses increased 29.9% from RMB 2,775 million in the six months ended June 30, 1999 to RMB 3,604 million in the same period in 2000. Excluding Fujian Mobile, Henan Mobile and Hainan Mobile, interconnection expenses increased 8.7% from RMB 2,775 million in the six months ended June 30, 1999 to RMB 3,016 million in the same period in 2000, primarily due to an increase in home-location roaming (roaming out) and inter-network traffic, offset in part by savings from our new inter-provincial interconnection agreement with CMCC. For a discussion of the impact of the new interconnection agreement, see "— Our New Operating Arrangements with CMCC Have Affected and May Continue to Affect Our Financial Results". As a percentage of operating expenses, interconnection expenses decreased from 25.4% in the six months ended June 30, 1999 to 21.7% in the same period in 2000.

Depreciation. Depreciation expense increased 26.3% from RMB 3,297 million in the six months ended June 30, 1999 to RMB 4,165 million in the same period in 2000. Excluding Fujian Mobile, Henan Mobile and Hainan Mobile, depreciation expense decreased 10.3% from RMB 3,297 million in the six months ended June 30, 1999 to RMB 2,959 million in the same period in 2000. As a percentage of operating expenses, depreciation expense decreased from 30.2% in the six months ended June 30, 1999 to 25.1% in the same period in 2000. These decreases were due primarily to a reduction in the carrying costs of our fixed assets resulting from write-downs and write-offs of our TACs network equipment in 1999.

Personnel. Personnel expenses increased 73.2% from RMB 852 million in the six months ended June 30, 1999 to RMB 1,476 million in the same period in 2000. Excluding Fujian Mobile, Henan Mobile and Hainan Mobile, personnel expenses increased 38.1% from RMB 852 million in the six months ended June 30, 1999 to RMB 1,177 million in the same period in 2000. This increase was due largely to our implementation of a performance-based compensation scheme to encourage quality performance as well as to attract and retain talented employees. As a percentage of operating expenses, personnel expenses increased from 7.8% in the six months ended June 30, 1999 to 8.9% in the same period in 2000.

Other Operating Expenses. Other operating expenses increased 131.8% from RMB 1,991 million in the six months ended June 30, 1999 to RMB 4,616 million in the same period in 2000. Excluding Fujian Mobile, Henan Mobile and Hainan Mobile, other operating expenses increased 91.6% from RMB 1,991 million in the six months ended June 30, 1999 to RMB 3,815 million in the same period in 2000. This increase was primarily due to increased selling and promotion expenses and provisions for doubtful accounts. The increase in selling and promotion expenses was due largely to our implementation of more aggressive marketing and sales promotion strategies. The increase in provisions for doubtful accounts was due largely to a substantial increase in lower-usage subscribers, which affected the overall credit quality of our subscriber base. However, we believe that our ongoing efforts to strengthen our credit controls have enabled us to effectively control our level of doubtful accounts. As a percentage of operating expenses, other operating expenses increased from 18.2% in the six months ended June 30, 1999 to 27.8% in the same period in 2000.

Operating Profit. Operating profit increased 105.0% from RMB 6,011 million in the six months ended June 30, 1999 to RMB 12,322 million in the same period in 2000, and operating margin (operating profit as a percentage of operating revenue) increased from 35.5% to 42.6%. Excluding Fujian Mobile, Henan Mobile and Hainan Mobile, operating profit increased 68.7% from RMB 6,011 million in the six months ended June 30, 1999 to RMB 10,138 million in the same period in 2000, and operating margin increased from 35.5% to 43.6%. The increase in operating margin reflects more efficient network utilization as well as the benefits of economies of scale, as we experienced significant subscriber growth and total usage increase.

Adjusted EBITDA. Adjusted EBITDA represents earnings before interest income, interest expense, non-operating income (expenses), income taxes, depreciation and amortization and write-down and write-off of fixed assets. Adjusted EBITDA increased 75.6% from RMB 9,578 million in the six months ended June 30, 1999 to RMB 16,817 million in the same period in 2000. This increase was due primarily to the inclusion of the results of Fujian Mobile, Henan Mobile and Hainan Mobile in the results of the first six months of 2000, and the increase in operating revenue due to subscriber growth as well as our cost control efforts and the decreases in leased line tariffs. Adjusted EBITDA margin (adjusted EBITDA as a percentage of operating revenue) increased from 56.5% to 58.2%, reflecting improvements in our operating efficiency. Excluding Fujian Mobile, Henan Mobile and Hainan Mobile, adjusted EBITDA increased 39.4% from RMB 9,578 million in the six months ended June 30, 1999 to RMB 13,353 million in the same period in 2000 and adjusted EBITDA margin increased from 56.5% to 57.5%. While EBITDA is commonly used in the telecommunications industry worldwide as an indicator of operating performance, leverage and liquidity, it is not presented as a measure of performance in accordance with generally accepted accounting principles and should not be considered as representing net cash flows from operating activities.

Other Income. Other income, which primarily includes gross profit from sales of SIM cards and handsets, increased 22.2% from RMB 270 million in the six months ended June 30, 1999 to RMB 330 million in the same period in 2000. Excluding Fujian Mobile, Henan Mobile and Hainan Mobile, other income decreased 4.4% from RMB 270 million to RMB 258 million. This decrease reflected primarily decreased sales of handsets, partially offset by increased sales of SIM cards resulting from an increase in subscribers to our GSM networks.

Interest Expense. Interest expense increased 213.1% from RMB 107 million in the six months ended June 30, 1999 to RMB 335 million in the same period in 2000. The increase was primarily due to the interest on the US$600 million five-year fixed rate notes issued in November 1999.

Interest Income. Interest income increased 51.2% from RMB 289 million in the six months ended June 30, 1999 to RMB 437 million in the same period in 2000 due to increases in our cash on hand generated from operations.

Profit Before Tax. Profit before tax increased 113.3% from RMB 5,974 million in the six months ended June 30, 1999 to RMB 12,742 million in the same period in 2000.

Taxation. We incurred an income tax expense of RMB 1,970 million in the six months ended June 30, 1999 and RMB 4,018 million in the same period in 2000, reflecting an effective tax rate of 33.0% and 31.5%, respectively. The lower effective tax rate in the first half of 2000 was primarily a result of the preferential tax rate in certain cities served by Guangdong Mobile and Hainan Mobile.

Net Profit. Net profit increased 117.9% from RMB 4,004 million in the six months ended June 30, 1999 to RMB 8,724 million in the same period in 2000. Net profit margin (net profit as a percentage of operating revenue) increased from 23.6% to 30.2%.

Year Ended December 31, 1999 Compared to Year Ended December 31, 1998

Operating Revenue. Operating revenue increased 46.6% from RMB 26,345 million in 1998 to RMB 38,623 million in 1999. This increase was due primarily to the increase in usage fees as a result of subscriber growth in Guangdong and Zhejiang in 1999 and the addition of subscribers following our acquisitions of Fujian Mobile, Henan Mobile and Hainan Mobile in November 1999. The increase also reflected the inclusion of the first full year of the results of Jiangsu Mobile in 1999. Our total number of subscribers was 15.6 million at December 31, 1999, compared to 6.5 million at December 31, 1998. Excluding connection fees, operating revenue increased from RMB 23,022 million in 1998 to RMB 34,304 million in 1999.

Usage Fees. Revenue from usage fees increased 57.9% from RMB 16,346 million in 1998 to RMB 25,812 million in 1999. This increase was primarily a result of the increase in total subscriber numbers and the expanded communications opportunities for subscribers as a result of the expansion and improvement of our fixed line and cellular networks throughout mainland China and the expansion of the scope and variety of our services. As a percentage of operating revenue, usage fees increased from 62.0% in 1998 to 66.8% in 1999.

Monthly Fees. Revenue from monthly fees increased 14.6% from RMB 4,347 million in 1998 to RMB 4,981 million in 1999 due to the increase in total subscriber numbers. This increase was partially offset by the downward adjustment in monthly fee rates charged by Guangdong Mobile from RMB 100 in 1998 to RMB 50 in 1999 and by Zhejiang Mobile from RMB 62.5 to RMB 50 beginning April 1999. As a percentage of operating revenue, monthly fees decreased from 16.5% in 1998 to 12.9% in 1999.

Connection Fees. Revenue from connection fees increased 30.0% from RMB 3,323 million in 1998 to RMB 4,319 million in 1999 due to the increase in total subscribers, partially offset by decreases in average connection fees charged to new subscribers. As a percentage of operating revenue, connection fees decreased from 12.6% in 1998 to 11.2% in 1999.

Other Operating Revenue. Other operating revenue increased 50.8% from RMB 2,329 million in 1998 to RMB 3,511 million in 1999. This is attributable to increased interconnection services furnished to other telecommunications operators.

REGULATION

The mobile telecommunications industry in mainland China is subject to a high degree of regulation by the Chinese government. Regulations issued or implemented by the State Council, the MII and other relevant government authorities, including MOFTEC and the State Development Planning Commission or SDPC, encompass all key aspects of cellular network operations, including entry into the telecommunications industry, scope of permissible business, interconnection and transmission line arrangements, technology and equipment standards, tariff standards, capital investment priorities, foreign investment policies and spectrum and number resources allocation.

The MII, under the leadership of the State Council, is responsible for, among other things:

- formulating and enforcing industry policy, standards and regulations;
- granting telecommunications licenses;
- formulating interconnection and settlement standards for implementation between telecommunications networks;
- together with other relevant regulatory authorities, formulating tariff and service charge standards for telecommunications services;
- supervising the operations of telecommunications service providers;
- maintaining fair and orderly market competition among operators; and
- allocating and administering public communications resources, such as radio frequencies, number resources, domain names and addresses of communications networks.

In order to provide a uniform regulatory framework to encourage the orderly development of the telecommunications industry, the Chinese government is currently preparing a draft telecommunications law. We expect that, if and when the telecommunications law is adopted by the National People's Congress, it will become the basic telecommunications statute and the legal source of telecommunications regulations in mainland China. In addition, the MII is currently preparing a draft of the telecommunications regulations, which will be subject to approval by the State Council. The regulations are expected to provide and clarify the regulatory rules and guidelines for the telecommunications industry in the interim period prior to the adoption of the telecommunications law. Although we expect that the telecommunications law and the regulations would have a positive effect on the overall development of the telecommunications industry in mainland China, we do not fully know what the nature and scope of the telecommunications law and the regulations will be.

Entry into the Industry

Until 1993, telecommunications regulations and policies in mainland China did not permit entities outside of the China Telecom system to engage in public telecommunications operations in mainland China. In August 1993, the Chinese government opened certain non-basic sectors of the telecommunications industry, such as paging, to Chinese entities not affiliated with the MII. Mobile network operators and providers of other basic telecommunications services, such as local and long distance fixed line telephone services, must receive specific approval from the State Council in order to provide such services. Currently, in addition to us and other entities controlled by CMCC which operate in mainland China outside of our markets, the State Council has granted approval to Unicom to provide mobile services in all provinces, municipalities and autonomous regions in China.

Current regulations in mainland China prohibit foreign-invested enterprises and foreign entities (including individuals) from owning, operating or participating in the operation of telecommunications services in mainland China without approval by the State Council. We were authorized by the State Council to effect our initial public offering in 1997 and our subsequent acquisitions and the related financing. China reached an agreement with the United States in November 1999 and an agreement with the European Union in May 2000 relating to China's entry into the WTO. As a result, we expect that the Chinese government will gradually reduce the current restrictions on foreign ownership in the telecommunications industry.

Spectrum Usage

The Radio Administration Regulations empowers the MII to undertake the centralized regulation of all radio frequencies. In coordination with the relevant provincial authorities, the MII regulates the allocation of radio frequency. The frequency assigned to an entity is not allowed to be leased, or, without approval of the MII, transferred by the entity. In accordance with a joint circular from the SDPC and the Ministry of Finance, CMCC determines the amount of fees to be paid to the MII for spectrum usage by each mobile network operator under its control based on the bandwidth of the frequency used and the number of base transceiver stations within the operator's network, subject to the limitation that the total annual payment by all such operators in mainland China shall equal RMB 1.0 million per MHz of frequency allocated by the MII.

Number Resources

The MII is responsible for the administration of the number resources within mainland China, including the mobile communications network number and subscriber numbers. The use of number resources by any telecommunications operator shall be subject to the approval by the MII. In April 2000, the MII implemented new provisional measures on administration of telecommunications network number resources. Pursuant to these new measures, the telecommunications network number resources are owned by the state, and the user of number resources is required to pay a usage fee to the State. However, the standard for the usage fee is yet to be stipulated. It is also not clear when the standard of the usage fee will be stipulated and when we will be required to pay such fee. The new measures also provide for procedures for application for the use, upgrade and adjustment of number resources by telecommunications operators.

Tariff Setting

Our tariffs are subject to regulation by various government authorities, including the MII, the SDPC, and, at the local level, the relevant provincial price regulatory authorities and telecommunications regulatory authorities. The connection fee is based on a guidance price range set by the MII in consultation with the SDPC, with the actual tariff determined by the relevant telecommunications regulatory authority in consultation with the relevant provincial price regulatory authorities. In general, basic usage charges, monthly fees, domestic roaming usage charges and tariffs for all domestic long distance and international calls are fixed jointly by the MII and the SDPC. International roaming charges are set pursuant to agreements between CMCC and the relevant foreign mobile operators.

Interconnection Arrangements and Leased Line Arrangements

The MII is responsible for approving applications for interconnection with the fixed line telecommunications network, while CTC and CMCC are responsible for designing and implementing technical plans. The applicable regulations provide that switching, transmission and other equipment must conform with the technical standards approved by the MII. See "— Technical Standards". The MII also determines the standard lease tariffs to be paid by telecommunications operators with respect to the leasing of transmission lines that facilitate interconnection between mobile and fixed line telecommunications networks. The relevant provincial fixed line telecommunications companies under CTC are responsible for the maintenance of the transmission lines and related equipment in their respective localities.

Technical Standards

The MII sets technical standards and controls the type of mobile equipment used in public networks by requiring all network operators within mainland China to purchase their equipment from suppliers who have obtained prior certification from the MII. In addition, the Provisions on the Management of Import of Radio Transmission Equipment, jointly issued by the former SRRC, the State Economic and Trade Commission, or SETC, MOFTEC and the General Administration of Customs effective January 1, 1996, provide that before radio transmission equipment (including mobile equipment) may be imported into mainland China, an importer must obtain the necessary certification from the MII and the State Mechanical and Electrical Products Import and Export Office.

To ensure the quality of interconnection and integration of mobile networks with the fixed line network, applicable regulations provide that a network access permit must be obtained from the MII with respect to each specific type of telecommunications equipment to be connected to public or special telecommunications networks within China, whether such equipment is imported or manufactured domestically.

The establishment of base transceiver stations requires the approval of the relevant provincial regulatory authorities. A number of these approvals with respect to the base stations of our operating subsidiaries and those of the targets are currently pending. We have not experienced and do not expect to experience difficulty in obtaining permission to establish additional sites.

Capital Investment

The SDPC and SETC are empowered by the State Council to exercise responsibility over the approval of all major investment projects, including mobile network development projects, involving total capital investment between RMB 50 million and RMB 500 million. Any investment projects with total capital investment in excess of RMB 500 million must obtain approval from the State Council. Accordingly, project proposals and feasibility study reports for these projects, following review and approval by CMCC or the MII, are required to be submitted for approval to the SDPC and SETC or to the State Council.

The following is the text of a letter, summary of values and valuation certificate received from Chesterton Petty Limited, an independent property valuer, prepared for the purpose of inclusion in this circular, in connection with its valuation of the properties held by the Target Companies, as at 31 June 2000.

[2000]

[The Directors
China Mobile (Hong Kong) Limited
60/F., The Center
99 Queen's Road Central
Central
Hong Kong]

Dear Sirs

In accordance with your instructions to us to value the property interests held by Beijing Mobile, Shanghai Mobile, Tianjin Mobile, Hebei Mobile, Liaoning Mobile, Shandong Mobile and Guangxi Mobile (herein together referred to as the "Target Companies") and to be acquired by China Mobile (Hong Kong) Limited (the "Company"), and its [subsidiaries] (herein together refer to the "Group") in Beijing, Shanghai, Tianjin, Hebei, Liaoning, Shandong and Guangxi of the People's Republic of China (the "PRC"), we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the open market values of these property interests as at [30 June 2000]. Based on our enquiry and the [confirmations received from the Company] as we consider necessary, we are of the opinion that there has been no material change in the value of the property interests held by the Target Companies during the period from [30 June 2000] to [31 July 2000].

Our valuation is our opinion of the open market value which we would define as intended to mean "the best price at which the sale of an interest in a property might reasonably be expected to have been completed unconditionally for cash consideration on the date of valuation assuming:—

(a) a willing seller;

(b) that, prior to the date of valuation, there had been a reasonable period (having regard to the nature of the property and the state of the market) for the proper marketing of the interest, for the agreement of price and terms and for the completion of the sale;

(c) that the state of the market, level of values and other circumstances were, on any earlier assumed date of exchange of contracts, the same as on the date of valuation; and

(d) that no account is taken of any additional bid by a purchaser with a special interest".

Our valuation has been made on the assumption that the owner sells the property on the open market without the benefit of a deferred terms contract, leaseback, joint venture, management agreement or any similar arrangement which would serve to increase the value of the property. In addition, no account has been taken of any option or right of pre-emption concerning or affecting the sale of the property and no forced sale situation in any manner is assumed in our valuation.

We have valued some of the properties in Group I by using "Direct Comparison Approach" whenever market comparable transactions are available and assumed sale of the property interests with the benefit of vacant possession. However, for the rest of the properties in Group I, due to the fact that specific uses for those properties have been restricted, there is no readily identifiable market comparable, and the buildings and structures of these properties cannot be valued on the basis of direct comparison. They have therefore been valued on the basis of their depreciated replacement cost. We would define "depreciated replacement cost" for these purposes to be our opinion of the land value in its existing use and an estimate of the new replacement costs of the buildings, including fees and finance charges, from which deductions are then made to allow for age, condition and functional obsolescence. The depreciated replacement cost approach generally provides the most reliable indication of value for property in the absence of a known market based on comparable sales.

The properties in Group II, which are under development, have been valued on the basis of "Direct Comparison Approach" or "Depreciated Replacement Cost" with regard to their prevailing cost level and status of construction as at the date of valuation. We have also assumed that all consents, approvals and licences from the relevant Government authorities for these developments will be granted without any onerous conditions or undue delay which might affect their values.

The properties in Group III which are leased by the Group have no commercial value due to the prohibition against assignment, sub-letting or lack of substantial profit rent.

We have been provided with copies of extracts of title documents relating to the properties. However, we have not inspected the original documents to verify ownership or to verify any amendments which may not appear on the copies handed to us. We have relied on the information given by the Group and its PRC legal adviser, Commerce & Finance Law Office, regarding the titles to the properties.

We have relied to a considerable extent on information given by the Group and the legal opinion of the Group's PRC legal adviser. We have no reason to doubt the truth and accuracy of the information provided to us by the Group and/or its PRC legal adviser which is material to the valuations. We have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, leases, particulars of occupancy, identification of the properties, site and floor areas, construction costs incurred and all other relevant information. Dimensions, measurements and areas included in the valuation certificate are based on information contained in the documents and leases provided to us and are therefore only approximations. No on-site measurements have been made. We have been advised by the Group that no material facts have been omitted from the information supplied.

We understand that for the purpose of issuing the above-mentioned legal opinion, the Group's PRC legal adviser has collected and perused those documents which they think necessary for the purpose of issuing the legal opinion and have made relevant enquiries with the Group. However, we are unable to identify whether they have conducted searches at the relevant land authorities to verify the information and documents provided by the Group. We have assumed that all information and documents provided by the Group to its PRC legal adviser are consistent with the information and records registered with the relevant land authorities.

We have inspected the exterior and where possible, the interior of the properties valued. However, no structural survey has been made, but in the course of our inspection, we did not note any serious defects. We are not, however, able to report that the properties are free from rot, infestation or any other structural defects. No tests were carried out on any of the services.

We have not carried out investigations on site in respect of the properties in Group II to determine the suitability of the ground conditions and the services, etc. for further development. Our valuations are prepared on the assumption that these aspects are satisfactory and that no extraordinary expenses or delays will be incurred during the construction period.

No allowance has been made in our report for any charges, mortgages or amounts owing on any property nor for any expenses or taxation, which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that all properties are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.

In preparing our valuation report, we have had regard to the requirements contained within the provisions of Practice Note 12 and 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

Unless otherwise specified, all amounts are denominated in Renminbi. The exchange rate adopted for conversion is HK$1 = RMB1.07.

Our summary of values and valuation certificate are attached herewith.

Yours faithfully
For and on behalf of
Chesterton Petty Limited

Charles C K Chan
Chartered Estate Surveyor
ARICS FHKIS ACIArb RPS(GP)

Executive Director

Enc

Note: Charles C K Chan, A.R.I.C.S., F.H.K.I.S., A.C.I.Arb., R.P.S.(G.P.), has been a qualified valuer with Chesterton Petty Limited since June 1987 and has about 15 years' experience in the valuation of properties in Hong Kong and has extensive experience in the valuation of properties in the People's Republic of China.

SUMMARY OF VALUES

Property	Open market value in existing state as at [30 June] 2000 RMB'000	HK$'000
Group I — Property interests held by the Target Companies in the PRC		
1. Land, various buildings and structures in Beijing, the PRC	[120,650]	[112,757]
2. Land, various buildings and structures in Tianjin, the PRC	[435,770]	[407,262]
3. Land, various buildings and structures in Shanghai, the PRC	[244,820]	[228,804]
4. Land, various buildings and structures in Liaoning, the PRC	[762,700]	[712,804]
5. Land, various buildings and structures in Hebei, the PRC	[122,360]	[114,355]
6. Land, various buildings and structures in Shandong, the PRC	[755,410]	[705,991]
7. Land, various buildings and structures in Guangxi, the PRC	[301,730]	[281,991]
Sub-total:	[2,743,440]	[2,563,963]
Group II — Property interests under development held by the Target Companies in the PRC		
8. Land, various buildings and structures in Beijing, the PRC	[645,640]	[603,402]
9. Land, various buildings and structures in Tianjin, the PRC	[84,150]	[78,645]
10. Land, various buildings and structures in Shanghai, the PRC	[495,140]	[462,748]
11. Land, various buildings and structures in Liaoning, the PRC	[186,720]	[174,505]
12. Land, various buildings and structures in Hebei, the PRC	[284,000]	[265,421]
13. Land, various buildings and structures in Shandong, the PRC	[177,580]	[165,963]
14. Land, various buildings and structures in Guangxi, the PRC	[63,760]	[59,589]
Sub-total:	[1,936,990]	[1,810,271]
Group III — Property interests rented by the Target Companies in the PRC		
15. Basestations, retail units, office units and units for ancillary uses in Beijing, the PRC	[No Commercial Value]	
16. Basestations, retail units, office units and units for ancillary uses in Tianjin, the PRC	[No Commercial Value]	
17. Basestations, retail units, office units and units for ancillary uses in Shanghai, the PRC	[No Commercial Value]	
18. Basestations, retail units, office units and units for ancillary uses in Liaoning, the PRC	[No Commercial Value]	
19. Basestations, retail units, office units and units for ancillary uses in Hebei, the PRC	[No Commercial Value]	
20. Basestations, retail units, office units and units for ancillary uses in Shandong, the PRC	[No Commercial Value]	
21. Basestations, retail units, office units and units for ancillary uses in Guangxi, the PRC	[No Commercial Value]	
Sub-total:	[No Commercial Value]	
Grand-total:	[4,680,430]	[4,374,234]

VALUATION CERTIFICATE

Group I — Property interests held by the Target Companies in the PRC

Property	Description and tenure			Particulars of occupancy	Open market v in existing st as at [30 June]
					RMB'000
1. Land, various buildings and structures in Beijing, the PRC	**These properties**	**es [36<]**	**> various**	**The properties are occupied by the Group for operational and ancillary uses.**	**[120,650]**
	compris	**y building**	**s and**		
	operational and ancillar	**ncrete/bri**	**ck**		
	various structures of co	**ced concre**	**te**		
	construction and reinfor	**ith a tota**	**l gross**		
	structure construction w	**2,294] s**	**q. m.**		
	floor area of about [3	**ted in abo**	**ut**		
	(347,613 sq. ft.) comple	**. The land**	**on which**		
	[1972] to [1998]	**prise [6**	**2]**		
	the properties stand	**otal area**	**of**		
	com	**,753 sq. f**	**t.)**		
	parcels of land with a t	**dings are**	**listed as**		
	[40,947] sq. m. (440				
	Details of the said buil follows: —	**Gross Fl**	**oor Area**		
	Use	**sq m**	**(sq ft)**		
	Basestation	[1,092] ([11,754])			
	Retail	[0]	([0])		
	Office	[10,974] ([118,124])			
	Ancillary	[20,228] ([217,734])			
	Total	[32,294] ([347,613])			
	The land use rights of the properties have been granted for a terms ranging from [45] to [50] years.				

Notes:

(1) We have been provided with a legal opinion on the title to the properties issued by Commerce & Finance Law Office, which contains, inter alia, the following information: —

Land

Granted Land

Beijing Mobile holds an aggregate of [1] parcel of granted lands with an area of [4,314] sq. m. which were transferred to it according to Investment Agreement and the Confirmation of the Transfer of Personnel Assets and Properties and Related Rights and Liabilities listed under paragraphs (j) and (k) of section 10 (Material Contracts) in Appendix X to the Circular.

For those parcels of granted land with land use right certificates, Beijing Mobile is in the process of applying for registration of the transfer of titles. There is no legal impediment in the registration of the transfer of titles and Beijing Mobile will own the land use rights of these parcels of granted land for the terms stipulated in the respective land use right certificates after the registrations of the transfer of titles are completed.

For the remaining parcels of granted land, entitlement certificates have been issued by the relevant PRC local land administration bureau and Beijing Mobile should apply for the land use right registration in the local land administration bureau. According to the Notice [Rider J] issued by the PRC Ministry of Land and Resources (the "MLR") on 31 March 2000 and [Rider K] issued by MLR on 7 July 2000 (Guo Tu Zi Ting Fa [2000] No. 53), entitlement certificates are issued by authorised land administration bureaus. Entitlement certificates and land use right certificate have the same legal validity in evidencing titles to land use rights. Upon completion of the registration procedures and obtained the relevant land use right certificates, Beijing Mobile will own the land use rights of these parcels of granted land with entitlement certificates for the terms as stipulated in the respective land use right certificates.

Allocated Land

According to the Notice
[Rider L] issued by MLR on 25 August 2000 (Guo Tu Zi Han [2000] No. 449), MLR authorized the CMCC to operate and manage 63 parcels of allocated land with an area of 54,099 sq. m. which are occupied and used by Beijing Mobile.

According to the PRC legislation [Rider M], promulgated by the MLR on 17 February 1998, CMCC upon obtaining "authorization certificates for management and operation of state-owned land use rights" for these parcels of allocated land, could then contribute the allocated land to Beijing Mobile by way of capital contribution.

Bejing Mobile is in the process of registering their titles to these parcels of allocated land and applying for land use right certificates. There is no legal impediment in the registration of titles. Upon obtaining the land use right certificates, Beijing Mobile will own the land use rights of the parcels of allocated land as stipulated under the Notice [Rider N] issued by MLR on 25 August 2000 (Guo Tu Zi Han [2000] No. 449).

According to the undertaking [Rider O], CMCC has undertake to bear the fees required for obtaining requisite consent and the payment of associated land grant premium when all or any portion of these parcels of allocated land are transferred, leased or mortgaged.

In conclusion, Beijing Mobile will obtain 64 parcels of land with an area of 58,413 sq. m. by way of transfer and capital contribution. All these parcels of land can be transferred, leased or mortgaged according to PRC law during the respective land use right terms.

Buildings

Beijing Mobile owns 36 production and ancillary buildings with an total gross floor area of 32,294 sq. m. According to the Investment Agreement and the Confirmation of the Transfer of Personnel Assets and Properties and Related Rights and Liabilities listed under paragraphs (j) and (k) of section 10 (Material Contracts) in Appendix X to the Circular, those buildings were transferred to Beijing Mobile. Beijing Mobile should apply for the registration of the transfer of titles.

For those buildings with building ownership certificates, Beijing Mobile is in the process of applying for registration of the transfer of titles. According to the PRC law concerning land and buildings, title to the buildings and title to land use rights on which the buildings are erected are inseparable. On the basis that Beijing Mobile will obtain the respective land use rights of the parcels of land on which the buildings are erected without any legal impediments by way of transfer or capital contribution and the relevant local land and building administration departments having issued confirmations that Beijing Mobile has titles to these buildings and that the tiles to these buildings are in the process of being registered, there will be no legal impediments in the registration of transfer of titles to these buildings. After the registration of transfer is completed, Beijing Mobile will have legal ownership to the titles to these buildings and the rights to transfer, lease, mortgage, inherit or otherwise deal legally with these buildings.

For those buildings without building ownership certificates, but which were transferred to Beijing Mobile pursuant to the Investment Agreement and the Confirmation of the Transfer of Personnel Assets and Properties and Related Rights and Liabilities listed under paragraphs (j) and (k) of section 10 (Material Contracts) in Appendix X to the Circular. Beijing Mobile is in the process of applying for registration of transfer of titles. According to the PRC law concerning land and buildings, title to the buildings and title to land use rights on which the buildings are erected are inseparable. On the basis that Beijing Mobile will obtain the respective land use rights of the parcels of land on which the buildings are erected without any legal impediments by way of transfer or capital contribution and the relevant local land and building administration departments having issued confirmations that Beijing Mobile has titles to these buildings and that the titles to these buildings are in the process of being registered, there will be no legal impediments in the registration of transfer of titles to these buildings. After the registration of transfer is completed, Beijing Mobile will have legal ownership to the titles to these buildings and the rights to transfer, lease, mortgage, inherit or deal legally with these buildings.

In conclusion, Beijing Mobile will legally own [36] buildings with a total floor area of [32,294] sq. m. after completing the relevant procedures and obtaining the building ownership certificates. These buildings can be transferred, leased, mortgaged, inherited or otherwise dealt with legally by Beijing Mobile.

Property	Description and tenure	Particulars of occupancy	Open market v in existing st as at [30 June] RMB'000
2. Land, various buildings and structures in Tianjin, the PRC	**These properties e [47] various compris y building s and operational and ancillar ncrete/bri ck various structures of co ced concre te construction and reinfor ith a tota l gross structure construction 5,509] s q. m. w ted in abo ut floor area of about [7 . The land on which (812,779 sq. ft.) comple prise [1 3] [1952] to [1999] otal area of the properties stand ,386 sq. f t.) com dings are listed as parcels of land with a t [92,102] sq. m. (991 Details of the said buil follows: —**	**The properties are occupied by the Group for operational and ancillary uses.**	**[435,770]**

Use	Gross Fl sq m	oor Area (sq ft)
Basestation	[148] ([1,593])	
Retail	[5,544] ([59,675])	
Office	[55,519] ([597,607])	
Ancillary	[14,298] ([153,904])	
Total	[75,509] ([812,779])	

The land use rights of the properties have been granted for terms ranging from [40] to [70] years.

Notes:

(1) We have been provided with a legal opinion on the title to the properties issued by Commerce & Finance Law Office, which contains, inter alia, the following information: —

Land

Granted Land

Tianjin Mobile holds an aggregate of [9] parcels of granted lands with an area of [21424] sq. m. which were transferred to it according to Investment Agreement and the Confirmation of the Transfer of Personnel Assets and Properties and Related Rights and Liabilities listed under paragraphs (p) and (q) of section 10 (Material Contracts) in Appendix X to the Circular.

For those parcels of granted land with land use right certificates, Tianjin Mobile is in the process of applying for registration of the transfer of titles. There is no legal impediment in the registration of the transfer of titles and Tianjin Mobile will own the land use rights of these parcels of granted land for the terms stipulated in the respective land use right certificates after the registrations of the transfer of titles are completed.

For the remaining the parcels of granted land, entitlement certificates have been issued by the relevant PRC local land administration bureau and Tianjin Mobile should apply for the land use right registration in the local land administration bureau. According to the Notice [Rider J] issued by the PRC Ministry of Land and Resources (the "MLR") on 31 March 2000 and [Rider K] issued by MLR on 7 July 2000 (Guo Tu Zi Ting Fa [2000] No. 53), entitlement certificates are issued by authorised land administration bureaus. Entitlement certificates and land use right certificates have the same legal validity in evidencing titles to land use rights. Upon completion of the registration procedures and obtained the relevant land use right certificates, Tianjin Mobile will own the land use rights of these parcels of granted land with entitlement certificates for the terms as stipulated in the respective land use right certificates.

Allocated Land

According to the Notice [Rider L] issued by MLR on 25 August 2000 (Guo Tu Zi Han [2000] No. 449), MLR authorized the CMCC to operate and manage

[15] parcels of allocated land with an area of [99,448] sq. m. which are occupied and used by Tianjin Mobile.

According to the PRC legislation [Rider M], promulgated by the MLR on 17 February 1998, CMCC upon obtaining "authorization certificates for management and operation of state-owned land use rights" for these parcels of allocated land, could then contribute the allocated land to Tianjin Mobile by way of capital contribution.

Bejing Mobile is in the process of registering their titles to these parcels of allocated land and applying for land use right certificates. There is no legal impediment in the registration of titles. Upon obtaining the land use right certificates, Beijing Mobile will own the land use rights of the parcels of allocated land as stipulated under the Notice [Rider N] issued by MLR on 25 August 2000 (Guo Tu Zi Han [2000] No. 449).

According to the undertaking [Rider O], CMCC has undertake to bear the fees required for obtaining requisite consent and the payment of associated land grant premium when all or any portion of these parcels of allocated land are transferred, leased or mortgaged.

In conclusion, Tianjin Mobile will obtain [24] parcels of land with an area of [120,942] sq. m. by way of transfer and capital contribution. All these parcels of land can be transferred, leased or mortgaged according to PRC law during the respective land use right terms.

Buildings

Tianjin Mobile owns [47] production and ancillary buildings with an total gross floor area of 75,509 sq. m. According to the Investment Agreement and the Confirmation of the Transfer of Personnel Assets and Properties and Related Rights and Liabilities listed under paragraphs (p) and (q) of section 10 (Material Contracts) in Appendix X to the Circular, those buildings were transferred to Tianjin Mobile. Tianjin Mobile should apply for the registration of the transfer of titles.

For those buildings with building ownership certificates, Tianjin Mobile is in the process of applying for registration of the transfer of titles. According to the PRC law concerning land and buildings, title to the buildings and title to land use rights on which the buildings are erected are inseparable. On the basis that Tianjin Mobile will obtain the respective land use rights of the parcels of land on which the buildings are erected without any legal impediments by way of transfer or capital contribution and the relevant local land and building administration departments having issued confirmations that Tianjin Mobile has titles to these buildings and that the tiles to these buildings are in the process of being registered, there will be no legal impediments in the registration of transfer of titles to these buildings. After the registration of transfer is completed, Tianjin Mobile will have legal ownership to the titles to these buildings and the rights to transfer, lease, mortgage, inherit or deal legally with these buildings.

For those buildings without building ownership certificates, but which were transferred to Tianjin Mobile pursuant to the Investment Agreement and the Confirmation of the Transfer of Personnel Assets and Properties and Related Rights and Liabilities listed under paragraphs (p) and (q) of section 10 (Material Contracts) in Appendix X to the Circular, Tianjin Mobile is in the process of applying for registration of transfer of titles. According to the PRC law concerning land and buildings, title to the buildings and title to land use rights on which the buildings are erected are inseparable. On the basis that Tianjin Mobile will obtain the respective land use rights of the parcels of land on which the buildings are erected without any legal impediments by way of transfer or capital contribution and the relevant local land and building administration departments having issued confirmations that Tianjin Mobile has titles to these buildings and that the titles to these buildings are in the process of being registered, there will be no legal impediments in the registration of transfer of titles to these buildings. After the registration of transfer is completed, Tianjin Mobile will have legal ownership to the titles to these buildings and the rights to transfer, lease, mortgage, inherit or deal legally with these buildings.

In conclusion, Tianjin Mobile will legally own [47] buildings with a total floor area of [75,509] sq. m. after completing the relevant procedures and obtaining the building ownership certificates. These buildings can be transferred, leased, mortgaged, inherited or otherwise dealt with legally by Tianjin Mobile.

Property	Description and tenure			Particulars of occupancy	Open marke in existing as at [30 Jun RMB'000
3. Land, various buildings and structures in Shanghai, the PRC	These properties compris operational and ancillar various structures of co construction and reinfor structure construction w floor area of about [2 (244,063 sq. ft.) comple [1979] to [2000] the properties stand com parcels of land with a t [82,103] sq. m. (883 Details of the said buil follows: —	e [63] y building ncrete/bri ced concre ith a tota 2,674] s ted in abo . The land prise [1 otal area ,757 sq. f dings are	various s and ck te l gross q. m. ut on which 2] of t.). listed as	The properties are occupied by the Group for operational and ancillary uses.	[244,820]

Use	Gross Fl	oor Area
	sq m	(sq ft)
Basestation	[5,281] ([56,845])	
Retail	[3,791] ([40,806])	
Office	[9,262] ([99,696])	
Ancillary	[4,340] ([46,716])	
Total	[22,674] ([244,063])	

The land use rights of the property have been granted for a term ranging from [40] to [68] years.

Notes:

(1) We have been provided with a legal opinion on the title to the properties issued by Commerce & Finance Law Office, which contains, inter alia, the following information: —

Land

Granted Land

Shanghai Mobile holds an aggregate of [2] parcels of granted lands with an area of 8,910 sq. m. which were transferred to it according to Investment Agreement and the Confirmation of the Transfer of Personnel Assets and Properties and Related Rights and Liabilities listed under paragraphs (m) and (n) of the Section 10 (Material Contracts) in Appendix X to the Circular.

For those parcels of granted land with land use right certificates, Shanghai Mobile is in the process of applying for registration of the transfer of titles. There is no legal impediment in the registration of the transfer of titles and Shanghai Mobile will own the land use rights of these parcels of granted land for the terms stipulated in the respective land use right certificates after the registrations of the transfer of titles are completed.

For the remaining parcels of granted land, entitlement certificates have been issued by the relevant PRC local land administration bureau and Shanghai Mobile should apply for the land use right registration in the local land administration bureau. According to the Notice [Rider J] issued by the PRC Ministry of Land and Resources (the "MLR") on 31 March 2000 and [Rider K] issued by MLR on 7 July 2000 (Guo Tu Zi Ting Fa [2000] No. 53), entitlement certificates are issued by authorised land administration bureaus. Entitlement certificates and land use right certificates have the same legal validity in evidencing titles to land use rights. Upon completion of the registration procedures and obtained the relevant land use right certificates, Shanghai Mobile will own the land use rights of these parcels of granted land with entitlement certificates for the terms as stipulated in the respective land use right certificates.

Allocated Land

According to the Notice [Rider L] issued by MLR on 25 August 2000 (Guo Tu Zi Han [2000] No. 449), MLR authorized the CMCC to operate and manage

[12] parcels of allocated land with an area of [82,103] sq. m. which are occupied and used by Shanghai Mobile.

According to the PRC legislation [Rider M], promulgated by the MLR on 17 February 1998, CMCC upon obtaining "authorization certificates for management and operation of state-owned land use rights" for these parcels of allocated land, could then contribute the allocated land to Shanghai Mobile by way of capital contribution.

Beijing Mobile is in the process of registering their titles to these parcels of allocated land and applying for land use right certificates. There is no legal impediment in the registration of titles. Upon obtaining the land use right certificates, Beijing Mobile will own the land use rights of the parcels of allocated land as stipulated under the Notice [Rider N] issued by MLR on 25 August 2000 (Guo Tu Zi Han [2000] No. 449).

According to the undertaking [Rider O], CMCC has undertake to bear the fees required for obtaining consent and the payment of associated land grant premium when all or any portion of these parcels of allocated land are transferred, leased or mortgaged.

In conclusion, Shanghai Mobile will obtain [14] parcels of land with an area of [91,012] sq. m. by way of transfer and capital contribution. All these parcels of land can be transferred, leased or mortgaged according to PRC law during the respective land use right terms.

Buildings

Shanghai Mobile owns [63] production and ancillary buildings with an total gross floor area of [22,674] sq. m. According to the Investment Agreement and the Confirmation of the Transfer of Personnel Assets and Properties and Related Rights and Liabilities listed under paragraphs (m) and (n) of section 10 (Material Contracts) in Appendix X to the Circular, those buildings were transferred to Shanghai Mobile. Shanghai Mobile should apply for the registration of the transfer of titles.

For those buildings with building ownership certificates, Shanghai Mobile is in the process of applying for registration of the transfer of titles. According to the PRC law concerning land and buildings, title to the buildings and title to land use rights on which the buildings are erected are inseparable. On the basis that Shanghai Mobile will obtain the respective land use rights of the parcels of land on which the buildings are erected without any legal impediments by way of transfer or capital contribution and the relevant local land and building administration departments having issued confirmations that Shanghai Mobile has titles to these buildings and that the tiles to these buildings are in the process of being registered, there will be no legal impediments in the registration of transfer of titles to these buildings. After the registration of transfer is completed, Shanghai Mobile will have legal ownership to the titles to these buildings and the rights to transfer, lease, mortgage, inherit or otherwise deal legally with these buildings.

For those buildings without building ownership certificates, but which were transferred to Shanghai Mobile pursuant to the Investment Agreement and the Confirmation of the Transfer of Personnel Assets and Properties and Related Rights and Liabilities listed under paragraphs (m) and (n) of section 10 (Material Contracts) in Appendix X to the Circular, Shanghai Mobile is in the process of applying for registration of transfer of titles. According to the PRC law concerning land and buildings, title to the buildings and title to land use rights on which the buildings are erected are inseparable. On the basis that Shanghai Mobile will obtain the respective land use rights of the parcels of land on which the buildings are erected without any legal impediments by way of transfer or capital contribution and the relevant local land and building administration departments having issued confirmations that Shanghai Mobile has titles to these buildings and that the titles to these buildings are in the process of being registered, there will be no legal impediments in the registration of transfer of titles to these buildings. After the registration of transfer is completed, Shanghai Mobile will have legal ownership to the titles to these buildings and the rights to transfer, lease, mortgage, inherit or deal legally with these buildings.

In conclusion, Shanghai Mobile will legally own [63] buildings with a total floor area of [22,674] sq. m. after completing the relevant procedures and obtaining the building ownership certificates. These buildings can be transferred, leased, mortgaged, inherited or otherwise dealt with legally by Shanghai Mobile.

Property	Description and tenure	Particulars of occupancy	Open market in existing s as at [30 June RMB'000
4. Land, various buildings and structures in Liaoning, the PRC	**These properties e [292<] > various** **compris y building s and** **operational and ancillar ncrete/bri ck** **various structures of co ced concre te** **construction and reinfor ith a tota l gross** **structure construction 73,992] sq. m.** **w leted in a bout** **floor area of about [1 . The land on which** **(1,872,848 sq. ft.) comp prise [1 087]** **[1970] to [2000] otal area of** **the properties stand 299,657 sq . ft.)** **com dings are listed as** **parcels of land with a t** **[213,643] sq. m. (2,** **Details of the said buil** **follows: —**	**The properties are occupied by the Group for operational and ancillary uses.**	**[762,700]**

Use	Gross Floor Area sq m	(sq ft)
Basestation	[17,049]	([183,518])
Retail	[66,584]	([716,711])
Office	[82,990]	([893,301])
Ancillary	[7,369]	([79,317])
Total	[173,992]	([1,872,848])

The land use rights of the property have been granted for a term of [23] years commencing from [70].

Notes:

(1) We have been provided with a legal opinion on the title to the properties issued by Commerce & Finance Law Office, which contains, inter alia, the following information: —

Land

Granted Land

Liaoning Mobile holds an aggregate of [71] parcels of granted lands with an area of [98,516] which were transferred to it according to Investment Agreement and the Confirmation of the Transfer of Personnel Assets and Properties and Related Rights and Liabilities listed under paragraphs (w) and (x) of section 10 (Material Contracts) in Appendix X to the Circular.

For those parcels of granted land with land use right certificates, Liaoning Mobile is in the process of applying for registration of the transfer of titles. There is no legal impediment in the registration of the transfer of titles and Liaoning Mobile will own the land use rights of these parcels of granted land for the terms stipulated in the respective land use right certificates after the registrations of the transfer of titles are completed.

For the remaining parcels of granted land, entitlement certificates have been issued by the relevant PRC local land administration bureau and Liaoning Mobile should apply for the land use right registration in the local land administration bureau. According to the Notice [Rider J] issued by the PRC Ministry of Land and Resources (the "MLR") on 31 March 2000 and [Rider K] issued by MLR on 7 July 2000 (Guo Tu Zi Ting Fa [2000] No. 53), entitlement certificates are issued by authorised land administration bureaus. Entitlement certificates and land use right certificates have the same legal validity in evidencing titles to land use rights. Upon completion of the registration procedures and obtained the relevant land use right certificates, Liaoning Mobile will own the land use rights of these parcels of granted land with entitlement certificates for the terms as stipulated in the respective land use right certificates.

Allocated Land

According to the Notice

[Rider L] issued by MLR on 25 August 2000 (Guo Tu Zi Han [2000] No. 449), MLR authorized the CMCC to operate and manage

[1,054] parcels of allocated land with an area of [205,827] sq. m. which are occupied and used by Liaoning Mobile.

According to the PRC legislation [Rider M], promulgated by the MLR on 17 February 1998, CMCC upon obtaining "authorization certificates for management and operation of state-owned land use rights" for these parcels of allocated land, could then contribute the allocated land to Liaoning Mobile by way of capital contribution.

Beijing Mobile is in the process of registering their titles to these parcels of allocated land and applying for land use right certificates. There is no legal impediment in the registration of titles. Upon obtaining the land use right certificates, Beijing Mobile will own the land use rights of the parcels of allocated land as stipulated under the Notice [Rider N] issued by MLR on 25 August 2000 (Guo Tu Zi Han [2000] No. 449).

According to the undertaking [Rider O], CMCC has undertake to bear the fees required for obtaining requisite consent and the payment of associated land grant premium when all or any portion of these parcels of allocated land are transferred, leased or mortgaged.

In conclusion, Liaoning Mobile will obtain [1,125] parcels of land with an area of [304,343] sq. m. by way of transfer and capital contribution. All these parcels of land can be transferred, leased or mortgaged according to PRC law during the respective land use right terms.

Buildings

Liaoning Mobile owns [292] production and ancillary buildings with an total gross floor area of [173,992] sq. m. According to the Investment Agreement and the Confirmation of the Transfer of Personnel Assets and Properties and Related Rights and Liabilities listed under paragraphs (w) and (x) of section 10 (Material Contracts) in Appendix X to the Circular, those buildings were transferred to Liaoning Mobile. Liaoning Mobile should apply for the registration of the transfer of titles.

For those buildings with building ownership certificates, Liaoning Mobile is in the process of applying for registration of the transfer of titles. According to the PRC law concerning land and buildings, title to the buildings and title to land use rights on which the buildings are erected are inseparable. On the basis that Liaoning Mobile will obtain the respective land use rights of the parcels of land on which the buildings are erected without any legal impediments by way of transfer or capital contribution and the relevant local land and building administration departments having issued confirmations that Liaoning Mobile has titles to these buildings and that the tiles to these buildings are in the process of being registered, there will be no legal impediments in the registration of transfer of titles to these buildings. After the registration of transfer is completed, Liaoning Mobile will have legal ownership to the titles to these buildings and the rights to transfer, lease, mortgage, inherit or otherwise deal legally with these buildings.

For those buildings without building ownership certificates, but which were transferred to Liaoning Mobile pursuant to the Investment Agreement and the Confirmation of the Transfer of Personnel Assets and Properties and Related Rights and Liabilities listed under paragraphs (w) and (x) of section 10 (Material Contracts) in Appendix X to the Circular. Liaoning Mobile is in the process of applying for registration of transfer of titles. According to the PRC law concerning land and buildings title to the buildings and title to land use rights on which the buildings are erected are inseparable. On the basis that Liaoning Mobile will obtain the respective land use rights of the parcels of land on which the buildings are erected without any legal impediments by way of transfer or capital contribution and the relevant local land and building administration departments having issued confirmations that Liaoning Mobile has titles to these buildings and that the titles to these buildings are in the process of being registered, there will be no legal impediments in the registration of transfer of titles to these buildings. After the registration of transfer is completed, Liaoning Mobile will have legal ownership to the titles to these buildings and the rights to transfer, lease, mortgage, inherit or deal legally with these buildings.

In conclusion, Liaoning Mobile will legally own [292] buildings with a total floor area of [173,992] sq. m. after completing the relevant procedures and obtaining the building ownership certificates. These buildings can be transferred, leased, mortgaged, inherited or otherwise dealt with legally by Liaoning Mobile.

Property	Description and tenure			Particulars of occupancy	Open market in existing s as at [30 June
					RMB'000
5. Land, various buildings and structures in Hebei, the PRC	**These properties compris operational and ancillar structures of concrete/b reinforced concrete stru a total gross floor area sq. m. (1,002,026 sq. ft [1970] to [2000] properties stand compris land with a total area o (310,208 sq. ft.). Details of the said buil follows: —**	**e [173<] y building rick const cture cons of about .) complet . The land e [313<] f [28,81 dings are**	**> various s and various ruction and truction with [93,090] ed in about on which the > parcels of 9] sq. m. listed as**	**The properties are occupied by the Group for operational and ancillary uses.**	**[122,360]**

Use	Gross F	loor Area
	sq m	(sq ft)
Basestation	[5,248] ([56,493])	
Retail	[14,964] ([161,077])	
Office	[65,189] ([701,693])	
Ancillary	[7,689] ([82,763])	
Total	[93,090] ([1,002,026])	

The land use rights of the property have been granted for terms ranging from [36] to [70] years.

Notes:

(1) We have been provided with a legal opinion on the title to the properties issued by Commerce & Finance Law Office, which contains, inter alia, the following information: —

Land

Granted Land

Hebei Mobile holds an aggregate of [185] parcels of granted lands with an area of [305,833] sq. m. which were transferred to it according to Investment Agreement and the Confirmation of the Transfer of Personnel Assets and Properties and Related Rights and Liabilities listed under paragraphs (s) and (t) of section 10 (Material Contracts) in Appendix X to the Circular.

For those parcels of granted land with land use right certificates, Hebei Mobile is in the process of applying for registration of the transfer of titles. There is no legal impediment in the registration of the transfer of titles and Hebei Mobile will own the land use rights of these parcels of granted land for the terms stipulated in the respective land use right certificates after the registrations of the transfer of titles are completed.

For the remaining parcels of granted land, entitlement certificates have been issued by the relevant PRC local land administration bureau and Hebei Mobile should apply for the land use right registration in the local land administration bureau. According to the Notice [Rider J] issued by the PRC Ministry of Land and Resources (the "MLR") on 31 March 2000 and [Rider K] issued by MLR on 7 July 2000 (Guo Tu Zi Ting Fa [2000] No. 53), entitlement certificates are issued by departments with relevant authorities and the entitlement certificates have the same legal validity in evidencing the titles to the land use rights. After Hebei Mobile has processed the registration and obtained the relevant land use right certificates, Hebei Mobile will then owns the land use rights of these parcels of granted land with entitlement certificates for the terms as stipulated in the respective land use right certificates.

Allocated Land

According to the Notice [Rider L] issued by MLR on 25 August 2000 (Guo Tu Zi Han [2000] No. 449), MLR authorized the CMCC to operate and manage [173] parcels of allocated land with an area of [102,941] sq. m. which are occupied and used by Hebei Mobile.

According to the PRC legislation [Rider M], promulgated by the MLR on 17 February 1998, CMCC upon obtaining "authorization certificates for management and operation of state-owned land use rights" for these parcels of allocated land, could then contribute the allocated land to Hebei Mobile by way of capital contribution.

Bejing Mobile is in the process of registering their titles to these parcels of allocated land and applying for land use right certificates. There is no legal impediment in the registration of titles. Upon obtaining the land use right certificates, Beijing Mobile will own the land use rights of the parcels of allocated land as stipulated under the Notice [Rider N] issued by MLR on 25 August 2000 (Guo Tu Zi Han [2000] No. 449).

According to the undertaking [Rider O], CMCC has undertake to bear the fees required for obtaining requisite consent and the payment of associated land grant premium when all or any portion of these parcels of allocated land are transferred, leased or mortgaged.

In conclusion, Hebei Mobile will obtain [358] parcels of land with an area of [408,774] sq. m. by way of transfer and capital contribution. All these parcels of land can be transferred, leased or mortgaged according to PRC law during the respective land use right terms.

Buildings

Hebei Mobile owns [173] production and ancillary buildings with an total gross floor area of 93,090 sq. m. According to the Investment Agreement and the Confirmation of the Transfer of Personnel Assets and Properties and Related Rights and Liabilities listed under paragraphs (s) and (t) of section 10 (Material Contracts) in Appendix X to the Circular, those buildings were transferred to Hebei Mobile. Hebei Mobile should apply for the registration of the transfer of titles.

For those buildings with building ownership certificates, Hebei Mobile is in the process of applying for registration of the transfer of titles. According to the PRC law concerning land and buildings title to the buildings and title to land use rights on which the buildings are erected are inseparable. On the basis that Hebei Mobile will obtain the respective land use rights of the parcels of land on which the buildings are erected without any legal impediments by way of transfer or capital contribution and the relevant local land and building administration departments having issued confirmations that Hebei Mobile has titles to these buildings and that the tiles to these buildings are in the process of being registered, there will be no legal impediments in the registration of transfer of titles to these buildings. After the registration of transfer is completed, Hebei Mobile will have legal ownership to the titles to these buildings and the rights to transfer, lease, mortgage, inherit or otherwise deal legally with these buildings.

For those buildings without building ownership certificates, but which were transferred to Hebei Mobile pursuant to the Investment Agreement and the Confirmation of the Transfer of Personnel Assets and Properties and Related Rights and Liabilities listed under paragraphs (s) and (t) of section 10 (Material Contracts) in Appendix X to the Circular, Hebei Mobile is in the process of applying for registration of transfer of titles. According to the PRC law concerning land and buildings title to the buildings and title to land use rights on which the buildings are erected are inseparable. On the basis that Hebei Mobile will obtain the respective land use rights of the parcels of land on which the buildings are erected without any legal impediments by way of transfer or capital contribution and the relevant local land and building administration departments having issued confirmations that Hebei Mobile has titles to these buildings and that the titles to these buildings are in the process of being registered, there will be no legal impediments in the registration of transfer of titles to these buildings. After the registration of transfer is completed, Hebei Mobile will have legal ownership to the titles to these buildings and the rights to transfer, lease, mortgage, inherit or deal legally with these buildings.

In conclusion, Hebei Mobile will legally own [173] buildings with a total floor area of [93,090] sq. m. after completing the relevant procedures and obtaining the building ownership certificates. These buildings can be transferred, leased, mortgaged, inherited or otherwise dealt with legally by Hebei Mobile.

Property	Description and tenure	Particulars of occupancy	Open mark in existin as at [30 Ju RMB'000
6. Land, various buildings and structures in Shandong, the PRC	**These properties e [269] various compris y buildings and various operational and ancillar rick constr uction and structures of concrete/b cture const ruction with reinforced concrete stru of about < [>291,141] a total gross floor area .) complete d in about sq. m. (3,133,845 sq. ft . The land on which the [1973] to [2000] e [275] parcels of properties stand f [434,46 8] sq. m. compris land with a total area o dings are l isted as (4,676,614 sq. ft.). Details of the said buil follows: —**	**The properties are occupied by the Group for operational and ancillary uses.**	**[755,410]**

Use	Gross F	loor Area
	sq m	(sq ft)
Basestation	[21,079] ([233,678])	
Retail	[42,048] ([452,605])	
Office	[191,380] ([2,060,009])	
Ancillary	[36,004] ([387,551])	
Total	[291,141] ([3,133,845])	

The land use rights of the property have been granted for terms ranging from [12] to [70] years.

Notes:

(1) We have been provided with a legal opinion on the title to the properties issued by Commerce & Finance Law Office, which contains, inter alia, the following information: —

Land

Granted Land

Shandong Mobile holds an aggregate of [131] parcels of granted lands with an area of [297,727] which were transferred to it according to the Investment Agreement and the Confirmation of the Transfer of Personnel Assets and Properties and Related Rights and Liabilities listed under paragraphs (y) and (z) of section 10 (Material Contracts) in Appendix X to the Circular.

For those parcels of granted land with land use right certificates, Shandong Mobile is in the process of applying for registration of the transfer of titles. There is no legal impediment in the registration of the transfer of titles and Shandong Mobile will own the land use rights of these parcels of granted land for the terms stipulated in the respective land use right certificates after the registrations of the transfer of titles are completed.

For the remaining parcels of granted land, entitlement certificates have been issued by the relevant PRC local land administration bureau and Shandong Mobile should apply for the land use right registration in the local land administration bureau. According to the Notice [Rider J] issued by the PRC Ministry of Land and Resources (the "MLR") on 31 March 2000 and [Rider K] issued by MLR on 7 July 2000 (Guo Tu Zi Ting Fa [2000] No. 53), entitlement certificates are issued by authorised land administration bureaus. Entitlement certificates and land use right certificate have the same legal validity in evidencing titles to land use rights. Upon completion of the registration procedures and obtained the relevant land use right certificates, Shandong Mobile will own the land use rights of these parcels of granted land with entitlement certificates for the terms as stipulated in the respective land use right certificates.

Allocated Land

According to the Notice

[Rider L] issued by MLR on 25 August 2000 (Guo Tu Zi Han [2000] No. 449), MLR authorized the CMCC to operate and manage [226] parcels of allocated land with an area of [279,807] sq. m. which are occupied and used by Shandong Mobile.

According to the PRC legislation [Rider M], promulgated by the MLR on 17 February 1998, CMCC upon obtaining "authorization certificates for management and operation of state-owned land use rights" for these parcels of allocated land, could then contribute the allocated land to Shandong Mobile by way of capital contribution.

Beijing Mobile is in the process of registering their titles to these parcels of allocated land and applying for land use right certificates. There is no legal impediment in the registration of titles. Upon obtaining the land use right certificates, Beijing Mobile will own the land use rights of the parcels of allocated land as stipulated under the Notice [Rider N] issued by MLR on 25 August 2000 (Guo Tu Zi Han [2000] No. 449).

According to the undertaking [Rider O], CMCC has undertake to bear the fees required for obtaining requisite consent and the payment of associated land grant premium when all or any portion of these parcels of allocated land are transferred, leased or mortgaged.

In conclusion, Shandong Mobile will obtain [357] parcels of land with an area of [577,534] sq. m. by way of transfer and capital contribution. All these parcels of land can be transferred, leased or mortgaged according to PRC law during the respective land use right terms.

Buildings

Shandong Mobile owns [269] production and ancillary buildings with an total gross floor area of [291,141] sq. m. According to the Investment Agreement and the Confirmation of the Transfer of Personnel Assets and Properties and Related Rights and Liabilities listed under paragraphs (y) and (z) of section 10 (Material Contracts) in Appendix X to the Circular, those buildings were transferred to Shandong Mobile. Shandong Mobile should apply for the registration of the transfer of titles.

For those buildings with building ownership certificates, Shandong Mobile is in the process of applying for registration of the transfer of titles. According to the PRC law concerning land and buildings, title to the buildings and title to land use rights on which the buildings are erected are inseparable. On the basis that Shandong Mobile will obtain the respective land use rights of the parcels of land on which the buildings are erected without any legal impediments by way of transfer or capital contribution and the relevant local land and building administration departments having issued confirmations that Shandong Mobile has titles to these buildings and that the tiles to these buildings are in the process of being registered, there will be no legal impediments in the registration of transfer of titles to these buildings. After the registration of transfer is completed, Shandong Mobile will have legal ownership to the titles to these buildings and the rights to transfer, lease, mortgage, inherit or otherwise deal legally with these buildings.

For those buildings without building ownership certificates, but which were transferred to Shandong Mobile pursuant to the Investment Agreement and the Confirmation of the Transfer of Personnel Assets and Properties and Related Rights and Liabilities listed under paragraphs (y) and (z) of section 10 (Material Contracts) in Appendix X to the Circular, Shandong Mobile is in the process of applying for registration of transfer of titles. According to the PRC law concerning land and buildings, title to the buildings and title to land use rights on which the buildings are erected are inseparable. On the basis that Shandong Mobile will obtain the respective land use rights of the parcels of land on which the buildings are erected without any legal impediments by way of transfer or capital contribution and the relevant local land and building administration departments having issued confirmations that Shandong Mobile has titles to these buildings and that the titles to these buildings are in the process of being registered, there will be no legal impediments in the registration of transfer of titles to these buildings. After the registration of transfer is completed, Shandong Mobile will have legal ownership to the titles to these buildings and the rights to transfer, lease, mortgage, inherit or deal legally with these buildings.

In conclusion, Shandong Mobile will legally own [269] buildings with a total floor area of 291,141 sq. m. after completing the relevant procedures and obtaining the building ownership certificates. These buildings can be transferred, leased, mortgaged, inherited or otherwise dealt with legally by Shandong Mobile.

Property	Description and tenure			Particulars of occupancy	Open marke in existing as at [30 Jun RMB'000
7. Land, various buildings and structures in Guangxi, the PRC	**These properties compris operational and ancillar structures of concrete/b reinforced concrete stru a total gross floor area sq. m. (1,587,259 sq. ft [1960] to [2000] properties stand compris land with a total area o (3,117,394 sq. ft.). Details of the said buil follows: —**	**e [240] y buildings rick constr cture const of about < .) complete . The land e [283] f [289,61 dings are l**	**various and various uction and ruction with [>147,460] d in about on which the parcels of 3] sq. m. isted as**	**The properties are occupied by the Group for operational and ancillary uses.**	**[301,730]**

Use	Gross F	loor Area
	sq m	(sq ft)
Basestation	[16,860] ([181,481])	
Retail	[3,701] ([39,838])	
Office	[105,856] ([1,139,434])	
Ancillary	[21,043] ([226,507])	
Total	[147,460] ([1,587,259])	

The land use rights of the property have been granted for terms ranging from [40] to [70] years.

Notes:

(1) We have been provided with a legal opinion on the title to the properties issued by Commerce & Finance Law Office, which contains, inter alia, the following information: —

Land

Granted Land

Guangxi Mobile holds an aggregate of [61] parcels of granted lands with an area of [95,223] which were transferred to it according to the Investment Agreement and the Confirmation of the Transfer of Personnel Assets and Properties and Related Rights and Liabilities listed under paragraphs (bb) and (cc) of section 10 (Material Contracts) in Appendix X to the Circular.

For those parcels of granted land with land use right certificates, Guangxi Mobile is in the process of applying for registration of the transfer of titles. There is no legal impediment in the registration of the transfer of titles and Guangxi Mobile will own the land use rights of these parcels of granted land for the terms stipulated in the respective land use right certificates after the registrations of the transfer of titles are completed.

For the remaining parcels of granted land, entitlement certificates have been issued by the relevant PRC local land administration bureau and Guangxi Mobile should apply for the land use right registration in the local land administration bureau. According to the Notice [Rider J] issued by the PRC Ministry of Land and Resources (the "MLR") on 31 March 2000 and [Rider K] issued by MLR on 7 July 2000 (Guo Tu Zi Ting Fa [2000] No. 53), entitlement certificates are issued by departments with relevant authorities and the entitlement certificates have the same legal validity in evidencing the titles to the land use rights. After Guangxi Mobile has processed the registration procedures and obtained the relevant land use right certificates, Guangxi Mobile will own the land use rights of these parcels of granted land with entitlement certificates for the terms as stipulated in the respective land use right certificates.

Allocated Land

According to the Notice [Rider L] issued by MLR on 25 August 2000 (Guo Tu Zi Han [2000] No. 449), MLR authorized the CMCC to operate and manage [244] parcels of allocated land with an area of [244,443] sq. m. which are occupied and used by Guangxi Mobile.

According to the PRC legislation [Rider M], promulgated by the MLR on 17 February 1998, CMCC upon obtaining "authorization certificates for management and operation of state-owned land use rights" for these parcels of allocated land, could then contribute the allocated land to Guangxi Mobile by way of capital contribution.

Beijing Mobile is in the process of registering their titles to these parcels of allocated land and applying for land use right certificates. There is no legal impediment in the registration of titles. Upon obtaining the land use right certificates, Beijing Mobile will own the land use rights of the parcels of allocated land as stipulated under the Notice [Rider N] issued by MLR on 25 August 2000 (Guo Tu Zi Han [2000] No. 449).

According to the undertaking [Rider O], CMCC has undertake to bear the fees required for obtaining requisite consent and the payment of associated land grant premium when all or any portion of these parcels of allocated land are transferred, leased or mortgaged.

In conclusion, Guangxi Mobile will obtain [305] parcels of land with an area of [339,665] sq. m. by way of transfer and capital contribution. All these parcels of land can be transferred, leased or mortgaged according to PRC law during the respective land use right terms.

Buildings

Guangxi Mobile owns [240] production and ancillary buildings with an total gross floor area of [14,460] sq. m. According to the Investment Agreement and the Confirmation of the Transfer of Personnel Assets and Properties and Related Rights and Liabilities listed under paragraphs (bb) and (cc) of section 10 (Material Contracts) in Appendix X to the Circular, those buildings were transferred to Guangxi Mobile. Guangxi Mobile should apply for the registration of the transfer of titles.

For those buildings with building ownership certificates, Guangxi Mobile is in the process of applying for registration of the transfer of titles. According to the PRC law concerning land and buildings, title to the buildings and title to land use rights on which the buildings are erected are inseparable. On the basis that Guangxi Mobile will obtain the respective land use rights of the parcels of land on which the buildings are erected without any legal impediments by way of transfer or capital contribution and the relevant local land and building administration departments having issued confirmations that Guangxi Mobile has titles to these buildings and that the tiles to these buildings are in the process of being registered, there will be no legal impediments in the registration of transfer of titles to these buildings. After the registration of transfer is completed, Guangxi Mobile will have legal ownership to the titles to these buildings and the rights to transfer, lease, mortgage, inherit or otherwise deal legally with these buildings.

For those buildings without building ownership certificates, but which were transferred to Guangxi Mobile pursuant to the Transfer Agreements, Guangxi Mobile is in the process of applying for registration of transfer of titles. According to the PRC law concerning land and buildings, title to the buildings and title to land use rights on which the buildings are erected are inseparable. On the basis that Guangxi Mobile will obtain the respective land use rights of the parcels of land on which the buildings are erected without any legal impediments by way of transfer or capital contribution and the relevant local land and building administration departments having issued confirmations that Guangxi Mobile has titles to these buildings and that the titles to these buildings are in the process of being registered, there will be no legal impediments in the registration of transfer of titles to these buildings. After the registration of transfer is completed, Guangxi Mobile will have legal ownership to the titles to these buildings and the rights to transfer, lease, mortgage, inherit or deal legally with these buildings.

In conclusion, Guangxi Mobile will legally own [240] buildings with a total floor area of [14,460] sq. m. after completing the relevant procedures and obtaining the building ownership certificates. These buildings can be transferred, leased, mortgaged, inherited or otherwise dealt with legally by Guangxi Mobile.

Group II — Property interests under development held by the Target Companies in the PRC

Property	Description and tenure	Particulars of occupancy	Open market value in existing state as at [30 June] 2000 RMB'000	HK$'000
8. Land, various buildings and structures in Beijing, the PRC	These properties comprise [2] projects under development. Upon completion, the total gross floor area of the buildings will be about [70,981] sq. m. (764,039 sq. ft.). The land on which the properties stand comprises [2] parcels of land with a total area of [17,466] sq. m. (188,004 sq. ft.) The land use rights of the properties have been granted for terms ranging from [45] to [50] years.	The properties are currently under construction.	[645,640]	[603,402]

Notes:

(1) We have been provided with a legal opinion on the title to the properties issued by Commerce & Finance Law Office, which contains, inter alia, the following information: —

There are [2] projects under development and the total gross floor area upon completion will be [70,981] sq. m.

Land

Please refer to "Land" section of Note (1) of Property No. 1.

Building

According to the Investment Agreement and the Confirmation of the Transfer of Personnel Assets and Properties and Related Rights and Liabilities listed under paragraphs (j) and (k) of section 10 (Material Contracts) in Appendix X to the Circular, the above projects under development are transferred to Beijing Mobile. Beijing Mobile should apply for registration of building ownership upon completion of the construction projects.

According to the PRC law concerning land and buildings, title to the buildings and title to land use rights on which the buildings are erected are inseparable. On the basis that Beijing Mobile will obtain the respective land use rights of the parcels of land on which the buildings are erected without any legal impediments by way of transfer or capital contribution and the relevant competent government authorities having issued construction permits or approval documents for the construction projects, there will be no legal impediments in the registration of titles to these buildings under completion of construction. Upon completion of the construction projects, the registration of titles and the obtaining of building ownership certificates, Beijing Mobile will have legal ownership to the titles to these buildings and the rights to transfer, lease, mortgage, inherit or otherwise deal legally with these buildings.

Property	Description and tenure	Particulars of occupancy	Open market value in existing state as at [30 June] 2000 RMB'000	HK$'000
9. Land, various buildings and structures in Tianjin, the PRC	These properties comprise [11] projects under development. Upon completion, the total gross floor area of the buildings will be about [35,465] sq. m. (381,745 sq. ft.). The land on which the properties stand comprises [11] parcels of land with a total area of [28,840] sq. m. (310,434 sq. ft.) The land use rights of the properties have been granted for terms ranging from [40] to [50] years.	The properties are currently under construction.	[84,150]	[78,645]

Notes:

(1) We have been provided with a legal opinion on the title to the properties issued by Commerce & Finance Law Office, which contains, inter alia, the following information: —

There are [11] projects under development and the total gross floor area upon completion will be [35,465] sq. m.

Land

Please refer to "Land" section of Note (1) of Property No. 2.

Building

According to the Investment Agreement and the Confirmation of the Transfer of Personnel Assets and Properties and Related Rights and Liabilities listed under paragraphs (p) and (q) of section 10 (Material Contracts) in Appendix X to the Circular, the above projects under development are transferred to Tianjin Mobile. Tianjin Mobile should apply for registration of building ownership upon completion of the construction projects.

According to the PRC law concerning land and buildings title to the buildings and title to land use rights on which the buildings are erected are inseparable. On the basis that Tianjin Mobile will obtain the respective land use rights of the parcels of land on which the buildings are erected without any legal impediments by way of transfer or capital contribution and the relevant competent government authorities having issued construction permits or approval documents for the construction projects, there will be no legal impediments in the registration of titles to these buildings under completion of construction. Upon completion of the construction projects, the registration of titles and the obtaining of building ownership certificates, Tianjin Mobile will have legal ownership to the titles to these buildings and the rights to transfer, lease, mortgage, inherit or otherwise deal legally with these buildings.

Property	Description and tenure	Particulars of occupancy	Open market value in existing state as at [30 June] 2000	
			RMB'000	HK$'000
10. Land, various buildings and structures in Shanghai, the PRC	These properties comprise [4] projects under development. Upon completion, the total gross floor area of the buildings will be about [60,622] sq. m. (652,535 sq. ft.). The land on which the properties stand comprises [2] parcels of land with a total area of [8,910] sq. m. (95,907 sq. ft.) The land use rights of the properties have been granted for terms ranging from [45] to [67] years.	The properties are currently under construction.	[495,140]	[462,748]

Notes:

(1) We have been provided with a legal opinion on the title to the properties issued by Commerce & Finance Law Office, which contains, inter alia, the following information: —

There are [4] projects under development and the total gross floor area upon completion will be [60,622] sq. m.

Land

Please refer to "Land" section of Note (1) of Property No. 3.

Building

According to the Transfer Agreements, the above projects under development are transferred to Shanghai Mobile. Shanghai Mobile should apply for registration of building ownership upon completion of the construction projects.

According to the PRC law concerning land and buildings, title to the buildings and title to land use rights on which the buildings are erected are inseparable. On the basis that Shanghai Mobile will obtain the respective land use rights of the parcels of land on which the buildings are erected without any legal impediments by way of transfer or capital contribution and the relevant competent government authorities having issued construction permits or approval documents for the construction projects, there will be no legal impediments in the registration of titles to these buildings under completion of construction. Upon completion of the construction projects, the registration of titles and the obtaining of building ownership certificates, Shanghai Mobile will have legal ownership to the titles to these buildings and the rights to transfer, lease, mortgage, inherit or otherwise deal legally with these buildings.

Property	Description and tenure	Particulars of occupancy	Open market value in existing state as at [30 June] 2000	
			RMB'000	HK$'000
11. Land, various buildings and structures in Liaoning, the PRC	These properties comprise [30] projects under development. Upon completion, the total gross floor area of the buildings will be about [66,447] sq. m. (715,233 sq. ft.). The land on which the properties stand comprises [38] parcels of land with a total area of [90,700] sq. m. (976,294 sq. ft.) The land use rights of the properties have been granted for terms ranging from [28] to [70] years.	The properties are currently under construction.	[186,720]	[174,505]

Notes:

(1) We have been provided with a legal opinion on the title to the properties issued by Commerce & Finance Law Office, which contains, inter alia, the following information: —

There are [30] projects under development and the total gross floor area upon completion will be [90,700] sq. m.

Land

Please refer to "Land" section of Note (1) of Property No. 4.

Building

According to the Investment Agreement and the Confirmation of the Transfer of Personnel Assets and Properties and Related Rights and Liabilities listed under paragraphs (w) and (x) of section 10 (Material Contracts) in Appendix X to the Circular, the above projects under development are transferred to Liaoning Mobile. Liaoning Mobile should apply for registration of building ownership upon completion of the construction projects.

According to the PRC law concerning land and buildings, title to the buildings and title to land use rights on which the buildings are erected are inseparable. On the basis that Liaoning Mobile will obtain the respective land use rights of the parcels of land on which the buildings are erected without any legal impediments by way of transfer or capital contribution and the relevant competent government authorities having issued construction permits or approval documents for the construction projects, there will be no legal impediments in the registration of titles to these buildings under completion of construction. Upon completion of the construction projects, the registration of titles and the obtaining of building ownership certificates, Liaoning Mobile will have legal ownership to the titles to these buildings and the rights to transfer, lease, mortgage, inherit or otherwise deal legally with these buildings.

Property	Description and tenure	Particulars of occupancy	Open market value in existing state as at [30 June] 2000 RMB'000	HK$'000
12. Land, various buildings and structures in Hebei, the PRC	These properties comprise [20] projects under development. Upon completion, the total gross floor area of the buildings will be about [90,363] sq. m. (972,666 sq. ft.). The land on which the properties stand comprises [45] parcels of land with a total area of [379,955] sq. m. (4,089,835 sq. ft.) The land use rights of the properties have been granted for terms ranging from [37] to [50] years.	The properties are currently under construction.	[284,000]	[265,421]

Notes:

(1) We have been provided with a legal opinion on the title to the properties issued by Commerce & Finance Law Office, which contains, inter alia, the following information: —

There are [20] projects under development and the total gross floor area upon completion will be [90,363] sq. m.

Land

Please refer to "Land" section of Note (1) of Property No. 5.

Building

According to the Investment Agreement and the Confirmation of the Transfer of Personnel Assets and Properties and Related Rights and Liabilities listed under paragraphs (s) and (t) of section 10 (Material Contracts) in Appendix X to the Circular, the above projects under development are transferred to Hebei Mobile. Hebei Mobile should apply for registration of building ownership upon completion of the construction projects.

According to the PRC law concerning land and buildings, title to the buildings and title to land use rights on which the buildings are erected are inseparable. On the basis that Hebei Mobile will obtain the respective land use rights of the parcels of land on which the buildings are erected without any legal impediments by way of transfer or capital contribution and the relevant competent government authorities having issued construction permits or approval documents for the construction projects, there will be no legal impediments in the registration of titles to these buildings under completion of construction. Upon completion of the construction projects, the registration of titles and the obtaining of building ownership certificates, Hebei Mobile will have legal ownership to the titles to these buildings and the rights to transfer, lease, mortgage, inherit or otherwise deal legally with these buildings.

Property	Description and tenure	Particulars of occupancy	Open market value in existing state as at [30 June] 2000	
			RMB'000	HK$'000
13. Land, various buildings and structures in Shandong , the PRC	These properties comprise [67] projects under development. Upon completion, the total gross floor area of the buildings will be about [8,503] sq. m. (522,086 sq. ft.). The land on which the properties stand comprises [82] parcels of land with a total area of [143,066] sq. m. (1,539,962 sq. ft.) The land use rights of the properties have been granted for terms ranging from [17] to [70] years.	The properties are currently under construction.	[177,580]	[165,963]

Notes:

(1) We have been provided with a legal opinion on the title to the properties issued by Commerce & Finance Law Office, which contains, inter alia, the following information: —

There are [67] projects under development and the total gross floor area upon completion will be [48,503] sq. m.

Land

Please refer to "Land" section of Note (1) of Property No. 6.

Building

According to the Investment Agreement and the Confirmation of the Transfer of Personnel Assets and Properties and Related Rights and Liabilities listed under paragraphs (y) and (z) of section 10 (Material Contracts) in Appendix X to the Circular, the above projects under development are transferred to Shandong Mobile. Shandong Mobile should apply for registration of building ownership upon completion of the construction projects.

According to the PRC law concerning land and buildings, title to the buildings and title to land use rights on which the buildings are erected are inseparable. On the basis that Shandong Mobile will obtain the respective land use rights of the parcels of land on which the buildings are erected without any legal impediments by way of transfer or capital contribution and the relevant competent government authorities having issued construction permits or approval documents for the construction project, there will be no legal impediments in the registration of titles to these buildings under completion of construction. Upon completion of the construction projects, the registration of titles and the obtaining of building ownership certificates, Shandong Mobile will have legal ownership to the titles to these buildings and the rights to transfer, lease, mortgage, inherit or otherwise deal legally with these buildings.

Property	Description and tenure	Particulars of occupancy	Open market value in existing state as at [30 June] 2000	
			RMB'000	HK$'000
14. Land, various buildings and structures in Guangxi, the PRC	These properties comprise [22] projects under development. Upon completion, the total gross floor area of the buildings will be about [34,926] sq. m. (375,94 sq. ft.). The land on which the properties stand comprises [22] parcels of land with a total area of [50,053] sq. m. (538,770 sq. ft.). The land use rights of the properties have been granted for terms ranging from [40] to [50] years.	The properties are currently under construction.	[63,760]	[59,589]

Notes:

(1) We have been provided with a legal opinion on the title to the properties issued by Commerce & Finance Law Office, which contains, inter alia, the following information: —

There are [67] projects under development and the total gross floor area upon completion will be [48,503] sq. m.

Land

Please refer to "Land" section of Note (1) of Property No. 7.

Building

According to the Investment Agreement and the Confirmation of the Transfer of Personnel Assets and Properties and Related Rights and Liabilities listed under paragraphs (bb) and (cc) of section 10 (Material Contracts) in Appendix X to the Circular, the above projects under development are transferred to Guangxi Mobile. Guangxi Mobile should apply for registration of building ownership upon completion of the construction projects.

According to the PRC law concerning land and buildings, title to the buildings and title to land use rights on which the buildings are erected are inseparable. On the basis that Guangxi Mobile will obtain the respective land use rights of the parcels of land on which the buildings are erected without any legal impediments by way of transfer or capital contribution and the relevant competent government authorities having issued construction permits or approval documents for the construction projects, there will be no legal impediments in the registration of titles to these buildings under completion of construction. Upon completion of the construction projects, the registration of titles and the obtaining of building ownership certificates, Guangxi Mobile will have legal ownership to the titles to these buildings and the rights to transfer, lease, mortgage, inherit or otherwise deal legally with these buildings.

Group III — Property interests rented by the Target Companies in the PRC

Property	Description and tenure			Particulars of occupancy	Open market value in existing state as at [30 June] 200	
					RMB'000	HI
15. Basestations, retail units, office units and units for ancillary uses in Beijing, the PRC	**These properties compris basestations, retail uni units for ancillary uses floor area of about [5 (569,717 sq. ft.). Details of the said unit follows: —**	**e [1.090 ts, office with a to 2,928] s s are list**	**] units and tal gross q. m. ed as**	**The properties are occupied by the Beijing Mobile for operational and ancillary uses.**	**[No Commerci**	**al**

Use	Gross Fl	oor Area
	sq m	(sq ft)
Basestation	[28,595] ([307,797])	
Retail	[3,172] ([34,143])	
Office	[2,524] ([27,168])	
Ancillary	[18,637] ([200,609])	
Total	[52,928] ([569,717])	

The properties are leased under two tenancy agreements for terms of [ ] years and [ ] years and commencing from [ ] and [ ] respectively at a total yearly rental of RMB[ ] exclusive of management fees and charges.

Notes:

(1) The properties are the subject of the two following lease agreements (the "Lease Agreements"):

— Lease agreement between Beijing Mobile and [China Telecom Group Beijing Telecom Company] dated [1 August 2000] and pursuant to which Beijing Mobile leases [ ] buildings with a total gross floor area of [ ] sq. m. for a term of [ ] years commencing from [ ].

— Lease agreement made between Beijing Mobile and Beijing Communication Service Company dated [2000], pursuant to which Beijing Mobile leases [ ] buildings with a total gross floor area of [ ] sq. m. for a term of [ ] years commencing from [ ].

(2) We have been provided with a legal opinion on the legality of the Lease Agreements issued by Commerce & Finance Law Office, which contains, inter alia, the following information: —

• The Lease Agreements include [ ] buildings with a total floor area of [ ] sq. m.

• The signing parties of the Lease Agreements are legal entity established under the PRC laws and have the legal capacity as legal entities to sign the Lease Agreements

• None of the conditions in the Lease Agreements violates PRC laws and regulations. The Lease Agreements will be valid upon signing by the both parties.

• The Lease Agreements are valid according to the PRC laws.

• As the Lease Agreements stipulate that "Both parties confirm that in the case of either or one of the signing parties transforming to "Foreign Investment Enterprise(s)" within the term of the lease agreements, it will not be necessary to obtain the another party's consent or confirmation and the transformed party will obtain the same legal status as stipulated in the Lease Agreement as if there is no such transformation. Therefore when Beijing Mobile changes to a foreign investment enterprise and changes to [Beijing Mobile Limited], it will inherit all the rights and responsibilities as stipulated under the Lease Agreements originally imposed on Beijing Mobile.

Property	Description and tenure			Particulars of occupancy	Open market value in existing state as at [30 June] 200 RMB'000	H
16. Basestations, retail units, office units and units for ancillary uses in Tianjin, the PRC	**These properties compris basestations, retail uni units for ancillary uses floor area of about [2 (280,112 sq. ft.). Details of the said unit follows: — Use**	**e [625<] ts, office with a to 6,023] s s are list Gross Fl**	**> units and tal gross q. m. ed as oor Area**	**The properties are occupied by the Tianjin Mobile for operational and ancillary uses.**	**[No Commerci**	**al**
		sq m	**(sq ft)**			
	Basestation	[19,514] ([210,049])				
	Retail	[4,271] ([45,973])				
	Office	[1,428] ([15,371])				
	Ancillary	[810] ([8,719])				
	Total	[26,023] ([280,112])				
	The properties are leased under two tenancy agreements for terms of [ ] years and [ ] years and commencing from [ ] and [ ] respectively at a total yearly rental of RMB[ ] exclusive of management fees and charges.					

Notes:

(1) The properties are the subject of the two following lease agreements (the "Lease Agreements"):

— Lease agreement between Tianjin Mobile and [China Telecom Group Tianjin Telecom Company] dated [1 August 2000] and pursuant to which Tianjin Mobile leases [ ] buildings with a total gross floor area of [ ] sq. m. for a term of [ ] years commencing from [ ].

— Lease agreement made between Tianjin Mobile and Tianjin Communication Service Company dated [2000], pursuant to which Tianjin Mobile leases [ ] buildings with a total gross floor area of [ ] sq. m. for a term of [ ] years commencing from [ ].

(2) We have been provided with a legal opinion on the legality of the Lease Agreements issued by Commerce & Finance Law Office, which contains, inter alia, the following information: —

• The Lease Agreements include [ ] buildings with a total floor area of [ ] sq. m.

• The signing parties of the Lease Agreements are legal entity established under the PRC laws and have the legal capacity as legal entities to sign the Lease Agreements

• None of the conditions in the Lease Agreements violates PRC laws and regulations. The Lease Agreements will be valid upon signing by the both parties.

• The Lease Agreements are valid according to the PRC laws.

• As the Lease Agreements stipulate that "Both parties confirm that in the case of either or one of the signing parties transforming to "Foreign Investment Enterprise(s)" within the term of the lease agreements, it will not be necessary to obtain the another party's consent or confirmation and the transformed party will obtain the same legal status as stipulated in the Lease Agreement as if there is no such transformation. Therefore when Tianjin Mobile changes to a foreign investment enterprise and changes to [Tianjin Mobile Limited], it will inherit all the rights and responsibilities as stipulated under the Lease Agreements originally imposed on Tianjin Mobile.

Property	Description and tenure			Particulars of occupancy	Open market value in existing state as at [30 June] 200
					RMB'000 HI
17. Basestations, retail units, office units and units for ancillary uses in Shanghai, the PRC	**These properties compris basestations, retail uni units for ancillary uses floor area of about [4 (494,692 sq. ft.). Details of the said unit follows: —**	**e [517<] ts, office with a to 5,958] s s are list**	**> units and tal gross q. m. ed as**	**The properties are occupied by the Shanghai Mobile for operational and ancillary uses.**	**[No Commerci al**

Use	Gross Fl	oor Area
	sq m	(sq ft)
Basestation	[26,072] ([280,639])	
Retail	[8,276] ([89,083])	
Office	[6,280] ([67,598])	
Ancillary	[5,330] ([57,372])	
Total	[45,958] ([494,692])	

The properties are leased under two tenancy agreements for terms of [ ] years and [ ] years and commencing from [ ] and [ ] respectively at a total yearly rental of RMB[ ] exclusive of management fee and charges.

Notes:

(1) The properties are the subject of the two following lease agreements (the "Lease Agreements"):

— Lease agreement between Shanghai Mobile and [China Telecom Group Shanghai Telecom Company] dated [1 August 2000] and pursuant to which Shanghai Mobile leases [ ] buildings with a total gross floor area of [ ] sq. m. for a term of [ ] years commencing from [ ].

— Lease agreement made between Shanghai Mobile and Shanghai Communication Service Company dated [2000], pursuant to which Shanghai Mobile leases [ ] buildings with a total gross floor area of [ ] sq. m. for a term of [ ] years commencing from [ ].

(2) We have been provided with a legal opinion on the legality of the Lease Agreements issued by Commerce & Finance Law Office, which contains, inter alia, the following information: —

• The Lease Agreements include [ ] buildings with a total floor area of [ ] sq. m.

• The signing parties of the Lease Agreements are legal entity established under the PRC laws and have the legal capacity as legal entities to sign the Lease Agreements.

• None of the conditions in the Lease Agreements violates PRC laws and regulations. The Lease Agreements will be valid upon signing by the both parties.

• The Lease Agreements are valid according to the PRC laws.

• As the Lease Agreements stipulate that "Both parties confirm that in the case of either or one of the signing parties transforming to "Foreign Investment Enterprise(s)" within the term of the lease agreements, it will not be necessary to obtain the another party's consent or confirmation and the transformed party will obtain the same legal status as stipulated in the Lease Agreement as if there is no such transformation. Therefore when Shanghai Mobile changes to a foreign investment enterprise and changes to [Shanghai Mobile Limited], it will inherit all the rights and responsibilities as stipulated under the Lease Agreements originally imposed on Shanghai Mobile.

Property	Description and tenure			Particulars of occupancy	Open market valu in existing state as at [30 June] 200	
					RMB'000	HI
18. Basestations, retail units, office units and units for ancillary uses in Liaoning, the PRC	**These properties compris basestations, retail uni units for ancillary uses floor area of about [9 (1,030,836 sq. ft.). Details of the said unit follows: —**	**e [1,979 ts, office with a to 5,767] s s are list**	**] units and tal gross q. m. ed as**	**The properties are occupied by the Liaoning Mobile for operational and ancillary uses.**	**[No Commerci**	**al**

Use	Gross Fl	oor Area
	sq m	(sq ft)
Basestation	[77,128] ([830,206])	
Retail	[7,381] ([79,449])	
Office	[10,162] ([109,384])	
Ancillary	[1,096] ([11,797])	
Total	[95,767] ([1,030,836])	

The properties are leased under two tenancy agreements for terms of [ ] years and [ ] years and commencing from [ ] and [ ] respectively at a total yearly rental of RMB[ ] exclusive of management fee and charges.

Notes:

(1) The properties are the subject of the two following lease agreements (the "Lease Agreements"):

— Lease agreement between Liaoning Mobile and [China Telecom Group and Liaoning Telecom Company] dated [1 August 2000] and pursuant to which Liaoning Mobile leases [ ] buildings with a total gross floor area of [ ] sq. m. for a term of [ ] years commencing from [ ].

— Lease agreement made between Liaoning Mobile and Liaoning Communication Service Company dated [2000], pursuant to which Liaoning Mobile leases [ ] buildings with a total gross floor area of [ ] sq. m. for a term of [ ] years commencing from [ ].

(2) We have been provided with a legal opinion on the legality of the Lease Agreements issued by Commerce & Finance Law Office, which contains, inter alia, the following information: —

- The Lease Agreements include [ ] buildings with a total floor area of [ ] sq. m.
- The signing parties of the Lease Agreements are legal entity established under the PRC laws and have the legal capacity as legal entities to sign the Lease Agreements.
- None of the conditions in the Lease Agreements violates PRC laws and regulations. The Lease Agreements will be valid upon signing by the both parties.
- The Lease Agreements are valid according to the PRC laws.
- As the Lease Agreements stipulate that "Both parties confirm that in the case of either or one of the signing parties transforming to "Foreign Investment Enterprise(s)" within the term of the lease agreements, it will not be necessary to obtain the another party's consent or confirmation and the transformed party will obtain the same legal status as stipulated in the Lease Agreements as if there is no such transformation. Therefore when Liaoning Mobile changes to a foreign investment enterprise and changes to [Liaoning Mobile Limited], it will inherit all the rights and responsibilities as stipulated under the Lease Agreements originally imposed on Liaoning Mobile.

Property	Description and tenure	Particulars of occupancy	Open market value in existing state as at [30 June] 200 RMB'000	HI
19. Basestations, retail units, office units and units for ancillary uses in Hebei, the PRC	These properties compris e [1,983<]> basestations, retail uni ts, office units and units for ancillary uses with a tot al gross floor area of about [1 75,905] s q. m. (1,893,441 sq. ft.). Details of the said unit s are liste d as follows: —	The properties are occupied by the Hebei Mobile for operational and ancillary uses.	[No Commerci	al

Use	Gross F loor Area sq m	(sq ft)
Basestation	[58,925]	([634,269])
Retail	[33,202]	([357,386])
Office	[74,725]	([804,340])
Ancillary	[9,053]	([97,446])
Total	[175,905]	([1,893,441])

The properties are leased under two tenancy agreements for terms of [ ] years and [ ] years and commencing from [ ] and [ ] respectively at a total yearly rental of RMB[ ] exclusive of management fees and charges.

Notes:

(1) The properties are the subject of the two following lease agreements (the "Lease Agreements"):

— Lease agreement between Hebei Mobile and [China Telecom Group Hebei Telecom Company] dated [1 August 2000] and pursuant to which Hebei Mobile leases [ ] buildings with a total gross floor area of [ ] sq. m. for a term of [ ] years commencing from [ ].

— Lease agreement made between Hebei Mobile and Hebei Communication Service Company dated [2000], pursuant to which Hebei Mobile leases [ ] buildings with a total gross floor area of [ ] sq. m. for a term of [ ] years commencing from [ ].

(2) We have been provided with a legal opinion on the legality of the Lease Agreements issued by Commerce & Finance Law Office, which contains, inter alia, the following information: —

• The Lease Agreements include [ ] buildings with a total floor area of [ ] sq. m.

• The signing parties of the Lease Agreements are legal entity established under the PRC laws and have the legal capacity as legal entities to sign the Lease Agreements

• None of the conditions in the Lease Agreements violates PRC laws and regulations. The Lease Agreements will be valid upon signing by the both parties.

• The Lease Agreements are valid according to the PRC laws.

• As the Lease Agreements stipulate that "Both parties confirm that in the case of either or one of the signing parties transforming to "Foreign Investment Enterprise(s)" within the term of the lease agreements, it will not be necessary to obtain the another party's consent or confirmation and the transformed party will obtain the same legal status as stipulated in the Lease Agreement as if there is no such transformation. Therefore when Hebei Mobile changes to a foreign investment enterprise and changes to [Hebei Mobile Limited], it will inherit all the rights and responsibilities as stipulated under the Lease Agreements originally imposed on Hebei Mobile.

Property	Description and tenure			Particulars of occupancy	Open market value in existing state as at [30 June] 2000	
					RMB'000	HK$'000
20. Basestations, retail units, office units and units for ancillary uses in Shandong, the PRC	**These properties compris basestations, retail uni units for ancillary uses floor area of about [1 (1,680,605 sq. ft.). Details of the said unit follows:—**	**e [2,518< ts, office with a tot 56,132] s s are liste**	**]> units and al gross q. m. d as**	**The properties are occupied by the Shandong Mobile for operational and ancillary uses.**	**[No Commerci**	**al Value]**

Use	Gross F	loor Area
	sq m	(sq ft)
Basestation	[79,917] ([860,227])	
Retail	[47,479] ([511,064])	
Office	[20,999] ([226,033])	
Ancillary	[7,737] ([83,281])	
Total	[156,132] ([1,680,605])	

The properties are leased under two tenancy agreements for terms of [ ] years and [ ] years and commencing from [ ] and [ ] respectively at a total yearly rental of RMB[ ] exclusive of management fee and charges.

Notes:

(1) The properties are subject to the followings two lease agreements (the "Lease Agreements"):

— Lease agreement made between Shandong Mobile and [Shandong Telecom Company of CMCC] dated [1 August 2000] and pursuant to which Shandong Mobile lease [ ] buildings with a total gross floor area of [ ] sq. m. for a term of [ ] years commencing from [ ].

— Lease agreement made between Shandong Mobile and [Shandong Telecom Service Company] dated [2000] and pursuant to which Shandong Mobile lease [ ] buildings with a total gross floor area of [ ] sq. m. for a term of [ ] years commencing from [ ].

(2) We have been provided with a legal opinion on the legality of the Lease Agreements to the properties issued by Commerce & Finance Law Office, which contains, inter alia, the following information: —

- The Lease Agreements include [ ] buildings with a total floor area of [ ] sq. m.

- The signing parties of the Lease Agreements are legal entity established under the PRC laws and have the legal capacity as legal entity to sign the Lease Agreements.

- All the conditions in the Lease Agreements have not violated the PRC laws and regulations. The lease agreements will be valid upon signing by the both parties.

- The Lease Agreements is valid according to the PRC laws.

- As the Lease Agreements have stipulated that "Both parties confirmed that in the case of both or one of the signing parties transform to "Foreign Investment Enterprise(s)" within the validation period of the lease agreements, there will not be necessary to obtain the another party's consent or confirmation and the transformed party will obtain the same legal status as stipulated in the lease agreements as if there is no such transformation. Thus when Shandong Mobile conformed to foreign investment enterprise and changed to [Shandong Mobile Limited Company], then [Shandong Mobile Limited Company] will inherit with all the rights and responsibilities as stipulated under the Lease Agreements originally imposed on Beijing Mobile.

Property	Description and tenure			Particulars of occupancy	Open market value in existing state as at [30 June] 20 RMB'000	F
21. Basestations, retail units, office units and units for ancillary uses in Guangxi, the PRC	**These properties compris basestations, retail uni units for ancillary uses floor area of about [6 (707,959 sq. ft.). Details of the said unit follows: —**	**e [954] ts, office with a tot 5,771] sq s are liste**	**units and al gross . m. d as**	**The properties are occupied by the Guangxi Mobile for operational and ancillary uses.**	**[No Commerci**	**a**

Use	Gross Fl	oor Area
	sq m	(sq ft)
Basestation	[26,706]	([287,463])
Retail	[14,208]	([152,935])
Office	[20,719]	([223,019])
Ancillary	[4,138]	([44,541])
Total	[65,771]	([707,959])

The properties are leased under two tenancy agreements for terms of [ ] years and [ ] years and commencing from [ ] and [ ] respectively at a total yearly rental of RMB[ ] exclusive of management fees and charges.

Notes:

(1) The properties are the subject of the two following lease agreements (the "Lease Agreements"):

— Lease agreement between Guangxi Mobile and [China Telecom Group Guangxi Telecom Company] dated [1 August 2000] and pursuant to which Guangxi Mobile leases [ ] buildings with a total gross floor area of [ ] sq. m. for a term of [ ] years commencing from [ ].

— Lease agreement made between Guangxi Mobile and Guangxi Communication Service Company dated 26 August 2000, pursuant to which Guangxi Mobile leases 66 various buildings and structures with a total gross floor area of [ ] sq. m. for a term of 1 year commencing from 20 August 2000.

(3) We have been provided with a legal opinion on the legality of the Lease Agreements issued by Commerce & Finance Law Office, which contains, inter alia, the following information: —

• The Lease Agreements include [ ] buildings with a total floor area of [ ] sq. m.

• The signing parties of the Lease Agreements are legal entity established under the PRC laws and have the legal capacity as legal entities to sign the Lease Agreements.

• None of the conditions in the Lease Agreements violates PRC laws and regulations. The Lease Agreements will be valid upon signing by the both parties.

• The Lease Agreements are valid according to the PRC laws.

• As the Lease Agreements stipulate that "Both parties confirm that in the case of either or one of the signing parties transforming to "Foreign Investment Enterprise(s)" within the term of the lease agreements, it will not be necessary to obtain the another party's consent or confirmation and the transformed party will obtain the same legal status as stipulated in the Lease Agreement as if there is no such transformation. Therefore when Guangxi Mobile changes to a foreign investment enterprise and changes to [Guangxi Mobile Limited], it will inherit all the rights and responsibilities as stipulated under the Lease Agreements originally imposed on Guangxi Mobile.